Constraints and Opportunities in the Clothing and Textile Sectors

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Background

The South African clothing and textile manufacturing sectors hold significant potential to absorb labour in South Africa (SA) and are considered to be key industrial sectors within the government's economic development and job creation efforts. The importance of the sectors for job creation derives from their high labour intensity, the relatively low-cost to create jobs, the high employment multiplier effect within the broader economy, and their impact on gender equity, broad-based black economic empowerment (B-BBEE), and job creation in rural areas.

Challenges

For several decades the sectors have been on the backfoot due to the flood of imports that entered SA from the late 1990s. The fast-tracked tariff reduction regime adopted by government exposed these sectors to international competition in a context where they were not able to compete effectively.

The sharp increase in imports in the late 1990s and 2000s resulted in decreased orders, lower turnover and smaller profits, if any. As a result, clothing and textile factories were hard-pressed to secure capital to invest in new skills, capital and technology. This caused factory closures and job loss, but also the loss of skills and technology. And, therefore, for much of the period since the late 1990s, these sectors did not undergo the necessary structural changes required to modernise and transform from being an inward-looking protected industry into a robustly dynamic and internationally competitive industry. This locked the industry into a vicious downward cycle.

A further problem for the local clothing and textile manufacturing sectors has been customs fraud. Customs fraud occurs in multiple forms, including under-invoicing, false declaration of goods, smuggling, rerouting goods via third countries and other activities that are aimed at evading tariffs or customs rules. Customs fraud is widespread in the clothing and textile sectors. When tariffs are evaded and not paid, measures introduced by government to support South African jobs and industry are circumvented and nullified. Customs fraud substantially hampers efforts to create a country characterised by employment and greater equality. Customs fraud also denies the state the much-needed revenue that could be used for social security programmes or development-related spending, and increases the burden on company and personal income and other taxpayers.

Importance of the sectors

Despite the problems which the clothing and textile manufacturing sectors faced, they cannot simply be discarded. This is true, not only because they are some of the more important manufacturing sectors in the country, but also because they hold significant potential to assist in combating the unemployment problem in SA.

The sectors' potential as a powerful and low-cost mechanism to create jobs has seen them identified by government as priority industrial development sectors. The sectors offer unparalleled labour absorbing prospects in the context of the extremely high unemployment rate in SA. The clothing sector is the most labour absorbing sector in manufacturing, measured by jobs created per unit of capital invested. This was established by an Industrial Development Corporation (IDC) study which confirmed the labour absorbing bias of the clothing industry, illustrating that its job-creating capacity per unit of output by value was the highest in manufacturing, and about 2.3 times the average for the 44 industrial sectors surveyed.

Furthermore, the multiplier effect of the industry on economic activities elsewhere in the economy is significant. The same IDC study indicated that 2.7 indirect jobs are created for each primary job in textiles. Therefore, support provided to this sector will filter into other sectors and create jobs elsewhere in the economy as well.

The clothing, textiles, footwear and leather (CTFL) industry is also a significant employer of women. A skills audit compiled by the industry Sector Education and Training Authority (SETA) showed that 82% of workers in the clothing sector are women. The industry is concentrated in specific geographic areas which are significant to employers. In towns such as Worcester, Caledon, Atlantis, Isithebe, Newcastle, Port Shepstone, Ladysmith, Phuthaditjhaba, Botshabelo, Babelegi, Zwelitsha, Hammanskraal, and Mogwase and around cities such as Durban, Cape Town and Pietermaritzburg, it is a very substantial employer. Since few alternative job opportunities exist in many of these areas, jobs created in the industry can have a massive social impact in such towns.

Key opportunities and constraints and the role of the state

Below are some of the major employment opportunities and constraints:

- The main plus bonus that local clothing and finished textile manufacturers have in competing with imports is if they take advantage of their geographical localness in order to provide local retailers and markets with speed and flexibility of supply. Based on the successful Turkish model of supply into the European Union, if local manufacturers can cut lead times and introduce short production cycles, then they can establish a significant advantage in the eyes of retail buyers against imported apparel.
- The government's introduction of the Clothing and Textiles Competitiveness Programme has supported a large number of firms in their endeavours to embrace their upgrading challenges. This support has helped to re-capitalise local manufacturers, and has also supported the stabilisation of, and even growth in, employment. Importantly, this support has been linked to decent work which has seen companies pay workers the wages owed to them and abiding by labour laws. However, with the constraints on the fiscus, these support measures are diminishing.
- The South African Revenue Service (SARS) has revived its campaign to deal with customs fraud. In this regard, SARS has been implementing more strategic customs surveillance in recent years to combat the problem of customs fraud in the clothing and textile industry; it has shown a greater willingness to pursue those who defraud the state and undermine local jobs and industry; it has re-established its specialised task team dealing with high-risk sectors like clothing and textiles; and it has conducted more raids of inland hotspots.
- In recent years, Chinese production costs have risen, driven in part by rising fuel and transport costs, and by the rise in clothing and textile manufacturing workers' wages. Manufacturing in China is now more expensive than in a number of other countries in the world. Elsewhere in Asia, factory disasters have occurred in Bangladesh and Cambodia, amongst others, and have led to the deaths of thousands of clothing workers in those countries. The result of these events is that retailers have begun to reconsider their supply chains in the last few years. This has created a flow of new orders to SA.
- The weaker South African Rand has impacted the industry by raising the price of importation for domestic retailers and others, encouraging them to use more local manufacturers, but it can also create opportunities for new export orders by local manufacturers.
- The recently signed retail, clothing, textile, footwear and leather (R-CTFL) Masterplan provides a strong platform to grow the clothing and textile sectors and the jobs therein. It sees all the partners, government, retailers, manufacturers and labour make commitments to contribute to achieving the job creation and growth objectives in the Masterplan.
- The African Continental Free Trade Agreement (AfCFTA) can be the vehicle needed to push local manufacturers to export more. While the industry was under pressure in the 1990s and 2000s, exports dropped sharply. Even with the much weaker currency today, and more opportunities to export, we have not seen a major export drive. This agreement may assist but it also holds potential threats.
- The current weak economic growth and the difficulties in those sectors supplied by local manufacturers are placing pressure on local jobs and factories. High interest rates are not helping, making especially working capital expensive but also constraining spending. We need to ensure sufficient and effective tools are available to help manufacturers get through these difficult economic times.
- The battering that the industry took in previous decades meant that many manufacturers do not have the strategic vision and managerial skills necessary to provide the required leadership. Much-needed technical skills are also difficult to come by. While this does not bode well for the current times, it also undermines local industry's ability to confront and take advantage of the Fourth Industrial Revolution.