# Effect of Chinese Private-Sector Investment in Clothing and Textile Industry in South Africa


**BY**

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# ABSTRACT

With increasing Chinese private investment in the South African clothing and textile industry, between March 2003 and September 2006, lots of jobs were lost in the domestic clothing and textile industry. These losses were related to significant growth in imports from China over that period. The purpose of this research is to present the reactions of South African trade unions towards Chinese private-sector business in the textile and clothing industry. Documentary analysis was at the forefront of the methodological approach in this research.

The findings indicate that trends of unemployment prior to the imposition of the quotas have continued while Chinese private sector keeps investing to clothing and textile industry. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink. Competitiveness challenges facing the industry did not change. However, Chinese private investment potentially delivers a number of benefits like additional investment, distribution and marketing skills, and innovation knowledge. The South African Clothing and Textile Industry should therefore consider conducting further research to improve capacity-building and training.

# DECLARATION

I, Ling Yu, hereby declare that this research report is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

**Signature** **Date**

# DEDICATION

This research is dedicated to my family, who have been a pillar of strength throughout my studies; and to my parents who have provided me with all support and strength. This research is for all of you.

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Special words of gratitude are extended to the following people: Dr. Horaçio Zandamela, my supervisor, who has been patient with me throughout the proposal and the report writing process; thank you for your guidance and support in conducting my research. My gratitude is also extended to my colleagues, who were always willing to assist with ideas and knowledge.

## ABBREVIATIONS AND MEANINGS

| | |
|---|---|
| AGOA | Africa Growth and Opportunity Act |
| ANC | African National Congress |
| ATC | Agreement on Textiles and Clothing |
| CMT | Cut Make and Trim |
| COSATU | Congress of South African Trade Unions |
| CPC | Communist Party of China |
| CTFL-SETA | Clothing, Textile, Footwear and Leather Sector Education and Training Authority |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| GATT | General Agreement on Tariffs and Trade |
| GEAR | Growth, Employment and Redistribution |
| MFA | Multi-Fibre Agreement |
| MFN | Most Favoured Nation |
| NACTU | National Council of Trade Unions |
| NEPAD | New Partnership for Africa's Development |
| RDP | Reconstruction and Development Programme |
| R&D | Research and Development |
| SA | South Africa |
| SACP | South African Communist Party |
| SACTWU | Clothing and Textile Workers' Union |
| SADC | Southern African Development Community |
| SME | Small-Medium Enterprises |
| SOE | State-Owned Enterprise |
| US | United States |
| WTO | World Trade Organization |

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# CHAPTER ONE

# INTRODUCTION AND BACKGROUND

## 1.1 Introduction

Recent years have seen China's direct investment and trade with Africa rising fast. The volume of trade between China and Africa has risen very rapidly, exceeding US$100 billion in 2007, an increase of almost 40 per cent year-on-year. This makes China the third-largest trading partner for Africa (People's Daily, 2007). With increasing Chinese private investment in the South African clothing and textile industry, between March 2003 and September 2006, 63 000 to 67 000 jobs were lost in the domestic clothing and textile industry; these losses were directly related to significant growth in imports from China over that period (Edwards and Morris, 2006). On 28 August 2006, the Government of the Republic of South Africa and the Government of the People's Republic of China concluded a memorandum in terms of which the export of certain tariff lines of the Chinese textile products to South Africa would be administered in accordance with the volumes specified in the memorandum for a period of two years (Lambrechts, 2009). The fundamental objective of these import quotas was to provide South African clothing and textile firms the space in which to operate with the aim of improving competitiveness in domestic and export markets in the long run. In this research, the quota policy of South Africa in the textile and clothing industry with regard to China will be examined to assess the effect of the policy change of South Africa and the reaction of trade unions to Chinese private business in the South African textile and clothing industry. The result could give a direction to South Africa in amending their policy in the textile and clothing industry.

The data used in this research study was mainly secondary data – that is, data originally collected for some other purpose. Research was carried out mainly through the examination of documentary secondary data published in a variety of financial journals, non-profit organisations, government departments, reports and articles in the media as well as research conducted by other students. Quantitative data was collected from reports and articles published. From the evidence certain conclusions were drawn and recommendations suggested to addressing the main problem.

## 1.2 Background

### 1.2.1 South Africa Context

The South African clothing and textiles industry has a long history. Historically, three phases of the development of the industry can be identified, linked to the level of protection and competition from international trade (Vlok, 2006). Before democratization and South Africa's integration into the world trading system, the clothing and textiles industry was focused on import substitution. The industry was highly protected and focused almost exclusively on the domestic market. This allowed inefficiencies to go unchecked, and resulted in both failure to become internationally competitive and a concentration of production in low value-added products. Nevertheless, a number of high quality, high value-added producers, such as manufacturers of men's formal shirts, suits and other tailored garments came into being and achieved success both in the domestic and export markets.

After the end of apartheid rule, South Africa (SA) joined the World Trade Organization (WTO) in 1994 and opened its market to international trade. During the late 1990s and early 2000s the South African currency, the Rand, depreciated steadily, eventually being significantly undervalued, and combined with an incentive scheme (the Duty Credit Certificate Scheme) allowed the industry to rapidly increase exports whilst at the same time remaining competitive against imports, despite liberalization. Exports were concentrated in low value-added products.

Since 2002, the value of the local currency appreciated substantially and much of the export performance has evaporated. In addition, the appreciation of the Rand and the very substantial liberalization of trade over the decade since WTO accession have made possible a very rapid and sustained surge in imports, particularly from China. This has resulted in an unprecedented crisis in the industry, characterized by large-scale loss of employment that the South African Clothing and Textile Workers' Union (SACTWU) recorded as more than 55 500 job losses since 2003. Official statistics show a 37 per cent reduction in employment since 1996 as well as a reduction in production capacity (Vlok, 2006). SACTWU has responded to this crisis through a variety of strategies aimed at reducing, in the short term, the pressure caused by the surge in imports, enhancing the competitiveness of the South African industry and placing it on a sustainable long-term development path.

The imposition of quotas on imports of Chinese clothing and textiles by the South African government in August 2006 is based on the apparent belief that significant numbers of jobs could be saved, that the sector could improve its competitiveness in the two years over which the quotas are valid, and that additional jobs could even be created in the industry (Naude, 2008). The quotas of South African clothing and textiles were imposed on 31 identified tariff lines classified under the broad clothing and textile categories. It should be noted that the quotas were not imposed on all clothing and textile lines entering South Africa from China – the restrictions accounted for about 70 per cent of clothing and textile imports (in value terms) when originally imposed. Furthermore, some of the restrictions were much more specific than others (Eden, 2009).

The South African trade union movement also has a long history. From late 1996 to May 1997, over 100 new trade unions were registered (Macun and Webster, 1998). There has been a tendency over the last twenty years for the membership of South African unions to become increasingly skilled. At factory level, however, the unions retain the power to make or break schemes for reorganizing work. Employee participation schemes, which have been relatively successful, have involved the unions throughout the planning and implementation process. The unions played a major role in the formulation of the broadly neo-Keynesian RDP (Macun and Webster, 1998). In many respects, the South African labour movement remains a force to be reckoned with. Most independent unions have successfully consolidated the gains made during the years of growth. Organized labour has become a powerful political lobby, with South Africa's largest union federation being in alliance with the ruling party.

### 1.2.2 China Context

China has expanded its relations with Africa in many ways, including enhanced economic and trade co-operation, cultural and educational exchange, medical and public health, military exchange and non-governmental communications (Mahamat, 2006). However, it is certain South Africa could benefit from the Chinese government's decision to reduce its textile exports to South Africa, but it still had to deal with the challenges posed by textiles from Malaysia and Vietnam. The key to the textile challenges faced by South Africa is not to cut the import of Chinese textiles, but to strengthen the competitive advantage of South African textiles. The volume of trade between China and Africa has risen very rapidly. With increasing Chinese private investment in the South African clothing and textile industry, there are many changes happened in the domestic clothing and textile industry and it is suggested that these changes were directly related to significant growth in imports from China over that period.

The quota regime was successful in restricting imports from China. The only difference after imposition was that the imports emanated from a host of additional low-cost overseas exporters with the largest gains in Rand value being Mauritius, Bangladesh and Malaysia. Employment data indicates that trends prior to the imposition of the quotas have continued. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink. Competitiveness challenges facing the industry did not change. This was an indication that Chinese investment was not the main factor behind the rise in unemployment and the decrease in competitiveness.

Chinese private investment potentially delivers a number of benefits. These range from providing an important source of additional investment capital at a time when Aid alone is unable to meet Africa‘s perceived shortfall; to offer employment opportunities; to contributing to poverty alleviation; to generating a significant multiplier effect through the local economy by way of local sourcing and provision of local management expertise; to engaging in technology transfers; and to inculcating production, management, distribution and marketing skills and innovation knowledge.

Based on the author’s observation, South Africa has different reactions to the growth in the Chinese private-sector business in the textile and clothing industry. Much research has been conducted on how to invest in clothing and textile businesses in South Africa for the Chinese private sector and on South African policies for the clothing and textiles sector (Eeden, 2009; Li, 2007; Naude, 2008). Little is known, however, about the reactions of trade unions towards Chinese private business in the South African textile and clothing industry.

## 1.3 Research Problem

More Chinese business is placed in South Africa than ever before, especially in the clothing and textile industry. The South African government has set quotas on Chinese clothing and textiles for 2007 and 2008 (Lambrechts, 2009). The South African government approached their Chinese counterparts for an extension of these restrictions, but this was not accepted. About 80 per cent of all T-shirts imported into South Africa originate from China. Because of this import glut, approximately 75 000 jobs were lost in the South African textile industry (Morris, 2007). The South African government and trade unions have different reactions towards Chinese private business in the clothing and textile industry. These are important to examine, since the possibility exists that there are benefits to South African economy and foreign policy. Therefore, based on the research, it is possible that a new approach to foreign trade policy towards China could favour the industry in SA as a whole.

## 1.4 Purpose statement

The purpose of this research is to expose what the reactions of South African trade unions towards Chinese private-sector business in the textile and clothing industry. This study intends to research the policy shifts of the South African government and trade unions towards Chinese private business and also examine the reaction of the South African government and the trade unions. The intention is to present information that could be helpful to the South African government in refining its foreign trade policy towards China.

The research will focus on the textile and clothing industry, in particular the Chinese private business sector in South Africa. The data will focus on the policies of the South African government and the Congress of South African Trade Unions (COSATU) in the period 2005 to 2010.

## 1.5 Research Questions

What is the reaction of South African trade unions towards the Chinese private sector in the textile and clothing industry? This would be conducted from two perspectives:

- Unemployment in the textile and clothing industry;
- Market competition in the textile and clothing industry.

## 1.6 Significance of the Research

The research raised awareness among the Chinese private business sector, the relevant South African foreign trade departments, and also the South African trade unions in the industry. The study intends to provide a direction for tailoring the policy in South Africa towards a greater acceptance of Chinese trade in textiles and clothing.

The study further aims to contribute to enhancing the competitive ability of the local textile and clothing industry by knowing more about how Chinese private business is able to benefit the South African economy.

## 1.7 Limitations of the Research

No study is without limitations; hence Creswell (2003) emphasizes that limitations to the study need to be highlighted because they identify potential weaknesses of the study and will help the researcher to think of alternatives or precautionary measures in advance.

The limitation of the research could be related to the author's understanding of the secondary data. The current research does not examine all the policies that the South African government has developed for the clothing and textile industry, but focuses on the quota policy. There is also a time and resource limitation which does not allow for a more elaborate research project to be conducted.

## 1.8 Research Report Outline

### Chapter One: Introduction and Background

This section covers introduction and background. It introduces the reader to the subject and gives the reader an overview of the main contents of the research. The chapter presents the research problem and research questions and the significance of the research. In addition, the chapter presents the limitations and the research report outline.

### Chapter Two: Literature Review

The chapter deals with review of South African textile and clothing industry and South African Trade Union, and also China's foreign policy towards South Africa, Chinese private sector investment in South Africa and policy change towards Chinese business in South African textile and clothing industry.

### Chapter Three: Research Methodology

This chapter discusses how the research was conducted with regard to data collection and analysis. The methodology of documentary analysis is presented in the chapter.

### Chapter Four: Presentation of the Findings and Analysis

This chapter indicates the manner in which data was collected organized, presented and analyzed.

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### Chapter Five: Conclusion and Recommendations

This chapter deals with conclusions based on the evidence collected; and recommendations are made on the improvement of the textile and clothing industry where it is deemed necessary.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

A thorough understanding of the South African textile and clothing industry, trade union and Chinese private investment is a necessary component of this study, and also the policy of quotas imposed on clothing and textiles imported from China will be introduced below.

## 2.2 South African Textile and Clothing Industry

### 2.2.1 History

The South African clothing and textiles industry has a long history. In the early 1920s, the South African clothing sector was almost non-existent. Clothing was either imported or tailored (Sawkut, 2008). The industry began with the manufacturing of blankets by a limited number of small companies in Johannesburg and Cape Town in the 1920s and 1930s.

During World War II, the industries provided blankets, rugs and sheeting; employed 3,500 workers; and supplied 90 per cent of domestic needs (Rates Center, 2005). After World War II, the cluster expanded into furnishings, industrial textiles and clothing. In the 1960s, the cluster further expanded into synthetic fibres and the sector almost doubled in size (Morris, Barnes and Esselaar, 2005). It is concentrated in certain geographical areas, particularly provinces like the Western Cape, KwaZulu-Natal, the Free State and Gauteng, and cities like Cape Town, Durban and Johannesburg, as well as certain rural areas such as industrial towns in the former homelands. In the traditional geographic concentrations, the industry has existed for many decades, is rooted in the unique history and cultural traditions of these areas, and provides a significant proportion of employment. In its rural concentrations, the industry is often the only source of formal employment and very many families are dependent on it for their survival.

Historically, three phases of the development of the textiles and clothing industry can be identified, linked to the level of protection and competition from international trade (Vlok, 2006). Before democratization and South Africa's integration into the world trading system, the clothing and textiles industry was focused on import substitution. The industry was highly protected and focused almost exclusively on the domestic market.

After the end of apartheid rule, South Africa (SA) joined the World Trade Organization (WTO) in 1994 and opened its market to international trade. During the late 1990s and early 2000s the South African currency, the Rand, depreciated steadily, eventually being significantly undervalued, and combined with an incentive scheme (the Duty Credit Certificate Scheme) allowed the industry to rapidly increase exports whilst at the same time remaining competitive against imports, despite liberalization. Exports were concentrated in low value-added products.

Since 2002, the value of the local currency appreciated substantially and much of the export performance has evaporated. In addition, the appreciation of the Rand and the very substantial liberalization of trade over the decade since WTO accession have made possible a very rapid and sustained surge in imports, particularly from China. This has resulted in an unprecedented crisis in the industry, characterized by large-scale loss of employment where the SA Clothing and Textile Workers' Union (SACTWU)**,** official statistics shows a 37 per cent reduction in employment since 1996 (Vlok, 2006). SACTWU has responded to this crisis through a variety of strategies aimed at reducing in the short term the pressure caused by the surge in imports, enhancing the competitiveness of the

South African industry and placing it on a sustainable long-term development path.

### 2.2.2 The Impact of Trade Liberalization

Since 1994, South Africa has undertaken an extensive trade liberalization programme, agreed to under the then General Agreement on Tariffs and Trade (GATT) and implemented by the World Trade Organization (WTO). The WTO's 1995 Agreement on Textiles and Clothing (ATC) required that WTO members reduce quotas on textile imports over ten years to bring their industries in line with the GATT regulations. Under the agreement, all quotas were to be removed by 1 January 2005. South Africa's tariff liberalization programme went further and was undertaken faster than required by the GATT agreement and WTO regulations. The lack of protection led to both a surge of imports of cheap Chinese products, as well as to a loss of export markets due to the dominance of cheap Chinese products in those markets (Lundy, 2005).

While South Africa's trade with China has expanded significantly over the past few years, imports coming into South Africa are growing much faster than exports to China. South Africa's trade deficit with China was R16,6 billion in 2004. Imports of Chinese clothing products increased by 335 per cent from 2002 to 2004 in United States (US) dollar value, and China's share of imports into South Africa increased from 54 per cent in 2002 to 74 per cent in 2004. By volume, 85 per cent of all imports of clothing come from China. Over the same period, imports of textiles from China grew by 144 per cent in US dollar value terms (Vlok, 2006).

In January 2007, new quotas (with a two-year expiry date) were imposed on Chinese imports with the intention of encouraging firms to modernize equipment, to become more competitive, and to increase employment. In early 2008, it was reported that these quotas are not making struggling clothing and textile companies more competitive, because the two-year period is too short for these companies to earn a return on investments in new machinery (Clotex, 2008).

### 2.2.3 The Effects of Globalization and Increased Competition

Since the mid-1990s, increased exposure to globalization has forced a rapid restructuring of supply chains in the industry. The restructuring has taken several forms which are listed below.

**Relocation of firms:** Several firms have relocated to non-metropolitan areas in KwaZulu-Natal where there is cheaper, non-unionized labour. Others have relocated to other African countries, such as Lesotho, Madagascar and Botswana, where labour is perceived to be cheaper by large companies and buyers. In some cases, the governments of these countries also provide greater incentives to investors (Clotex, 2008).

**Job losses:** Estimates of job losses over the past ten years vary widely and are contested by varying stakeholders within the industry. Van der Westhuizen (2006) points out that while official Statistics SA data shows employment at a higher level in 1997 than in 1992, and then a trend of steady decline from 1997 onwards, this data does not correspond with the reported number of jobs lost by the industry and suffers from a number of breaks in the survey sample.

**Re-orientation towards export production for niche products:** Exports in Rand value doubled between 1995 and 2000 and increased by another 50 per cent by 2003 (Clotex, 2008). However, when the currency appreciated, exports suffered a setback that the preferential access to the US market afforded by the United States' Africa Growth and Opportunity Act (AGOA) could not compensate for. In 2004, exports fell back to below 2002 levels. This meant that export manufacturing failed to create jobs, and workers who lost their jobs were not re-absorbed into the industry.

**Other challenges faced by the industry:** A comparatively low level of investment by factory owners in capital equipment, facilities and specific skills development has undermined the growth potential of the industry. Combined with a declining skills base, this has resulted in muted growth and reduced focus on high value-added production within the industry (Vlok, 2006). The challenge of continued innovation is closely linked to ongoing skills development and capital investment. With a few exceptions, the clothing and textiles industries have performed poorly in terms of innovation, with the industry perceived as being a follower rather than a leader (Vlok, 2006).

### 2.2.4 Employment

Although the clothing manufacturing industry contributed less than 5 per cent of the national manufacturing output in 2004 (Vavi, 2004:2), it is the most labour-intensive sector (measured by number of jobs per unit of capital invested) and combined with textiles it provided 13.4 per cent of total manufacturing employment (Barnes, 2005:6). It contributes to 1.8 per cent of overall employment in South Africa. It therefore plays an important role in employment not only because of its labour absorptive capacity, but also by virtue of its ability to offer entry-level jobs for unskilled labour.

The clothing and textile industry requires a relatively unskilled labour force, with 82.2 per cent of employment in the industry attributed to semi- and unskilled workers, 13.4 per cent to mid-level occupations, and only 4.4 per cent to jobs requiring high-level skills (Barnes, 2005:6).

Vlok (2006) estimates 94 per cent of the workers in the industry to be black, i.e. African, Indian or Coloured. According to the Clothing, Footwear, Textile and Leather Sector Education and Training Authority (CFTL-SETA) (The Shop Steward, 2005), most workers are weekly-paid or ‘blue collar’ workers. Wages are low. In 2005 the legally prescribed minimum weekly wage for a qualified machinist in ‘non-metropolitan’ areas was R282.76. The wage rates in the clothing and textile industry are the lowest in the South African manufacturing sectors (The Shop Steward, 2005).

The industry is a very significant employer of women. Figures compiled in 2005 by the SETA show that 66.1 per cent of workers in the industry are women. This percentage is much higher than the proportion for all workers and the manufacturing industry, which are 43.7 per cent and 33.2 per cent respectively. This means that job losses in the industry have a disproportionate impact on women and women-headed households.

In Mthente's (2008:11) view, evidence existed prior to the imposition of quotas which indicated that there was a steady exit of skills out of the clothing manufacturing sector taking place. Factors fuelling the exit included the following:

- An ageing workforce:

  Eighty-six per cent of the workforce are aged between 31 and 50. Only 11.2 per cent are aged between 20 and 30. The gap left by people retiring from the industry is not being filled.

- Migration of workers to other sectors of the economy:

  Workers have left the clothing manufacturing sector in pursuit of improved prospects in other sectors. According to Mthente (2008:12), this migration is prompted by the belief that the other options provide higher earnings potential, increased job security and favourable working conditions.

- Migration of workers to the informal sector:

  Due to the changing dynamics in the formal clothing and textile industry, such as greater production pressure, increased competitiveness and uncertainty, many skilled workers have opted to move to the informal sector.

- Relocation outside South Africa:

  Many companies were migrating to other parts of the Southern African Development Community region such as Lesotho. According to Mthente (2008:14), nominal labour costs in South Africa are almost three times higher than in Lesotho. South Africa is also associated with heavy labour union activity and relatively low productivity.

Maree (1995) has mentioned that from 1981 onwards the industry has been characterised by perpetual decline in all forms. Output dropped and as a result employment fell rapidly. These job losses affected 217 940 people, if one takes into account that an estimated five people are dependent on each breadwinner. According to Morris (2007:8), employment in the clothing industry in December 2006 stood at 74 500.

### 2.2.5 Size of the Clothing and Textile Industry

In 2005 there were approximately 2 000 active clothing, textile, footwear and leather companies registered with the Clothing, Textile, Footwear and Leather Sector Education and Training Authority (CTFL-SETA). Vlok (2006) estimates 80 per cent of these, or approximately 1 600, to be in the clothing and textile industries. In terms of contribution to the national gross domestic product, the textile and clothing sector may be relatively small and unimportant, i.e. less than five per cent of the national manufacturing output in 2004. This related to sales of R34 billion being generated, with textiles contributing R17.4 billion and clothing R16.6 billion according to Vlok (2006). However, measured on its dominance in the three provinces (KwaZulu-Natal, Gauteng and the Western Cape), the people it employs, and supplies and sales it provides nationally, its importance to the national economy cannot be underestimated (Netshandama, 2001:29).

## 2.3 South African Trade Unions

In the early 1970s, a number of new industrial unions were established. After a series of mergers and realignments, by the mid-1980s there are two main federations, the non-racial Congress of South African Trade Unions (COSATU) and the very much smaller black consciousness (later Africanist) National Council of Trade Unions (NACTU) (Wood, 2001).

COSATU had an initial membership of 400 000, but by 1990 it had reached the 1.2 million (National Labour and Economic Development Institute, 1994). This rate of expansion then slowed, with the federation having 1.3 million members in 1994. In contrast, NACTU represented some 327 000 workers at this stage (Wood, 2001).

Geoffrey Wood (2001) stated that in 1979 South Africa's statutory system of collective bargaining and dispute resolution were deracialized. The Industrial Court adjudicated unfair labour practice claims. This system required African trade unions to register in accordance with the Labour Relations Act. Subsequent decisions by the industrial court entrenched the right to strike, and forced employers to bargain with the trade unions.

During the 1980s, the strike action was continuously rising and the unions became increasingly assertive politically. The continued militancy was a product of the social movement nature of the unions, which had not been politically incorporated because of the apartheid system, in the form of statutory and informal job colour bars, and the pass laws which permeated all aspects of workplace relations (Webster, 1987).

Union membership in key areas of the private sector had begun to decline in 1993. Large-scale retrenchments had taken place in some sectors. By the early 1990s, public sector unions constituted its fastest growing segment. In 1993, COSATU decided to specifically target the public sector for action and growth (Dobson, 1993).

In 1994, a number of prominent COSATU leaders were elected to parliament based on the federation's alliance with the African National Congress. From late 1996 to May 1997, over 100 new trade unions were registered (Macun and Webster, 1998). In 1996 a Commission was established by COSATU, which was entrusted with investigating the present and future role of the unions, and exploring ways in which COSATU could influence events. At the same time, a new Central Committee is to be established, which will be composed of both the COSATU secretariat and worker delegations. The new central committee was hoped to increase worker involvement in the policy formulation process.

Over the last twenty years, the membership of South African unions became increasingly skilled. That means the labour movement could represent the interests of the elite, who pursue the goals regardless of the long term consequences in terms of employment and economic growth (Wood, 2001).

According to Geoffrey Wood (2001) there are two basic reasons for promoting worker participation: for the sake of enhancing productivity or for the engendering of workplace democracy for its own sake. By the time the 1995 Labour Relations Act was implemented, many employers had already begun to experiment with a range of new production concepts involving enhanced employee participation.

In the 1994 elections, COSATU joined the South African Communist Party (SACP) and ANC in the Tripartite Alliance, headed by the latter. South Africa's second democratic elections took place in June 1999. In 1997 COSATU object to the government's adoption of the Growth, Employment and Redistribution (GEAR) economic policy. GEAR represented a significant policy shift from the Reconstruction and Development Programme (RDP), which served as a major plank in the ANC's 1994 election campaign (Wood, 2001). Since the 1994 elections, the ANC has moved steadily rightward, in response to pressures from the World Bank, the IMF and the business community. Both the SACP's and COSATU's opposition to GEAR has become much more muted. COSATU has battled to define clearly its role in the transition (McKinley, 1998). Relations between the union movement and the ANC remain close, with an associated weakening in union autonomy, at least when it comes to broad socio-political issues. Over 70 per cent of COSATU members believed that the Alliance was the best way of safeguarding workers' interests in parliament (Wood, 2001).

In many respects, the South African labour movement remains a force. Most independent unions have successfully consolidated the gains made during the years of growth. Organized labour has become a powerful political lobby (Wood, 2001).

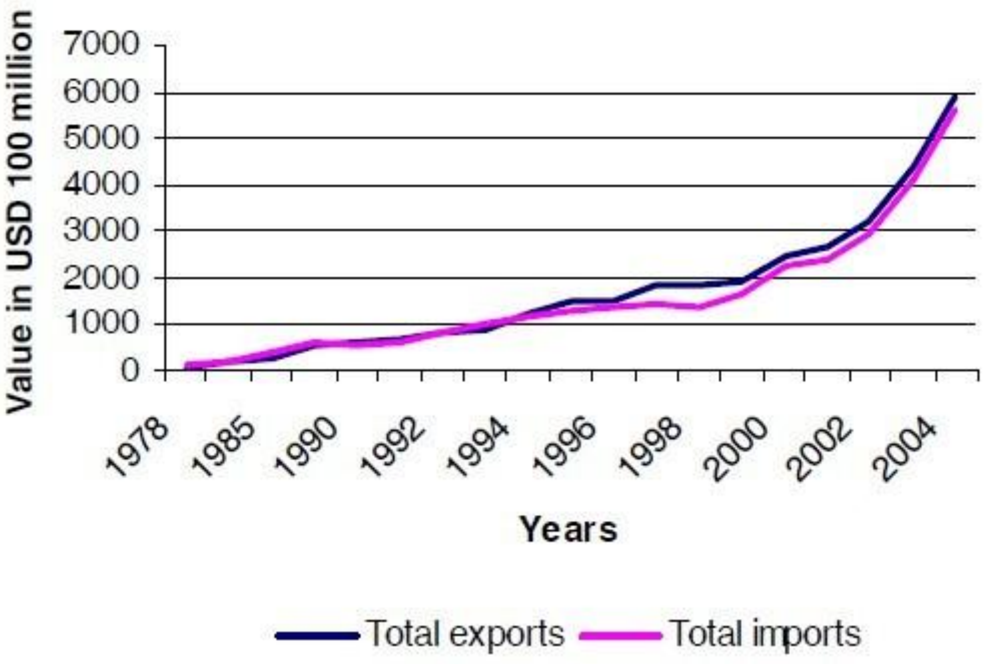
**2.4 China’s Foreign Policy towards South Africa**

The People’s Republic of China’s political and economic engagement in Africa has a long tradition, and is closely associated with the political self-image and international claim to leadership of the Communist Party of China (CPC). As long ago as 1955, at the Asian-African Conference in Bandung, China presented its “Five Principles of Mutual Coexistence” that became the foundation of its foreign policy *vis-à-vis* non-communist developing countries. These principles are: 1)Respect for territorial integrity; 2)Rejection of aggression; 3) Non-interference in the internal affairs of other countries; 4) Equality and mutual benefit; 5) Peaceful coexistence. The same principles remain valid for China fifty years on (Helmut and Margot, 2008).

China and Africa have concluded various trade agreements in the past. The first initiatives were taken in the framework of the 1955 Bandung Conference. This agreement was merely political, but while establishing diplomatic ties with African countries, economic and cultural agreements were also signed by both parties. In 2000, the first large-scale conference on Sino-African trade was held in Beijing. According to China, the purpose of the Sino-African Forum was 'the construction of an international political and economic order and to explore new Sino-African co-operation' (Van de Looy and De Haan, 2006).

China's post-Maoist era, after 1978, is characterized by economic expansion. The figure below shows the total value of China's exports and imports between 1978 and 2004. It can be seen that from 1994 onwards growth has increased and now exceeds US$100 billion.

**Figure 1: China's Total Imports and Exports, 1978-2004**




Source: China Statistical Yearbook 2005, National Bureau of Statistics of China

Trade between China and Africa has quadrupled since 2000 when trade between Africa and China totalled around US$10 billion. Just five years later it had increased to US$28 billion. Table 1 shows the development of Sino-African trade between 1999 and 2003. China is now Africa's third largest commercial partner after the United States and France, and the second largest exporter to Africa after France. Remarkably, Britain – as a former colonial power – has been left far behind by China (Smith, 2006).

**Table 1: Sino-African Trade, 1999-2003 (in US$ million)**

| 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| 6459.3 | 10563.5 | 10755.7 | 12346.9 | 18487.1 |

Source: China Statistical Yearbook 2005, National Bureau of Statistics of China

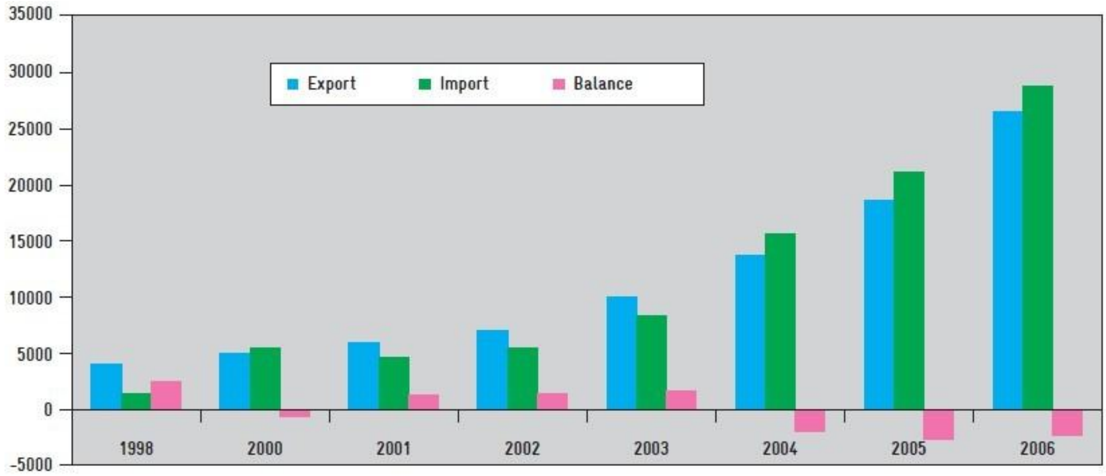
China's economic relationship with Africa can be divided into the drive for resources; new export markets; and new investment opportunities for Chinese companies. Exports from Africa to China are primarily commodities and oil, while African imports from China consist of manufactured goods such as industrial products, electrical equipment and machinery, textiles and household utensils (Van de Looy and De Haan, 2006).

China's relations with Africa during the twentieth century were geopolitically motivated, as it was a way of opposing the super powers and western hegemony. China started to share a common identity with Africa, as a Third World country itself. However, in the 1990s this approach towards Africa became more economically motivated. Growing numbers of Chinese companies are developing connections in Africa with the aim of increasing trade between China and the African continent.

Chinese foreign trade policy is geared towards opening new markets for Chinese export goods. Diversifying foreign trade flows has been one of the declared aims of Chinese foreign trade policy since China's accession to the WTO at the end of 2001, and also includes expanding bilateral foreign trade with Africa. China has agreed most-favoured-nation (MFN) clauses in foreign trade with 41 African countries. By the end of 2007, the number of duty-free product lines had already grown to 454. In 2005, the volume of products imported from Africa under the preference system totalled $380 million, a rise of 88 per cent over 2004. In the first half of 2006, imports within the framework of the preference system rose by 57 per cent compared with the same period in the previous year, reaching $250 million (Wei, 2006).

Foreign trade between China and Africa has developed rapidly since the end of the 1990s. The rates of growth are unprecedented. Starting from a low volume of $5.5 billion in 1998, the value of foreign trade grew tenfold by 2006, to $55.3 billion (IMF, 2007). Over the past three years, China also registered a deficit in trade with Africa, which rose from $1.9 billion in 2004 to $2.2 billion in 2006 (see Figure 2).

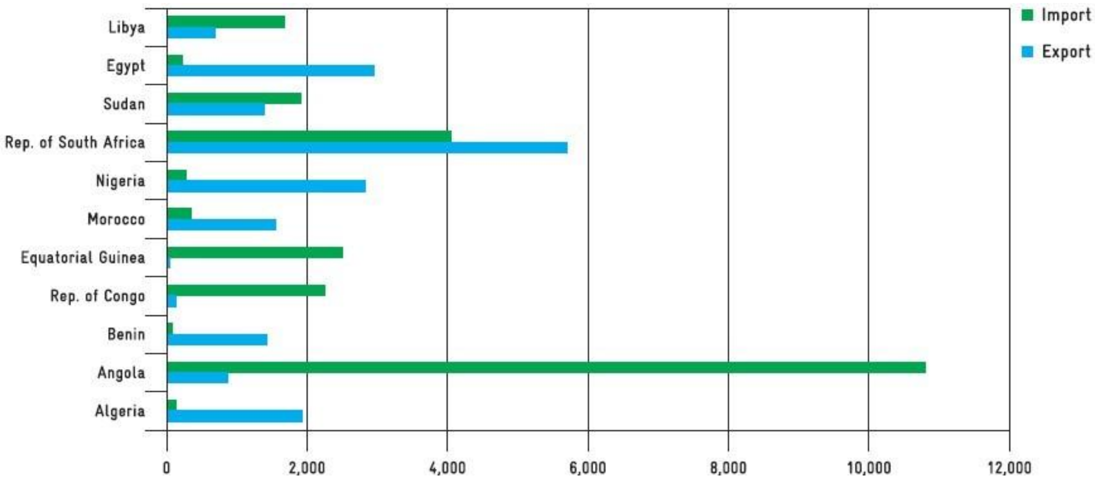
**Figure 2: PR China's foreign trade with Africa, 1998-2006 (million US$)**




Source: Compiled on the basis of IMF (2007), including Egypt and Libya.

The regional structure of foreign trade between China and African developing countries reveals a focus on a small number of countries (see Figure 3):

**Figure 3: China's most important trading partners in Africa in 2006 (million US$)**




Source: IMF (2007)

According to one Chinese trade analyst, 'Chinese products are well-suited to the African market. At the moment, China is in a position to manufacture basic products at very low prices and of satisfactory quality (Alden, 2005). Many products are produced in state-owned factories in China and sold through a growing informal network of trading posts across urban and rural Africa.

The number of Chinese traders in Africa has increased since the 1960s when Chinese traders settled in Africa on a large scale. In 1949, there were about 27 000 Chinese people in Africa and this number grew to 130 000 by 1999. Most of these traders settled in Mauritius, Madagascar and South Africa (Emara, 2006) but, according to observers, the number of Chinese in West Africa is increasing as well. These African traders import Chinese goods that are attractively priced for the African market where purchasing power is limited. African businessmen also increase their profit margins in this process by cutting out intermediaries.

This is the case in almost all African countries, and the African market is being flooded with cheap Chinese products. Thus, Africa is a new and interesting market with excellent conditions for the Chinese with its many potential customers for cheap Chinese products. The imported goods are mostly household utensils, mechanical and electric products, textiles and clothes. China is focusing its exports on countries with large populations, for example, South Africa, Nigeria, Egypt, Morocco and Algeria. These five countries, with their relatively high purchasing power by African standards, together account for 58 per cent of African imports from China. (J van Looy)

**2.5 Chinese Private-Sector Investment in South Africa**

As Chinese foreign trade has undergone liberalization and diversification in recent years, hundreds of private Chinese companies have also become active in Africa. They use these countries to both sell and produce. Although the private companies operate at their own risk, their activities, too, receive state support through special facilities in capital transactions and the provision of information about local markets. The close dovetailing of the worlds of politics and business in China allows targeted accords to be arranged between the bureaucracy and companies and a joint approach in foreign markets. The impression of an overall strategy for economic development of Africa is reinforced by the fact that the Chinese government formulates clear industrial-policy objectives and employs a mix of market-economy and interventionist instruments in order to achieve them (Schüller/Turner, 2005).

Until recently, Chinese firms have gone to Africa for three major reasons. Firstly, they went to start-up development projects. Those firms that were able to enter African markets early through development assistance projects, gained an advantage to learn about local markets and then to use their familiarity with Africa to make subsequent investments. Secondly, particularly a limited number of apparel manufacturers established processing factories in Africa in order to increase their sales and, for some of these the idea was to circumvent US and EU protectionist trade restrictions on products from China by changing the country-of-origin of their goods and gaining access to these developed markets under their preferential trade agreements with Africa. Thirdly, investments have involved the search for oil and gas and other resources to export to China (Gu, 2009), Table 2 below characterizes five phases of Chinese companies‘ engagement in Africa.

The first stage (1949-1980s) related to Chinese aid projects; the second (1980s to mid-1990s) involved large SOE trading companies; stage three (mid 1990s-2000) saw the entry of large SOE and private companies into manufacturing often involving linkages from resource based and infrastructure investments; phase four (2000-2005) saw the growth of spillovers from these earlier large scale investments, and in the most recent phase (post 2005) the entry of a new family of small scale private sector Chinese firms into Africa. The most salient FDI here, and the primary subject of this paper, is in Stage 5 as its driving force is rooted in critical structural adjustments in the Chinese and global economies. Seeking an escape from the pressure cooker of domestic competition and surplus production, China‘s private firms find some relief overseas in Africa‘s large markets and relatively less intense market competition from local firms. A key aspect of this fifth stage is that these firms tend to act autonomously from the Chinese government‘s policy frameworks and existing bilateral arrangements. As these enterprises have moved to Africa, they have spurred the development of a Chinese support infrastructure such as business associations, community groups as well as expanding embassy and consular facilities.

**Table 2: Growth Stages of Chinese Companies in Africa**

| **Stages** | Main Features |
|---|---|
| Stage One: 1949-1980s | Limited number of Chinese companies, mainly implementing Chinese Governments development Aid Projects |
| Stage Two: 1980s-mid 1990s | Large national and provincial level State-owned Trading Companies, closely associated with diplomatic agenda; few private companies. |
| Stage Three: Mid 1990s-2000 | Emergence of large State-Owned Enterprises mainly resource-seeking, strategic asset-seeking, and infrastructure investments; Increasing number of private companies start exploring African market. |
| Stage Four: 2000 – 2005 | Expansion of large State-Owned Enterprises and private companies; emergence of clustering development strategy e.g. Trade zones; industry parks |
| Stage Five: 2005—present | Acceleration of private companies in various sectors and continued expansion of SOEs; the development of clustering industry strategy. |

**Source: China-Africa Project Survey 2009**

Although Chinese investment in Africa remains a relatively small proportion of China‘s global FDI (4 per cent), there has been a remarkable explosion in Chinese FDI to the African continent. It is not, therefore, the stock or absolute level of Chinese FDI into Africa that is significant, but the remarkable speed of the growth in this investment. Recent years have seen China‘s direct investment and trade with Africa rising fast. The volume of trade between China and Africa has risen very rapidly, exceeding US$100 billion in 2007, an increase of almost 40 per cent year-on-year. This makes China the third-largest trading partner for Africa (People‘s Daily, 2007).

Investment and trade are complementary. China‘s accumulative investment in Africa rose from $982.7 million in 2002 to $13.5 billion at the start of 2007. In 2007, the flow of FDI had more than doubled over the previous 2 years, reaching $650 billion. Whilst significant investment in Africa has come from the Chinese SOEs, the investment from China's private enterprises is growing quickly and is widely expected to take the lead in establishing and maintaining these links.

Estimates regarding the number of Chinese enterprises in Africa vary considerably. In 2006, the Chinese Export-Import Bank estimated that there were about 800 Chinese companies operating in Africa. According to this data, approximately 85 per cent were privately owned. Chinese private investment in Africa is increasingly in manufacturing. These investments are distributed widely across Africa. By the end of 2006, China's FDI had already spread across 49 African countries and regions (Africa Investment, 2008).

### 2.6 Policy Change towards Chinese Business in South African Textile and Clothing Industry

One of the main commodities that China exports to Africa is textiles, a sector in which it is able to compete with Africa due to its low labour costs. In fact, Chinese textile exports are undermining local African production and concern about this is growing. China has increased its textile and clothing exports even further since its accession to the WTO in 2001. Table 3 shows the rapid increase in China's share of the market since becoming a member of the WTO (WTO, 2004).

**Table 3: China's Share of Total Imports, in Selected Countries Textiles (per cent) Clothing (per cent)**

| | 1995 | 2002 | 1995 | 2002 |
|---|---|---|---|---|
| Australia | 19.3 | 35.2 | 54.3 | 70.4 |
| Japan | 41.1 | 66.5 | 59.1 | 77.5 |
| South Africa | 5.9 | 18.5 | 29 | 56.3 |
| Switzerland | 3.9 | 5.2 | 8.8 | 9.3 |

**Source: WTO, "The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing", 2004.**

Recently, the share of Chinese textiles in the South African market increased even further and 86 per cent of South Africa's clothing imports currently come from China. Not only has the domestic market been affected by the sudden rise, exports of African textiles have also been hit. The growth of Chinese exports to the US is negatively affecting the previously promising growth that African exports were enjoying in this field. This negative impact on African exports comes from the ending of the Multi-Fibre Agreement (MFA), which had allowed countries like the US to place quotas on clothing and textile imports from certain countries. The MFA lasted for 30 years from 1974 until 2004 and was designed to set quotas on the levels of imports of textiles and clothing from 'developing' to 'developed' countries, essentially safeguarding industries in the industrialized countries and controlling the level of market access for imports from developing countries.

In 2000, the US and 48 African states drew up the African Growth and Opportunity Act, (AGOA), which gave African states full access to the American market and resulted in textiles becoming a major growth opportunity. Southern Africa in particular began to focus on its textile industry. However once the MFA ended on 1 January 2005, the export of Chinese textiles to the US began to flourish and African exporters could not compete. More than ten clothing factories in Lesotho closed in 2005, and South African exports to the US dropped from US$26 million in the first quarter of 2004 to US$12 million in 2005 (Princeton, 2005).

In August 2006 the South African government imposed quotas on the imports of clothing and textile products from the People's Republic of China, for a period of 2 years starting on 1 January 2007 (Government Notice, 2006). These quotas represent an about-face in trade policy after more than a decade of commitment to trade liberalization. The products on which the quotas were imposed were already significantly protected by high import tariffs of 40 per cent. It also comes after South Africa recognized China's market economy status in 2004 and signaled its intention to start negotiating for a free trade agreement (FTA) with China. Given the costs that the manner of the imposition of these quotas imply in terms of the credibility of South Africa's trade policy stance, it might be inferred that the government had high expectations that these quotas would have real benefits for the South African economy.

The imposition of quotas on imports of Chinese clothing and textiles by South African government in August 2006 is based on the apparent belief that significant jobs could be saved, that the sector could improve its competitiveness in the 2 years over which the quotas are valid, and that additional jobs could even be created in the industry. It is often pointed out that job losses in the clothing and textile industry have been significant, ever since 1994, when South Africa started its trade liberalization. Statistics South Africa data suggest that total employment in the industry declined from 228,053 in 1996 to 142,863 by March 2005 (Vlok, 2006).

Over the same time that the job losses intensified, South Africa's total imports from China (including clothing and textiles) increased substantially. After the EU, China is now South Africa's largest single trading partner. Total South African imports from China increased from 2.1 per cent of total imports in 1996 to over 9 per cent in 2005 (amounting to US $4.9 billion in 2005 (Sandrey, 2006:1). A large share of Chinese goods is imported duty free (about 45 per cent) although all imports of clothing and textiles carry a 40 per cent import tariff. Despite these tariffs, Chinese clothing and textiles have gained a huge market share in South Africa (Sandrey, 2006:14). About 74 per cent of South Africa's clothing imports come from China, and about 19 per cent of its textile imports. In both categories there have been significant increases since 2000: from 49 per cent in 2000 in the case of clothing and from 7 per cent to 19 per cent in the case of textiles (Vlok, 2006).

The South African Clothing and Textile Workers Union (SACTWU) predicted further jobs losses of about 50,000 over the period until 2009, and made the imposition of quotas (in terms of safeguard provisions) its number 1 priority for the restructuring of the sector (Vlok, 2006). Moreover, as reported in Edwards and Morris (2006:121), the SACTWU claims that the imposition of import quotas will not only reverse the most recent job losses, but will create an additional 50,000–60,000 jobs. The response has been the imposition of quotas on 31 product lines of clothing and textile imports from China. The next section describes the extent of the restrictions.

The 31 product categories on which quotas were places include woven fabrics of cotton, woven fabrics of synthetic staple fibres, wrap knit fabrics, knitted or crocheted fabrics, tracksuits, ski suits and swimwear, other garments, curtains (including drapes) and interior blinds, curtain or bed valances, etc. No quotas were imposed on footwear. The quotas were to be implemented on 1 January 2007 and are valid until end December 2008. Out of the 31 quotas imposed, only 4 allowed for growth above the 2005 level of imports (curtains, woven fabrics of polyester and cotton, woven cotton fabrics and other knitted or crocheted fabrics). In the case of 26 products, quotas will reduce import levels by more than 10 per cent compared to 2005. There are in particular 7 product lines, where the quota will result in reducing the volume of imports by more than 50 per cent over

2005 volumes (Brink, 2006).

## 2.7 Conclusion

South African textile and clothing industry have long history and experience trade liberalization and globalization. Since the mid-1990s, increased exposure to globalization has forced a rapid restructuring of supply chains in the industry. And after 1994, South Africa has undertaken an extensive trade liberalization programme, agreed to under the then General Agreement on Tariffs and Trade (GATT) and implemented by the World Trade Organization (WTO). The clothing manufacturing industry is the most labour-intensive sector and combined with textiles it provided 13.4 per cent of total manufacturing employment. It contributes to 1.8 per cent of overall employment in South Africa. It plays an important role in employment not only because of its labour absorptive capacity, but also by virtue of its ability to offer entry-level jobs for unskilled labour.

The People's Republic of China's political and economic engagement in Africa has a long tradition, and is closely associated with the political self-image and international claim to leadership of the Communist Party of China (CPC). There are five fundamental principles towards foreign trade policies, they are 1.) Respect for territorial integrity; 2.) Rejection of aggression; 3.) Non-interference in the internal affairs of other countries; 4.) Equality and mutual benefit; and 5.) Peaceful coexistence. The same principles remain valid for China fifty years on.

China's relations with Africa during the twentieth century were geopolitically motivated, as it was a way of opposing the super powers and western hegemony. China stated to share a common identity with Africa, as a Third World country itself. As Chinese foreign trade has undergone liberalization and diversification in recent years, hundreds of private Chinese companies have also become active in Africa. They use these countries to both sell and produce. Although the private companies operate at their own risk, their activities, too, receive state support through special facilities in capital transactions and the provision of information about local markets. Recent years have seen China‘s direct investment and trade with Africa rising fast. The volume of trade between China and Africa has risen very rapidly, exceeding US$100 billion in 2007, an increase of almost 40 per cent year-on-year. This makes China the third-largest trading partner for Africa.

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# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This Chapter provides an overview of the methodology used, the data collection process undertaken and the subsequent data analysis. The study made use of qualitative research. The data used in this research study will mainly be secondary data – that is, data originally collected for some other purpose. Research was carried out mainly through the examination of documentary secondary data published in a variety of journals, government departments, reports and articles in the media as well as research conducted by other students. Quantitative data was collected from reports and articles published.

In this study, the underlying research question sought to assess the reaction of South African trade unions towards Chinese private business in the textile and clothing industry from the standpoint of policy documents and narrating the policy. The author used qualitative research methodology to examine the policy changes of the South African government and the reaction to Chinese private business in the textile and clothing industry.

## 3.2 Research Approach

Qualitative and quantitative methods are not simply different ways of doing the same thing. Instead, they have different strengths and logic, and are usually best used to address different kinds of questions and goals (Maxwell & Loomis, 2003). A qualitative study was indicated due to the fact that by its nature qualitative research is descriptive. The strengths of qualitative research derive primarily from its inductive approach, its focus on specific situations or people, and its emphasis on words rather than numbers (Maxwell & Loomis, 2003). Qualitative research entails discovering of alternative research plans in response to accidental discoveries.

According to Schumacher and McMillan (1993), some multi-method data collection strategies are participant observation, document and artefact collection, and supplementary techniques. The qualitative research which is what this study adopts was decided upon because it is most suited to the context of the research questions focusing on literacy policies and context in South Africa and China. Since it gives the researcher the opportunity to inductively work through the documents, the study can simply be summarised as a qualitative research that adopts analytical methods.

### 3.3 Research Design

Research design is the plan and structure of the investigation used to obtain evidence to answer research questions (Scumacher, 1993). The design describes the procedures to be used in conducting the study. The research design is the blueprint of the research project that supersedes the actual research process (Mouton, 1996). A research design is "an action plan for getting from here to there, where 'here' is the initial set of questions and 'there' is the set of answers" (Yin, 1994).

#### 3.3.1 Documentary Analysis

Silverman (2004) emphasizes the importance of incorporating a clear understanding of how these documents are produced, circulated, read, stored and used for a wide variety of purposes. Bailey (1987) gives an outline of advantages of using documentary analysis in any research, the crucial one being that documents are non-reactive and do not change the nature of the data being collected. It eliminates error caused by memory failure of subjects under study as well as bias due to hesitancy to admit the degree of irregularities. Participants may show resistance to being interviewed or supply inaccurate information as a result of apathy, wilfulness, modifying behaviour or information to create a better impression, or deliberately misinforming the researcher.

Documentary analysis will be considered as core research methodology in this study. This is the detailed examination of documents produced across a wide range of social practices, taking a variety of forms from the written word to the visual image like financial journals, non-profit organisations, government departments, reports and articles in the media as well as research conducted by other students. The significance of the documents may be located in the historical circumstances of production, in their circulation and reception of the item, and also the social functions, interpretations, effects and uses that may be associated with them (McMillan and Schumacher, 1993:167).

### 3.4 Data Collection

In the data presentation and analysis, tables and figures were used to promote a better understanding of the data gathered and analysed. Data collection through the Internet was done. The process of data collection for the research included documentary secondary data published in a variety of journals, government departments, reports and articles in the media as well as research conducted by other students. Quantitative data was collected from reports and articles published. The researcher created the opportunity for further discovery of data by keeping an open mind regarding new ways of acquiring data.

#### 3.4.1 Primary Data

For the purpose of this report, document analysis was the main focus of the data collection. Primary data was used to enhance information already gathered (data collected by the researcher in the first instance).

#### 3.4.1.1 Distinctive Features of Documentary Analysis

A wide range of documents is available to the social researcher. Personal items such as diaries, letters and aide-memoires, shopping lists and photographs as part of everyday existence form a private documentary record, evidence of the way lives are lived and how the social world is engaged with by individuals and social groups at different times and in different places. Life is usually recorded through a birth certificate, a passport or identity card and may be concluded by a death certificate. Although involving intensely personal meanings, these documents are produced by or on behalf of the state and like so much documentary material, the information carried there is part of public documentation (McMillan and Schumacher, 1993:167).

Places of work, commercial and public organizations and educational institutions are amongst the many economic, social and cultural organizations that produce documents of interest to researchers. These may range, for example, from contracts of employment to purchase receipts and records of educational achievements and offer information about people's lives, work and leisure and the social and economic relations they enter into (McMillan and Schumacher, 1993:167).

The continuing development of technology and the recent expansion of telecommunications and the mass media have added to the amount and types of forms that documents take, from the hand production of written and visual documentation to mechanical production and mass media documents. Although document analysis is usually of the written word, other forms of communication must be accounted for. Radio, cinema and television generate a prolific twenty-first century display of visual, textual, oral and aural document forms. As with documents, these have a variety of social functions, including information, leisure and social control. Internet websites represent commercial, governmental, educational and other organizational interests and exist alongside personal websites and individually managed “blogs”, the frequently updated journals that make up the pages of virtual documentation. There is thus a wide range of available documents waiting to be analysed, and the social researcher will pose questions about document availability and reasons for retention but will also recognize that not all social facts have been documented and that not all documents are available to research.

#### 3.4.1.2 Evaluation of Documentary Analysis

A series of essential criteria is applied to the analysis of documents. Questions about the document’s authenticity, credibility, representativeness and meaning are the usual starting points (Scott, 1990). Establishing the authentic nature of a document, that it was produced by the author or authorizing body ascribed to it, leads into wider issues of the nature and circumstances of the document’s production and exploration of the encoding process. According to Jupp (2006), the procedure of selection and putting into place the words, images or other elements that make up the content of the document is important, not least in consideration of any meaning the document may come to have. The credibility of the document as evidence hinges on the truth and accuracy of its reference and how widely it represents the phenomena the researcher is investigating. For example, questions of authenticity regarding an inscription on a public building or monument commemorating a historical event may by few but questions of why, how and whose interest the document serves may be many.

A content analysis of documents will lean towards a systematic and enumerative approach in order to quantify (Scott, 1990) the frequency of elements within documents (such as words or images) or the quantity of similar types of document. As Jupp (2006) explains, this kind of analysis is concerned with the manifest content of a document and is usually associated with the positivist tradition of social research. Textual analysis, on the other hand, is usually thought of as being part of the qualitative and interpretivist tradition. Here emphasis is less on the amount and frequency of occurrences and more on interpreting the meaning the document might have. This may use semiology, the study of signs that offer complex meanings or significance beyond the surface of the text; or linguistic analysis, which explores the use and meaning of words and phrases (Scott, 1990).

Further areas of inquiry investigate documentary interpretation, recognizing that different people will interpret or "decode" documents in various ways which may be different to the producer's or encoder's intentions. Documents may have an effect, change or reinforce a belief, attitude or form of behaviour, but in certain circumstances the recipient of the document's message may choose to use the message for other purposes. For example, the health warning appearing on a packet of cigarettes may provide a wealth of documentary information and make an unambiguous statement about the nature of the product, but this message might be interpreted by the user and acted upon in a variety of ways. This is often characterized as a 'field of action', and area of activity centred on the document, where the document message as intended by the producer may become diffused amongst a social group or may be interpreted and reinterpreted though discussion and use (Prior, 2003:2).

### 3.4.2 Secondary Data

Secondary data is information that has already been assembled, having been collected for some other purpose. Sources include census reports, trade publications, and subscription services. For the purposes of this study, it will be done to analysis the research problem and seek the answers. In addition, documentation such as magazine articles, newspaper and media reports, workshops and conference documents as well as information that might be available on the internet will be collected. All relevant data that will be sourced during the process of this research will be collated to finalize the data collection stage.

### 3.5 Data Analysis

Unlike quantitative data which consists of numbers, qualitative data consists of words and observations and its analysis and interpretation are required to bring order and understanding. Data analysis is an ongoing cyclical process integrated into all phases of qualitative research (Scumacher, 1993). This is the process of systematically applying statistical evaluation and/or techniques to describe and illustrate, condense and recap, and evaluate data. Creswell (2003) asserts that “the process of data analysis involves making sense out of text and image data. It involves preparing the data for analysis, conducting different analysis, moving deeper and deeper into understanding the data, representing the data and making an interpretation of the larger meaning of the data”.

Mouton (2001) asserts that “the aim of analysis is to understand the various constitutive elements of one’s data through an inspection of the relationships between concepts, constructs or variables, and to see whether there are any patterns or trends that can be identified or isolated, or to establish themes in the data”.

The data analysis in this research is carried out mainly through examining of the secondary data like financial journals, non-profit organisations, government departments, reports and articles in the media as well as research conducted by other students. Through presenting the situation of the South African textile and clothing industry prior and after Quota Policy on Chinese imports, findings can be used to draw a conclusion and make recommendations.

## 3.6 Validity and Reliability

### 3.6.1 External Validity

Leedy and Ormrod (2001) indicate that the external validity is the extent to which the results of the research study apply to situations beyond the study itself – in other words, the extent to which the conclusion can be generalized to other contexts.

### 3.6.2 Internal Validity

Leedy and Ormrod (2001) believe that internal validity is the extent to which the design and data of a research study allows the researcher to draw accurate conclusions about the cause and effect relationships within the data.

### 3.6.3 Reliability

Leedy and Ormrod (2001) believe that reliability is the extent to which another researcher would draw the same conclusions in the same study. The measurement instrument yields consistent results when the characteristic being measured has not changed.

In conclusion, the concepts of validity and reliability are often used for testing or evaluating quantitative research. Golafshani (2003) argues that these concepts are misleading in qualitative research and instead, uses concepts like consistency, credibility, and applicability. He argues that consistency of data in qualitative research was achieved when the steps of the research can be verified through examination of such items as raw data, data reduction products, and the process notes; hence, examination of trustworthiness of the research report is crucial. Taylor-Powell (2003) also uses the term “credibility” of qualitative research in the place of validity and reliability. Credibility can be achieved through the use of several data sources to check findings. The researcher therefore combined in-depth interviews with documentary analysis to verify any conclusions. The researcher documented the analysis process so that other people can see the decisions that she made, how she did the analysis, and how she arrived at the interpretations.

Silverman (2004) talks of the need to enhance objectivity in research practice. This involves efforts to assure accuracy and inclusiveness of recordings that the research is based on. The quality of the recordings and transcripts has important implications for reliability of qualitative research. The researcher also kept accurate transcripts of the interviews held with participants.

### 3.7 Ethical Considerations

Ethics is a body of principles or standards of human conduct that govern the behaviour of individuals and groups. Ethics arise not simply from human creation but from human nature itself, making it a natural body of laws from which human laws follow (Oldman, 2004).

#### 3.7.1 Anonymity

Researchers seek to protect research participants mostly through the process of anonymity. Ethical guidelines note the importance of providing anonymity to research participants through the use of pseudonyms. The anonymity of those who participate in the research process should be respected. Personal information concerning research participants should be kept confidential. In some cases it may be necessary to decide whether it is proper or appropriate even to record certain kinds of sensitive information (Wiles, Crow, Heath and Vikki, 2006). In this research, anonymity is not relevant since secondary data was used and no interviews took place.

### 3.7.2 Confidentiality

In the ethics literature, confidentiality is commonly viewed as being similar to the principle of privacy (Gregory, 2003). This principle is integral to our societal beliefs that individuals matter and that individuals have the right for their affairs to be private, although as Bulmer (2001) notes, in our information-led society, upholding this right is far from straightforward. In this research confidentiality is not relevant since secondary data was used and no interviews were done.

# CHAPTER FOUR

# PRESENTATION OF THE FINDINGS AND ANALYSIS

## 4.1 Data Presentation

The research was guided by the following questions:

What is the reaction of South African trade unions towards the Chinese private sector in the textile and clothing industry? This would be assessed from two perspectives:

- Unemployment in the textile and clothing industry;
- Market competition in the textile and clothing industry.

The data is presented below. The description of the clothing and textile industry in South Africa after the imposition of the import quotas was presented first, from several perspectives: employment, the size, the position of clothing retailers, labour costs, and productivity and competiveness in the scope of the South African textile and clothing industry. Chinese private investment in the clothing and textile industry in South Africa was then presented. After the data presentation follows the analysis of the findings. The analysis is provided through the interface of data obtained from documentary analysis, literature review and the researcher's views.

## 4.2 The Clothing and Textile Industry in South Africa after Imposition of Import Quotas

### 4.2.1 Introduction

On 23 June 2004, more than two years prior to the imposition of the quotas, the Chinese ambassador to South Africa, Lui Guijin, cautioned that imposing import quotas would not solve the industry's woes as the industry had not made sufficient efforts to cut costs and improve quality, which would contribute to raising its global competitiveness by increasing productivity (Lourens, 2004:3). Blocking imports from China represents a short-term solution. He further stated (perhaps prophetically) that even if Chinese imports were blocked, the gap would be filled "overnight" by other countries.

In the 18 months after the imposition of the quotas, imports from China in the quota-lines decreased by 24 per cent compared to the 18 months that started in January 2005, according to Van Eeden and Fundira (2008:8). This is the most appropriate period for comparison if one takes into consideration the abnormal surge in quota-line imports in the second half of 2006. The quota regime was therefore successful in restricting imports from China.

However, in the same 18-month period total imports into South Africa of quota-line goods increased by 9 per cent, which suggests that local manufacturers of clothing and textiles are still faced with increasing volumes of imported goods (Lambrechts, 2009).

### 4.2.2 Employment

After the implementation of the quotas, there is no evidence that local industry has taken up the challenge to become more competitive and create more jobs. Professor Mike Morris from the University of Cape Town's economic policy unit suggests that no job creation took place after imposition of the quotas (De Vries, 2008).

In fact, employment data indicates that trends before the imposition of the quotas have continued. Jobs were being shed in the industry. CMTs, dependent on imported fabric, were hit worst, according to Le Roux (2008:1) as they were forced to use inferior local fabrics. Because of this, relationships between CMTs and retailers are breaking down. Because of the informal nature of many clothing firms, especially CMTs, Morris's figure of 1 660 jobs lost in 2007 could very well be an understatement.

### 4.2.3 Size of the Clothing and Textile Industry

Micro enterprises in the clothing and textile industry are defined as those with fewer than 10 employees; small firms as those with between 11 and 50; medium as those with between 51 and 200, large firms are those with between 201 and 500, and very large firms as those with more than 500 employees (Salinger, Bhorat, Diane and Keswel, 1999). Based on Inggs' (2008:1) view, there has been no change in the investment profile of clothing and textile firms after the imposition of the quotas. There was some utilisation of existing capital stock, but no real investment in new capital stock which would have been necessary for the industry to grow. The industry continues to shrink. According to Le Roux (2009), about 1 400 workers will lose their jobs. Le Roux (2009) describes the closure as a tragedy as many clothing manufacturers are too small to buy from China.

### 4.2.4 Position of Clothing Retailers

As indicated above, Chinese imports have decreased dramatically since the imposition of quotas. However, these have been replaced, not by goods manufactured locally, but by a variety of other low-cost overseas exporters. Some large South African retailers managed to further diminish the effect of the quotas by increasing their imports from China leading up to the quotas (Lambrechts, 2009). Retailers were able to do this because of a delay in the implementation of the quotas from 28 September 2006 to 01 January 2007. The delay in the implementation came about during September 2006, according to Le Roux (2006:2), after the trade and industry director-general met with manufacturers, retailers and union representatives in the clothing and textile industry in a bid to reduce tensions over the Government's controversial decision to impose quotas. According to Van Eeden and Fundira (2008:5) there was a major increase in imports within the quota lines in the two quarters leading up to the official imposition in January 2007. This was especially pronounced in the last quarter of 2006. An even more pronounced drop in imports within the quota lines was observed in the six months following the imposition of the quotas.

Van Eeden and Fundira (2008:5) state that there was an increase in quota-line imports from R 1 573 million for the first half of 2006 to R 2 834 million for the second half of 2006. In the first half of 2007 the figure dropped by 66.5 per cent to R949 million. Thereafter, the quota lines seemed to have stabilized and resumed the cyclical trend witnessed prior to the imposition of the quotas, only then at a lower level. Other than diminishing the effect of the quotas, the delay also enabled retailers to make a thorough study in sourcing some of its 2008 stock from other low-cost countries rather than having to source locally.

### 4.2.5 Competitiveness

South Africa's industries have long been protected from competition with world markets by high tariff and non-tariff barriers. The effect of these tariff and non-tariff barriers has been to shift domestic demand for inputs from international to South African sources, available at higher domestic prices as a result of the border interventions. This policy of protection has had two effects. First, it makes domestically produced and imported goods more expensive in South Africa than they would be in the absence of these policies. Second, it makes South African exports more expensive on international markets, because of the higher cost of inputs. As a result, the textile and clothing industries in South Africa have been inwardly focused, rather than export-oriented (Salinger, Bhorat, Diane and Keswell, 1999).

After imposition of import quotas, the challenges facing the industry have not changed. They include lack of capital, low investment in technology, innovation and skills development, high costs of labour and capital, an inflexible labour market, poor industrial relations, outdated management practices, insufficient management skills, and costly regulatory compliance (Lambrechts, 2009). The imposition of quotas was doomed from the outset as the 24-month quota period did not address any of the challenges facing the industry. The imposition of quotas in many instances reduced the competitiveness of South African clothing manufacturers. Some manufacturers were unable to source the textiles from China they needed to manufacture clothing for the local market. They were therefore unable to compete, even in the local market, against clothing manufacturers situated in countries such as Lesotho and Swaziland who were not subject to any restrictions (Lambrechts, 2009).

As mentioned above, the fundamental objective of the import quotas was to provide South African clothing and textile firms with the space in which to operate with the aim of improving competitiveness in the domestic and export markets. One can deduce that South African firms did not improve their competitiveness in domestic markets as imports in the quota-lines increased by 9 per cent during the first 18 months after the imposition of the quotas. The reduction in imports from China was more than compensated for from other countries. One also needs to look at the export of the same quota-lines after imposition of the quotas. According to Van Eeden and Fundira (2008:28), South Africa's exports in the quota-lines peaked in the second half of 2002. From there it was a steady downward trend through to stabilization at the end of 2006, which was at the same low levels of the late 1990s. For the first half of 2007, South African exports in the quota-lines totalled R264 million. For the first half of 2008 it stood at R246 million. The figures therefore suggest that exports seemed to have stabilized since the imposition of the quotas. But of more importance is the deduction that the South African industry did not become more competitive in either domestic or export markets.

### 4.3 Chinese Private Investment in Clothing and Textile Industry

Asian countries are increasingly investing in Africa. In 2004, China launched the China-Africa Cooperation Forum in Addis Ababa, Ethiopia. It also contributed about $900 million in FDI in the region in the same year (Abraham, 2005). Chinese private investment in Africa is increasingly being made in manufacturing. Chinese enterprises are springing up all over Africa, working across industries such as agriculture, forestry, food processing, fishing, furniture manufacturing, footwear, textiles and garment making, pharmaceuticals and services. The overall strategy for economic development of Africa is reinforced by the fact that the Chinese government formulates clear industrial-policy objectives and employs a mix of market-economy and interventionist instruments in order to achieve them (Schüller and Turner, 2005).

The majority of the Chinese private firms in Africa are Small-Medium Enterprises (SMEs). These enterprises are highly flexible and adapt quickly to local conditions. At their heart, these Chinese SMEs are characterized by a strong entrepreneurial spirit or ethos. They are risk-taking ventures with a powerful work ethic. Chinese entrepreneurs are willing to go into areas where the profit margins are very low to begin with, and supply chains are weak. The hope is that, in the long term, they will become strategically very effectively placed to expand into leading positions (Gu, 2009).

In general, Chinese companies surveyed employ most of their local workers in production whilst the Chinese are normally in managerial positions. The percentage of the local labour force is high. This is also because African laws restrict import of labour. Chinese firms tend to compete most fiercely with one another rather than with other foreign or local firms, which they can outmanoeuvre quite easily in terms of cost of their products. This fact is also connected to the greenfields character of activities of Chinese companies that produce goods which were previously imported, or produce them at costs which a wider African market, rather than the restricted elite, can afford.

There are weak linkages between Chinese firms and local African firms. This influences the extent to which technological transfers and business acumen can be successfully undertaken. Furthermore, a mutual lack of information causes great uncertainties in business partnerships between the Chinese and Africans (Gu, 2009).

From some African perspectives, expectations of the gains to be realized from inward Chinese investment are high. Hopes rest in particular upon the capacity for Chinese investment to actively drive an upgrading of Africa's role in the global manufacturing value chain. As Chinese enterprises relocate to Africa, they could provide opportunities for local enterprises to learn from Chinese experience, to access the Chinese value chains and gain enhanced value-added access to global value chains in the global economy.

Chinese private investment potentially delivers a number of benefits. These range from providing an important source of additional investment capital at a time when Aid alone is unable to meet Africa‘s perceived shortfall; to contribute to poverty alleviation; to generate a significant multiplier effect through the local economy by way of local sourcing and provision of local management expertise; to engage in technology transfers; and to inculcate production, management, distribution and marketing skills and innovation knowledge (Gu, 2009).

## 4.4 Analysis of the Data

### 4.4.1 Clothing and Textile Industry in South Africa prior 2006

#### 4.4.1.1 Background

The South African clothing and textile industry was built up under isolation with the domestic market driving production. As such the industry was never able to achieve economies of scale, which refers to the reduction in unit cost as a company expands. The period between 1970 and 1990 was characterized by the recognition that import control and tariff protection measures were becoming unhelpful to the growth of the economy (Netshandama, 2001:41).

Between 1989 and late 1993 the South African economy sank into its longest recession. Attempts to rescue the industry were based on the new global definition of competitiveness. The clothing and textile industry had to be opened up to the global economy (Altman, 1994). The apparent rationale was that opening the economy up to global competition would spin the local industry into action based on an urgent need to raise productivity, quality and service to global standards. However, this was not supported by practical, direct measures or state policy mechanisms according to Netshandama (2001:42). Structural problems such as the lack of training, skills, education, outdated machinery and technology in the clothing and textile industry required urgent attention.

Throughout the 1990s, according to Barnes (2005:7), liberalisation and restructuring of the industry resulted in large increases in unemployment while productivity marginally increased through cost-minimisation and downsizing rather than production growth.

Barnes (2005:5) points out the significance of the findings of a survey of the

South African textiles industry which revealed that, although the industry does have operational strengths, there are numerous competitive weaknesses that do remain, such as long lead times, poor delivery reliability, and deteriorating quality performance. Without an efficient and supportive textiles industry, clothing industry expansion is constrained.

The clothing and textile industry in South Africa is the major employer, or a very substantial employer, of labour. According to Barnes (2005:5) as at June 2004 there were 827 clothing firms in South Africa, with 327 located in the Western Cape, 239 in the Northern areas, 219 in KwaZulu-Natal and 42 in the Eastern Cape. The industry comprises a number of well-established large firms and home industries. There is also a large cut-make-and-trim (CMT) industry in the Western Cape and KwaZulu-Natal that ranges from large, well-established firms to small home industries. The decline of the formal sector has spurred growth within the informal CMT sector of the industry which, due to their size and smaller production runs, has the advantage of being flexible. In the following section the researcher will analyse the South African clothing and textile industry from several perspectives and present the effect of Chinese private sector investment in the industry.

#### 4.4.1.2 Employment

The clothing manufacturing industry is the most labour-intensive sector (measured by number of jobs per unit of capital invested) and combined with textiles it provided 13.4 per cent of total manufacturing employment (Barnes, 2005:6) and contributes to 1.8 per cent of overall employment in South Africa. According to Maree (1995), from 1981 onwards the industry has been characterised by perpetual decline in all forms. Output dropped drastically and as a result employment fell rapidly. Since the start of 2003 until April 2005 more than 43 500 jobs have been lost in the industry. This number constitutes about 20 per cent of the entire clothing and textile industry.

As indicated, the industry is the lowest paid but is also one of the most labour-intensive sectors in manufacturing. These job losses affected 217 940 people. Statistics shows a net reduction of more than 75 000 jobs between 1996 and 2005 (The Shop Steward, 2005). According to Morris (2007:8), employment in the clothing industry in December 2006 stood at 74 500.

After the implementation of the quotas, there is no evidence that local industry has taken up the challenge to become more competitive and create more jobs.

**4.4.1.3 Size of the Clothing and Textile Industry**

In 2005 there were approximately 2 000 active clothing, textile, footwear and leather companies registered with the Clothing, Textile, Footwear and Leather Sector Education and Training Authority (CTFL-SETA). Vlok (2006:229) estimates 80 per cent of these, or approximately 1 600, to be in the clothing and textile industries. In terms of contribution to the national gross domestic product the textile and clothing sector may be relatively small and unimportant, i.e. less than five per cent of the national manufacturing output in 2004. This related to sales of R34 billion being generated, with textiles contributing R17.4 billion and clothing R16.6 billion according to Vlok (2006:228).

However, measured on its dominance in the three provinces (KwaZulu-Natal, Gauteng and the Western Cape), the people it employs, and related supplies and sales it provides nationally, its importance to the national economy cannot be underestimated (Netshandama, 2001:29).

There has been no change in the investment profile of clothing and textile firms after the implementation of the quotas to Chinese imports. There was some utilisation of existing capital stock, but no real investment in new capital stock which would have been necessary for the industry to grow. The industry thus continues to shrink.

#### 4.4.1.4 Position of Clothing Retailers

Amidst reduced production and employment loss in the period 2002 to 2005, national retailers have shown vast improvements in sales and profits before tax (Lambrechts, 2009). Given the fact that the increase in retail sales has been accompanied by reduced production and employment losses in the associated domestic manufacturing industry, it was reasonable to attribute the decline in output and employment to the surge in imports from China and also that these increases in profits before tax were the result, in part, of higher margins achieved on the sale of cheaper imported goods.

The Chinese market share of South African global clothing imports has, according to Van Eeden and Sandrey (2007), risen steadily from around 20 per cent in 1996 to the mid-2006 level of just under 75 per cent. Exactly what percentage of their goods retailers' source locally is not known. Woolworths, Foschini, and Truworths claim that they source 75, 70 and 75 per cent respectively of their goods locally (Laschinger, 2005:15).

Chinese imports have decreased dramatically since the imposition of quotas. However, they have been replaced, not by goods manufactured locally, but by a variety of other low-cost overseas exporters.

#### 4.4.1.5 Labour Costs and Productivity

The wage rates in the clothing and textile industry are the lowest in the South African manufacturing sectors (The Shop Steward, 2005). Furthermore, it is important to note that South Africa is not only competing with countries that have lower wage rates, but the competitor countries have more flexible labour markets in terms of additional labour costs such as overtime, shift pay, sick leave and pension contributions. These factors, according to Barnes (2005:11), increase costs, decrease flexibility and reduce the ability of firms to compete effectively, particularly when competing in standard commodity markets. Generally speaking, in the clothing and textile industry overall employment is relatively high while output per employee is low compared to more capital-intensive industries.

Although labour productivity has been increasing in South Africa, by international standards, comprising countries within the European Union, East Asia and North America, in South Africa it has been considered as declining (Netshandama, 2001:46). As an example of this the textile industry over the period 1973 to 1981, a relatively good period, is taken. Maree (1995) has mentioned that production within the European Union increased by 12 per cent whereas it decreased in South Africa. In terms of employment, the argument is that the reduction in employment within the European Union took place as a result of an increase in labour productivity, whereas employment in the South African textiles industry decreased because of a production slump. Labour production rose by 34 per cent in the European Union, whereas it remained almost static in South Africa (Maree, 1995).

The trends of labour costs and productivity are not changed. There is no evidence that labour costs reduced and local manufacturers became more productive after imposition import quotas to China.

#### 4.4.1.6 Competitiveness

Globalization is the process of increased interconnectedness between people and the breakdown of barriers and borders between countries. This process necessitated certain changes in the industry in order for it to maintain its competitiveness as worldwide production activities are increasingly linked. Competitiveness therefore not only refers to providing goods for the global markets, but more so to remaining competitive in the local market amidst the influx of goods manufactured in factories worldwide.

Before the imposition of quotas, the clothing and textile industry was already protected by a tariff rate of about 40 and 28 per cent on imported clothing and textiles respectively, which was at that stage one of the highest tariff rates in the country (Inggs, 2004:4). According to Netshandama (2001:30) the clothing produced in South Africa is generally of a high quality and is aimed at the middle- or upper-end of the market. Contentions have been that the South African clothing and textile industry cannot compete with industries internationally on the basis of cheap labour and poor quality products. This is an area already covered by industries and products from East Asia. Therefore, according to Wray and Inggs (2004:1), during April 2004, October, whilst acknowledging that the surge of imports from China was hurting the industry, local industry was warned that, over the long term, South African firms would be unable to compete with China in the lower end of the market. Inggs (2004:4) lists three possible reasons for this: first is the availability of a vast pool of cheap, skilled labour, second is that the Chinese government undervalues the country's currency by 40 per cent and pegs it to the dollar so as to make its exports more competitive worldwide, and third is that the Chinese government subsidises the clothing and textiles industries and invests in new equipment to grow these labour-intensive sectors.

South Africa is forced to target products at the high-end niche of the market in order to compete with both their European and East Asian counterparts. The costs of raw materials for quality clothing are high. The consequence of these factors, it can be argued, is that the local industry has been faced with a first-world cost structure on the one hand and, on the other, with a third-world demand situation.

According to Vlok (2006:241), the industry's competitive challenges stem from several structural and strategic factors like investment and technology, skills base, innovation and design capacity, weak value chains, and illegal imports.

An important factor for the industry's inability to be competitive, and not as a result of its own doing, is the strengthening of the South African currency. The South African currency strengthened by more than 50 per cent between the end of 2001 and the end of 2005. This means that imports, priced in US dollars, cost half as much as four years earlier. This resulted in a flood of imports and decreased exports. Brink (2006:11) maintains that the decrease in exports resulted in lower capacity utilization, which resulted in higher per unit overheads and decreasing competitiveness. Compounded with the cheap imports, it made for an uncompetitive industry.

The Department of Trade and Industry (South Africa, 2005) confirmed that Government has always been clear in its policies that the country cannot afford to artificially sustain uncompetitive industries through protectionist measures. The Government committed to support the clothing and textiles industry through a range of initiatives, one being the imposition of quotas on imports from China, with the understanding that in its current form the industry was neither competitive nor sustainable and therefore needed to change.

Comparing the time prior to the imposition of import quotas to China, challenges facing the industry have not changed. They include lack of capital, low investment in technology, innovation and skills development, high costs of labour and capital, an inflexible labour market, poor industrial relations, and outdated management practices.

### 4.4.2 Challenge of Employment and Competition of Clothing and Textile Industry

With a total population of 49 million, 30 million South Africans aged 15–64 are considered to be employable. Only 13.6 million persons are paid labour and 4.2 million are unemployed, and 12.8 million are not considered to be economically active (Statistics South Africa, 2008). Of gainfully employed persons, 2.3 million officially work in the informal economy, in which the overwhelming majority of workers are poor (Devey, 2006), although the actual number of informal workers is probably much higher. Women and black persons are disproportionately affected by unemployment and economic inactivity.

The number of persons employed in the South African textile and clothing industry is estimated at approximately 230 000 persons at present (Wiid, 2009:13). Persons informally employed in this branch, according to experts, account for approximately 50 per cent of the workforce (Wellmer, 2006: 36). According to official statistics, however, there are around 143 000 South Africans formally employed in this sector, which is 12 per cent of the total number of employees in processing industries (Vlok, 2006). More than 100 000 employees are organized in the sectoral trade union SACTWU – approximately two-thirds of them are women (SACTWU, 2009).

The South African textile and clothing industry lost approximately 70 000 jobs between 2003 and 2008 as a result of numerous factories closing down, especially those of small and medium-scaled enterprises (these figures include informal employees) (SACTWU, 2009).

As mentioned in point 4.2, there is no evidence that local industry has taken up the challenge to become more competitive and create more jobs. In fact, employment data indicates that trends before the imposition of the quotas have continued. Jobs were being shed in the industry. The challenges facing the industry have not changed. They include lack of capital, low investment in technology, innovation and skills development, high costs of labour and capital, an inflexible labour market, poor industrial relations, outdated management practices, insufficient management skills, and costly regulatory compliance. The imposition of quotas was doomed from the outset as the 24-month quota period did not change any of the challenges facing the industry. The imposition of quotas in many instances reduced the competitiveness of South African clothing manufacturers. Some manufacturers were unable to source the textiles from China they needed to manufacture clothing for the local market (Lambrechts, 2009).

The reduction in imports from China was more than compensated for from other countries. From there it was a steady downward trend through to some stabilization at the end of 2006, which was at the same low levels of the late 1990s. For the first half of 2007, South African exports in the quota-lines totalled R264 million. For the first half of 2008 it stood at R246 million (Lambrechts, 2009).

Given the apparent ineffectiveness of the quotas in both stemming the flow of low cost clothing and textile imports into South Africa and stimulating the domestic clothing and textile manufacturing industry, with the newly established links with other low-cost producing countries and the Chinese refusal to extend the quota regime, it seems the South African clothing and textile manufacturing industry may now be under more pressure than before the two years of quota restrictions. This is supported by the latest output data indicating that domestic production of clothing and textiles decreased by 10.13 per cent in real terms during January and February 2009 compared to the same period in 2008 (Van Eeden, 2009).

### 4.4.3 Shortcomings in the Clothing and Textile Industry

Barnes (2004) observed that the clothing sector performed poorly, explaining that “By comparing the average of the indicators for the period

1994-8 with the average for the period 1999-2003, it was clear that the sector's performance deteriorated. In particular, there was deterioration in real value added at basic prices (10.4 per cent), real-exports (4.4 per cent), employment (0.6 per cent), output per employee (11.9 per cent), remuneration per employee (6.8 per cent) and gross mark-up (7.8 per cent). Interestingly, both exports and employment increased (by 1.8 per cent and 1.1 per cent per annum respectively) from 1994 to 1998, but declined (by 8.0 per cent and 1.1 per cent) from 1999 to 2003, while real value added declined consistently over the two periods. Real output per employee declined from R67,935 to R60,716 between the two periods, whilst remuneration per employee also fell (from R18,935 to R17,224).

The clothing industry in South Africa is performing in the region of 85 per cent labour efficiency (Basdeo, 2005). Capital expenditure on new assets averaged approximately 1.4 per cent of sales (Robbins, 2004). With clothing manufacture being labour intensive it is important to advance through the investment in capital requirement and technological innovations to overcome the competitive nature of the industry. Exports decreased, while imports increased. Labour efficiency of the South African clothing operators is approximately on par with the United Kingdom, European Union and the United States but it is the application of technology, working culture and productivity levels that are a matter of concern (Basdeo, 2005).

Because South Africa is unlikely to build a vibrant and globally competitive industry based on commodity goods, it needs to diversify into value-added niche and high performance products or continue to shrink until it is no longer viable. For example, at present more than 90 per cent of wool and mohair are exported in unprocessed or semi-processed form and it is estimated that a further 40 000 jobs can be generated, and exports increased by some R10 billion, if all locally produced wool and mohair were processed into the final product. This would have a beneficial impact on both the textile and clothing sectors (Textiles and Clothing Core Team, 2010).

The lack of an adequate R&D and innovation culture and infrastructure in South Africa, together with the low – by world standards – expenditure on R&D by both public and private sectors, means that South Africa is likely to remain followers of world development trends and will not be able to take a leadership position. Within this context, there is a need for a centre of excellence and innovation to act as a catalyst and assist industry to develop a stronger technology and innovation base and culture. Without this, the industry is unlikely to thrive over the medium to long term. In the present Knowledge Age, and without ready access to up-to-date technical, technological and research data, information and knowledge, the industry will find it increasingly difficult to gain or maintain a competitive edge.

It is therefore recommended that an electronic knowledge database be established, accessible only to South African manufacturers on a membership/subscription basis. Lack of skilled manpower, particularly at the higher technical, technological and research levels, is without any doubt one of the most serious constraints in the sector. This relates both to the general lack of the required world-class training and educational infrastructures, courses and lecturers, as well as to the poor image of the textile and clothing sector as a potential career for bright and talented students (Textiles and Clothing Core Team, 2010).

These issues need to be addressed as a matter of urgency. To achieve the desired cost-effectiveness and efficiency, it is essential that there are linkages, alliances and networks, as well as a sharing of knowledge and resources between “centres and pockets of excellence”, R&D institutions locally and abroad. Cleaner production, agile production, on-line monitoring and control and quick response are all essential ingredients for a vibrant 21st Century South African textile and clothing sector. The focus must be on the following initiatives such as multifunctional and high-performance textiles, electronic knowledge databases (technical and technological), value addition for natural fibres, and human resource development.

### 4.5 Consolidation of Findings

Since the liberalization of the South African clothing and textile industry from state protection and the opening of world markets, the local industry has been unable to compete against producers from overseas, especially China. The Chinese market share of South African global clothing imports has risen steadily from around 20 per cent in 1996 to the mid-2006 level of just under 75 per cent. This increase has been accompanied by reduced production and employment losses in the South African clothing and textile manufacturing industry.

Amidst South African producers struggling to survive, downsizing and closing down, pressure was put on the Government from various groups to stem the imports from China. The South African clothing and textile industry was built up under isolation with the domestic market driving production. As such the industry was never able to achieve scale economies. In 1993 the South African clothing and textile industry had to be opened to the global economy as it was thought that global competition would push the local industry into action based on an urgent need to raise productivity, quality and service to global standards.

However, this was not supported by practical, direct measures or state policy mechanisms. Structural problems such as the lack of training, skills, education, outdated machinery and technology required urgent attention. Although the clothing manufacturing industry contributed less than 5 per cent of the national manufacturing output in 2004 it is the most labour-intensive sector and contributes to 1.8 per cent of overall employment in South Africa. It therefore plays an important role in employment not only because of its labour-absorptive capacity, but also by virtue of its ability to offer entry-level jobs for unskilled labour.

Between March 2003 and September 2006, 63 000 to 67 000 jobs were lost in the domestic clothing and textile industry and it was believed that these losses were directly related to significant growth in imports from China over that period. Trade unions were concerned about the high level of Chinese investment in the South African textile and clothing industry. On 28 August 2006 the Government of the Republic of South Africa and the Government of the People's Republic of China concluded a memorandum in terms of which the export of certain tariff lines of the Chinese textile products to South Africa would be administered in accordance with the volumes specified in the memorandum for a period of two years.

The fundamental objective of these import quotas was to provide South African clothing and textile firms the space in which to operate with the aim of improving competitiveness in the domestic and export markets in the long term. However, experts from the industry were convinced that the two-year quota would not help the industry as it was too short to allow manufacturers to invest in and rebuild the industry.

The quota regime was successful in restricting imports from China. However, total imports into South Africa of quota-line goods increased, which suggests that local manufacturers of clothing and textiles were still faced with increasing volumes of imported goods. The only difference after imposition was that the imports emanated from a host of additional low-cost overseas exporters with the largest gains in Rand value being Mauritius, Bangladesh and Malaysia. According to Lambrechts (2009), by replacing imports from China with imports from a variety of other low cost overseas exporters, retailers incurred losses in the form of late deliveries, quality issues and cancellations. However, some large South African retailers managed to reduce the effect of the quotas by increasing their imports from China leading up to the quotas.

Employment data indicated that trends prior to the imposition of the quotas have continued. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink. Competitiveness challenges facing the industry did not change. The effect of the quotas was therefore a kind of a welfare tax on consumers. Poor people, unable to buy relatively cheap clothing, could buy fewer other essentials such as food, housing or health services, thereby decreasing the welfare of the people. Trade unions perceived that Chinese investment was not the real reason for increasing unemployment and less competitiveness in the sector. Increasing numbers of people in the trade unions accepted that Chinese private business in South Africa could provide opportunities for local enterprises to learn from Chinese experience, to access the Chinese value chains, and gain enhanced value-added access to global value chains in the global economy. Chinese private investment potentially delivers a number of benefits. These range from providing an important source of additional investment capital at a time when Aid alone is unable to meet Africa‘s perceived shortfall; to offering employment opportunities; to contributing to poverty alleviation; to generating a significant multiplier effect through the local economy by way of local sourcing and provision of local management expertise; to engaging in technology transfers; and to inculcating production, management, distribution and marketing skills and innovation knowledge.

# CHAPTER FIVE

# CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter will deal with conclusions based on the evidence collected. Recommendations will be made on improvements to the South African textile and clothing industry where it is deemed necessary.

With the increase in Chinese private investment in the South African clothing and textile industry between March 2003 and September 2006, 63 000 to 67 000 jobs were lost, and these losses were attributed to significant growth in imports from China over that period. The purpose of this research was to examine the responses of South African trade unions towards Chinese private-sector business, and to research the policy changes and reactions of the South African government and trade unions towards Chinese private investment.

Prior to the imposition of the quotas in 2006 there were large decreases in employment which resulted from liberalisation and restructuring of the industry, yet clothing retailers experienced increases in sales and profits. The clothing and textile industry performed poorly in relation to all competitiveness indicators. Simultaneously, the South African currency strengthened by more than 50 per cent in the 4 years prior to imposition of the quotas. According to Lambrechts (2009), it is therefore not unexpected that there were negative views about the state of the South African industry prior to the imposition of the quotas. The South African clothing industry had been dying since well before 1994. Many of the jobs lost relate to companies that have closed or scaled down and those companies would not reopen when the quotas came into effect. This suggests that prior to imposition of the quotas the industry was beyond repair and the job losses were permanent.

The quotas did have the effect of decreasing imports from China in the quota-lines dramatically. However, other countries simply took up China's share of the market in the quota-lines which led to an increase in total imports of quota-line goods. After the quota imposition, the same employment trends continued, leading to jobs being shed in the industry during the quota period. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink. Labour costs did not reduce and local manufacturers did not become more competitive. The competitiveness challenges facing the industry did not change.

However Chinese private investment potentially delivers a number of benefits. South African Clothing and Textile Industry should do more research and development Activities, improve capacity building and training.

## 5.2 Conclusion

### 5.2.1 Unemployment and Uncompetitive Industry

The quota regime was successful in restricting imports from China. However, total imports into South Africa of quota-line goods increased, which suggests that local manufacturers of clothing and textiles were still faced with increasing volumes of imported goods. The only difference after imposition was that the imports emanated from a host of additional low-cost overseas exporters with the largest gains in Rand value being Mauritius, Bangladesh and Malaysia.

By replacing imports from China with imports from a variety of other low cost overseas, exporters retailers incurred losses in the form of late deliveries, quality issues and cancellations. Employment data indicated that trends prior to the imposition of the quotas have continued. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink.

Competitiveness challenges facing the industry did not change. The effect of the quotas was therefore a kind of a welfare tax on consumers. Poor people could no longer purchase cheap clothing and thus had less money available to use for food, housing or health services, worsening their situation. It became evident that the problems had not been caused by China's investment.

### 5.2.2 Opportunities Provided by Chinese Private Investment

Trade unions have begun to accept Chinese private business in South Africa, since it is seen as providing opportunities for local enterprises to learn from Chinese experience, to access the Chinese value chains, and gain enhanced value-added access to value chains in the global economy.

According to Gu (2009), Chinese private investment can bring local benefits, such as providing an important source of additional investment capital at a time when Aid alone is unable to meet Africa's perceived shortfall; to offer employment opportunities; to contribute to poverty alleviation; to generate a significant multiplier effect through the local economy through local sourcing and provision of local management expertise; to engage in technology transfers; and to inculcate production, management, distribution and marketing skills and innovation knowledge.

In conclusion, employment data indicated that trends prior to the imposition of the quotas have continued. There was no change in the investment profile of clothing and textile firms after the imposition of the quotas and the industry continued to shrink. Competitiveness challenges facing the industry did not change. Chinese investment is not the only reason associated with unemployment and a lack of competitiveness. On the other hand, Chinese private investment can provide benefits such as innovation, marketing skills and management knowledge.

## 5.3 Recommendations

It is recommended that the following specific initiatives be undertaken to address the needs of the clothing and textile industry:

- **Establish a National Textile and Clothing Centre of Excellence and Innovation**

Most countries with a prosperous and competitive textile and clothing industry have at their disposal a centre of excellence dedicated to these industries for their R&D and related needs. What is needed in South Africa is a national centre that can co-ordinate and project-manage all research activities, link pockets of excellence and carry out the required R&D in collaboration with the industry. This centre can also serve the needs of the Southern African Development Community (SADC) countries and therefore fits in with the New Partnership for Africa's Development (NEPAD) initiative of the government. Furthermore, improvement initiatives will be another focus area of the recommended centre regarding appropriate technologies, technical services, R&D and other support.

- **Capacity Building and Training**

Another major shortcoming in the SA Textile and Clothing industry is the capacity available for R&D. Highly trained, world-class textile and clothing scientists and technologists are rare. A major effort is therefore required to train technicians and especially technologists. Currently in South Africa only about 20 students graduate with a technical diploma at the Durban Institute of Technology and the Peninsula Technikon each year. Furthermore, the industry has indicated that the quality of the students is generally not of the required standard. The University of Stellenbosch, for example, inaugurated a BSc textile degree in polymers and textiles in January 2003. In all three cases, funding is required to appoint highly trained lecturers in textile and clothing science. The University of Stellenbosch has estimated the cost of setting up this course, including infrastructure and lecturing staff, to be around R10 million. Infrastructure and lecturing needs also exist at the Peninsula Technikon and the Durban Institute of Technology. However, there has been a post-graduate department in textile science at the University of Port Elizabeth since 1970 that can be used for post-graduate studies.

- **Research and Development Activities**

In the textile and clothing industry, some 80 per cent of products produced in South Africa are commodity products while only 5 per cent of output can be considered as high-tech products. It is a fact that, due to competition from the Far East, the industry will not survive if the focus continues to be on commodity products. The competitiveness and sustainability of the industry will only be secured if another 20 per cent or more of the commodity product output is moved towards high-tech products. South Africa is rich in natural textile resources (in many cases indigenous). Therefore, there is a high potential to produce niche products with no competition from elsewhere. Value addition is therefore critically important to prevent the current export of unprocessed or semi-processed commodities, such as wool and mohair. Another important factor to consider is that the local industry has little or no resources to spend on R&D due to production pressures. The AGOA and EU export agreements are putting tremendous pressure on production output in this regard.

It is important to note that if the above three initiatives are not implemented; the South African textile and clothing industry will become increasingly uncompetitive. The result will be an ongoing loss of jobs (also in the related industries) and also at least 1 per cent of Gross Domestic Product will be shaved off. The textile industry has already shed over 20 000 jobs since 1997. If, however, the above initiatives can be implemented successfully, the job loss trend in industry can be reversed, foreign exchange earnings from textile and clothing exports will increase by about 10 per cent, and a modern 21st century industry can be established.

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