An Analysis of the Recent Exporting Trajectory of the South African Clothing Value Chain: Upgrading or Downgrading?

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Foreword

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa's manufacturing competitiveness, the automotive industry, the clothing and textiles sectors, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness.

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At the School, we would like to extend a very special thanks to our colleagues at the Industrial Restructuring Project, to Sean Gannon who set up the interviews and to Jordan Hamilton for data gathering.

This study shares a common framework with the other sectoral upgrading reports required for the project (leather and footwear, automotive and furniture). However the findings are those established by the authors. The views expressed herein are those of the authors and responsibility for the content lies with them.

Sagren Moodley and Myriam Velia
25/10/2002

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LIST OF ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
AQL	Acceptable Quality Level
CAD	Computer Aided Design
Clofed	Clothing Federation of South Africa
CMT	Cut, Make and Trim
DCCs	Duty Credit Certificates – obtained through the DCCS
DCCS	The Duty Credit Certificate Scheme
DTI	The South African Department of Trade and Industry
ECCISA	The Export Council for the Clothing Industry in South Africa
EOS	Economies of Scale
EU	European Union (European Community in the WTO terminology)
GSD	General Sewing Data (system)
IDC	Industrial Development Corporation of South Africa
ISO	International Organisation for Standardisation (accreditation)
ITC	International Trade Center
KZN	Kwa-Zulu Natal Province
LDCs	The Less Developed Countries
MS	Member States of the European Union (15)
n.a.	Not available or not applicable
NCMA	The Natal Clothing Manufacturers' Association
NPI	National Productivity Institute
QA	Quality Assurance
QC	Quality Control
Rm	Million of Rand (similarly $m is for Million of US$)
SA	South Africa
SABS	The South African Bureau of Standards
SACU	Southern African Customs Union
SADC	Southern African Development Community
SATIEC	The South African Textile Industry Export Council
SDL	Service Development Levy
SIC	Standard Industrial Classification
TDCA	Trade and Development Cooperation Agreement (the bilateral free trade area deal between South Africa and the European Union)
TIPS	Trade and Industrial Policy Secretariat
USITC	United States International Trade Commission
VC	Value Chain
WC	The Western Cape Province
WTO	World Trade Organisation

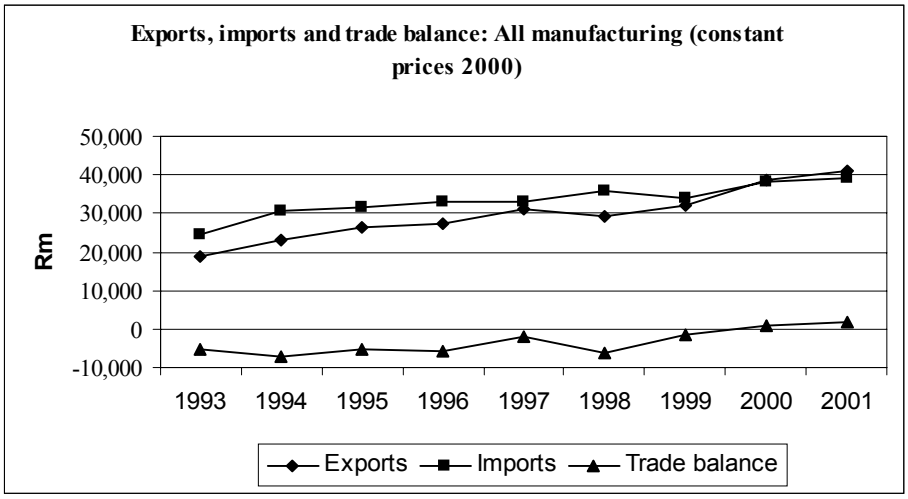
PREFACE

By

Raphie Kaplinsky & Mike Morris

The past two decades have seen a growing homogenisation of economic policy as the Washington Consensus has swept through the global economy. South Africa has not been immune to this shift in the policy agenda, particularly in the post apartheid era, manifested primarily through a new trade regime, with the gradual reduction in import tariffs,[1] and a reduction in the exceptionally large tariff dispersion.

There have been a number of important and related consequences to this changing trade regime. The increasing exposure of domestic firms to international competition (particularly in the industrial sector), has forced producers to face new and more intense forms of competition. "World Class Manufacturing" has forced itself onto the agenda and sets the standards for industrial restructuring. As a consequence of this restructuring, productivity has grown, albeit with a substantial fall in employment.[2] But, as domestic demand remained muted and as production competence grew, so South Africa's manufacturing trade balance moved into the black on the back of rapid growth in manufactured exports. Significantly, for the first time in decades, exports exceed imports in 2001 (Figure 1), providing evidence of the growing exposure of South African producers to global standards of competitiveness, as well as to growing production competence. If sustained, this positive trade balance has the possibility of easing the foreign exchange gap constraining South Africa's growth performance.



From the policy perspective, the key challenge is to provide both a general policy framework

[1] Between 1994 and 1996 the weighted average of import tariffs halved from 14 to 7 percent, and then stabilised at 5 percent after 1998.

[2] Using the DTI database, as a rough indicator of productivity growth, manufacturing sales per worker rose (in real terms) by 38 percent (1993 – 2001). Using TIPS SA Standardised Industry Input Structure data value added per worker has increased significantly by 33.4% over the period. During the same period, employment fell by 11 percent. Capital productivity (value added per fixed capital stock) according to the same source decreased by 3.3% over the period. There is no equivalent useful data to measure total factor productivity changes.

and a range of specific inputs which consolidate this growth in competitive capabilities. This fourth phase of the Industrial Restructuring Research Project aims to assist the building of sectoral policy implementation capacity within DTI by providing insights into those factors promoting international competitiveness (and exporting) in manufacturing. We focus on four value chains – two consumer goods products (clothing, furniture) and two intermediate goods products (auto components and leather). Loosely, they respectively group into buyer driven value chains and producer driven value chains.

The specific focus of this research programme is *to better understand the dynamics of exporting firms*. By focusing on the most successful exporting firms in each of the four value chains, (and in nominated sub-sectors), the study hopes to determine:

- what the characteristics are of successful exporting firms and the value chains in which they participate;

- whether successful South African exporters are locked into virtuous or vicious circles of global specialisation;

- to what extent exporting firms are able to change their positions in their value chains by *upgrading* their operations through a greater input of knowledge-intensive activities.

THE VIRTUES OF EXPORTING

Based on the successful experience of both first- and second-tier newly industrialising economies, a new orthodoxy has grown on the virtue of exporting (see, for example, the World Bank's 1993 study of East Asian economic success). This posits benefits arising both for the economy as a whole, and for the corporate sector.

From the *economy-wide perspective*, it is argued that exporting provides the capacity to specialise in areas of comparative advantage. The previous import-substituting regime meant that economies were insufficiently focused on what they could do best with resources being put into activities which were unlikely to add to real GDP over time (or to do so at high opportunity cost). A second virtue of growing exports is a positive trade balance which provides the resources to promote rapid overall economic growth. And, thirdly, growing foreign demand (especially for labour-intensive products which are the comparative advantage of low-income economies) creates employment. This latter point is especially attractive for South Africa where the unemployment rate is so high that no conceivable increase in domestic demand would have much impact on reducing the rate of unemployment.

From the *firms-perspective*, growing exports offers a number of advantages. First, it allows the firm to specialise in those activities where it clearly holds a comparative advantage. Allied to this, the large volumes which can be sold on global markets makes it possible for the firm to reap economies of scale, not just in production but also possibly in design, marketing and logistics. Further, when exporting is accompanied by a competitive exchange rate, it may provide greater profits than when products are sold in the domestic market. And, finally, exposure to more demanding customers forces the firm to upgrade its products and processes and is thus a transmission belt for enhanced learning.

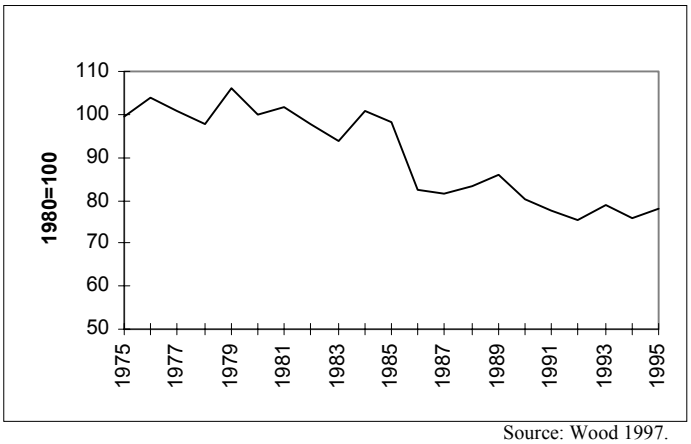
For all these reasons there is a growing orthodoxy on the benefits to be reaped from greater exporting.

EXPORTING AND THE CONFERRING OF BENEFITS

But does exporting always confer benefits to producers? It is widely known that primary commodity prices as a whole have been characterised by falling terms of trade; as well as extreme price volatility. For this reason economic policy in many countries has concentrated on encouraging a transition from the production and export of primary products to the production and export of manufactures.

And yet, in recent decades this policy objective has become increasingly questionable. For it is no longer true that manufactured exports benefit from rising terms of trade. In particular, whilst the manufactured exports of the high income developed market economies have indeed continued to rise, those from developing countries have begun to fall. As can be seen from Figure 2, in the decade after the mid 1980s (when China becomes an increasingly active participant in global trade), the terms of trade of developing country manufactured exports fell consistently, and by more than 20 percent. This arises directly as a result of the competitive pressures which resulted from China's growing presence in manufacturing exports.

Figure 2: Price of developing country manufactured exports relative to developed market economy manufactured exports of machinery, transport equipment and services



Source: Wood 1997.

Beyond this aggregate picture, the scale of price decline was not limited to a global environment unrelated to the activities of South African firms. As Box 1 shows, many of the products produced and exported by South African manufacturers have shown an alarming fall in price. In the furniture sector, the only thing which has kept South African firms solvent has been the falling exchange rate (Box 2).

Exporting *per se* may not necessarily be a good thing; it all depends on the nature of what is being exported. In the worst case, when exports experience significant and sustained declining terms of trade, immiserising growth may occur. In other words, there is an increase in the scale of economic activity – more resources are used – but this results in a decline in absolute living standards. A less severe, but still troubling outcome is when the resultant growth rate is positive, but at sub-optimal levels. In other words, had the resources being utilised to increase exports been used in a different manner, then the outcome would have been more beneficial to income growth.

Box 1: Falling prices in South African manufactured export sectors

Global manufactured export prices of products traded by apparel firms

- The global price of chinos (in US$) fell by 25 percent between 1997 and 2000
- During 2000, the price paid by importers of men's dress suits into the UK fell from £60 to £53
- Poplin shirts imported from the Far East fell in price from $2.30 to $2.00 in the 18 months ending in May 2001.

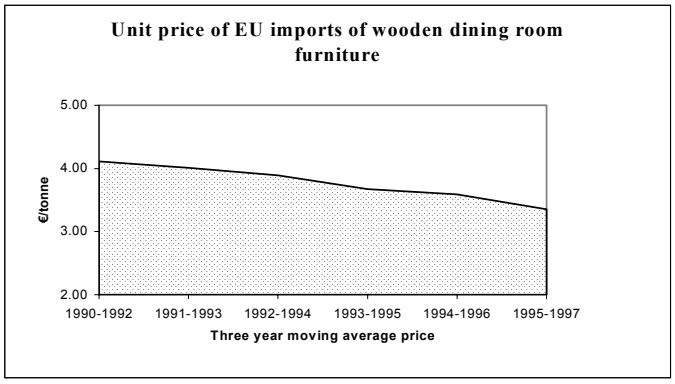
South African manufactured unit export prices

- The unit price of tanned sheep leather fell from $32.19/kg in 1995 to $6.58/kg in 2000
- The unit price of car leather seats fell from $60.19/kg in 1995 to $28.72 in 2000
- The unit price of leather shoes fell from $11.29/pair in 1995 to $9.56/pair in 2000 and of non-leather shoes from $4.49/pair in 1995 to $3.02/pair in 2000

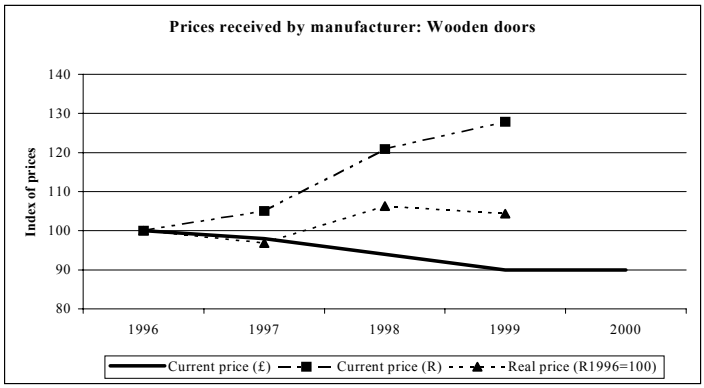
(Source: Kaplinsky, Morris and Readman (2001).)

Box 2: Falling global prices in the wooden furniture sector are extremely dangerous when producers are unable to upgrade

Growing competition in the wood furniture sector is having a major impact on the wood furniture industry. At an aggregate level, global prices are falling, as can be seen in the case of EU imports during the 1990s.



For some developing country producers who are locked into the commodity segments of this market (pine dining room furniture), the fall in prices can be very significant. For example, the Sterling prices of bunk beds and kitchen furniture received by two South African exporters of kitchen doors fell significantly, by more than 20% in four years. As can be seen, the only factor saving this manufacturer of doors was the falling exchange rate, which devalued by more than the rate of inflation in this sector. Although this may have saved the wooden furniture manufacturer, the upshot of devaluation for the economy as a whole is a fall in the international purchasing power of domestic value added.



Kaplinsky and Morris (2001)

The blunt policy prescription arising from this is that it is not so much a matter of whether South African manufacturers should be induced to export, but what they export. If they are locked into the production and export of products exhibiting a sustained and significant decline in prices (without a concomitant decline in production costs), then the outcome will be deleterious.

So, what determines whether firms are locked into these harmful export niches? The answer is the extent of competition which exists in each of these market segments. Unless firms find some way of escaping these competitive pressures – which, as we have seen, from the perspective of developing countries have been severely heightened by China's entry into global markets – they will not prosper. How do they avoid these competitive markets? By developing the capacity to upgrade. This is now increasingly recognised as the challenge facing industrial policy throughout the global economy, influencing not just national strategies, but corporate strategies as well.

A VALUE CHAIN PERSPECTIVE ON UPGRADING

How would we know if firms had managed to upgrade their activities? Two schools of thought have addressed this issue in recent years. The first has focused on core competences (Hamel and Pralahad, 1994). The thinking here is that firms need to examine their capabilities to determine those of its attributes which:

- provide value to the final customer
- are relatively unique in the sense that few competitors possess them
- are difficult to copy, that is where there are barriers to entry.

The capacity to innovate therefore arises from concentration in these competences and the concomitant outsourcing of those functions which do not meet these three criteria. A useful supplement to this line of thinking is that in a dynamic world, core competences can easily become core-rigidities (Leonard-Barton, 1995), and part of the task of upgrading is to relinquish areas of past expertise.

Closely related is a school of thought focusing on dynamic capabilities (Teece and Pisano, 1994). It argues that corporate profitability in the long run cannot be sustained by control over the market (for example, through using quasi-monopolistic practices), but through the development of dynamic capabilities which arise as a result of its:

- internal *processes* which facilitate learning, including the capacity to reconfigure what the firm has done in the past
- *position*, that is its access to specific competences either within its own activities, or those which are drawn from the regional or national system of innovation
- *path*, that is, its trajectory, because change is always path-dependent.

Both of these related concepts provide an important backdrop for understanding the phenomenon of upgrading. They are especially helpful in understanding the factors both driving and facilitating improvements in product and processes which arise from the

activities of the firm itself. But they are also weak because they stop at the level of the firm, and fail to capture upgrading processes which are systemic in nature and which involves groups of firms linked together in value chains. This is particularly damaging for the core competences approach which explicitly neglects the chain through its normative conclusion that upgrading almost always involves outsourcing.

Consequently, we need to view the upgrading challenge in a wider perspective, capturing the central idea that it may involve changes in the nature and mix of activities, both within each link in the chain, and in the distribution of intra-chain activities. This relates both to the achievement of new product and process development, and in the functional reconfiguration of who does what in the chain as a whole. It is thus possible to identify four trajectories which firms can adopt in pursuing the objective of upgrading, namely:

- **Process upgrading**: increasing the efficiency of internal processes such that these are significantly better than those of rivals, both within individual links in the chain (for example, increased inventory turns, lower scrap), and between the links in the chain (for example, more frequent, smaller and on-time deliveries)

- **Product upgrading**: introducing new products or improving old products faster than rivals. This involves changing new product development processes both within individual links in the value chain and in the relationship between different chain links

- **Functional upgrading**: increasing value added by changing the mix of activities conducted within the firm (for example, taking responsibility for, or outsourcing accounting, logistics and quality functions) or moving the locus of activities to different links in the value chain (for example from manufacturing to design)

- **Chain upgrading**: moving to a new value chain (for example, Taiwanese firms moved from the manufacture of transistor radios to calculators, to TVs, to computer monitors, to laptops and now to WAP phones)

GENERAL METHODOLOGICAL ISSUES

The four value chain/sectoral studies have adopted a broad common methodological approach combining macro and micro data, utilising quantitative and qualitative sources. This general methodology has been adapted in each of the sectoral studies to cover the specificity of conditions in each of the separate sectors, as well as the need to disaggregate each sector into the various sub-sectors which exhibit the greatest exporting propensity. Furthermore each study differs with respect to the number of exporting sub-sectors, as well as the number of firms interviewed.

The macro data covers two data sets. The first provides a birds-eye, sectoral view of production, value added, employment and factor productivities in each of the broad sectors in which the specific researched value chains operate. This provides a broad sectoral background in which to view the behaviour of the researched chains. This data is drawn from a variety of data-bases, including those held by the DTI, the IDC and TIPS.

The second set of macro data focuses on South African export performance in each of the researched chains, but at a high level of disaggregation. Specifically, it focuses on the nature

of export performance in the three major buying markets, Europe, the USA and Japan. Three sets of detailed analysis have been undertaken:

- The growth of South African exports in each of these markets over the past decade
- The share of South African producers in each of these markets
- The performance of South African exports in relation to unit prices.

Unlike the sectoral data, where we have drawn on established data bases, we have undertaken detailed original analysis to produce this data, involving extensive analysis of import trends in each of these three major consuming markets.

In this respect the macro analysis is particularly useful for gaining a comparative perspective on export performance in regard to efficiency and upgrading trends in each of the sectors. The link as to whether exporting may be leading these sectors into an upgrading path or immiserising growth is investigated through broad unit price and market share movement. The following table provides a framework for understanding these relationships.

Figure 2: A framework for understanding the analysis of South Africa's export performance

Unit Price	Market Share	Possible Interpretation
↑	↑	Good indication that sector is moving into more quality products for which customers are willing to pay more, and they are successfully managing to increase their shares in this higher value market
↑	↓	Unlikely that upgrading is occurring. More likely explanation is that our sector is unable to produce the product competitively and is thus likely to be on a downward path in terms of market share
↓	↑	Possibility that process upgrading may have occurred which has resulted in production costs reducing so that the product is able to be sold at a lower unit price while still reaping a profit, and this price reduction has lead to an increase in the market share
↓	↓	The sector is likely to be on a 'race to the bottom' where unit prices are being bidded down by strong competition, profit is negligible and despite this market share is still being lost because other firms are offering even lower prices

However, useful as this macro analysis is, its primary function is to provide the framework for asking more detailed questions of process and trajectory, and this is the subject matter of the micro-level studies. They raise a number of issues and potential hypotheses which are able to be investigated more fully through the firm level micro analysis.

The micro data analysis was based on firm level interviews with the most significant exporters in the most important exporting sub-sectors. In each case we aimed to interview the five leading exporters in each chain within each of the main exporting sub-sectors. The actual number of firms interviewed differs in each study depending on the characteristics of the disaggregation into various sub-sectors. Our rationale for this sampling procedure is that we are aiming to understand the upgrading benefits (if any) accruing to major exporting firms as a consequence of their export activity.

The micro level data collected from the firms was both quantitative and qualitative. Each firm was visited and key personnel were interviewed using a structured qualitative interview schedule. In addition a quantitative questionnaire was left behind for the firm to fill in and fax back to the researchers. Numerous follow up calls were made to attempt to elicit a reasonable response rate.

The firm level interviews and questionnaire were designed to allow the researchers to investigate some of the issues thrown up by the macro data analysis. The intention was to elicit responses in regard to exporting trends, whether learning from exporting was taking place, what the efficiency and skill levels were, how they were changing in response to export demands, how firms were responding to raised technical demands from foreign customers, and finally whether process, product and functional upgrading was occurring.

The micro data collection was also designed to lay the basis for understanding the various value chains operating in these sectors, and identify the driving forces governing these value chains. From the perspective of exporting firms it was important to identify the provision of access within these chains, how standards are set, how conformance to standards occurred, what room for manoeuvre exists with respect to changing roles and function, and finally whether exporting firms were locked into value chains which were locked into immiserising trajectories.

In addition the firm level interviews were intended to yield rich qualitative information a host of issues acting as 'enablers' and 'blockers' for exporting firms, and hence feed into any policy recommendations for the DTI in its role of export facilitation.

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1 INTRODUCTION

The clothing sector has played an important development role in a series of Asian countries and more generally in the less developed countries (LDCs). The developmental contribution of the sector has remained important and the LDCs' share in world clothing exports rose from 14.8% in 1965 to 65.2% in 1997 (Coughlin, Rubin and Darga, 2001: 4). The latter phenomenon reflects an increasing globalisation of the sector as clothing trade grew over the 1990s more rapidly than clothing production (ILO, 2000). The share of clothing in manufacturing exports currently stands at or exceeds 10% for Africa, Latin America and less prosperous Asia. Nevertheless, there is a regional concentration of exports in favour of Asia and important variations across countries. Africa is a small exporting clothing region, accounting for less than 5% of apparel world export (WTO, 2001). Moreover although over the 1990s the range of suppliers expanded to include China and countries that neighbour the major importing economies, i.e. the US and the EU, few new African suppliers emerged, namely Madagascar and Lesotho (Mortimore, 1999; ILO, 2000: 9ff and WTO, 2001). Amongst this typology of suppliers South Africa (SA) is a small newcomer. In contrast to an average of 19% of Africa's manufacturing exports accounted for by clothing, according to the South African Department of Trade and Industry (DTI) data, clothing amounted to about 1% of total South African manufacturing exports over the 1993-2001 period (see also WTO, 1998; IDC, 1998 and Gibbon, 2002 noting that estimates vary depending on the source).

SA's clothing export performance is somewhat atypical to that observed elsewhere (this point is made clear by Flaherty, 2002 who refers to ILO, 2000). Yet, the South African clothing sector is a large employer (Gibbon, 2002 and ILO, 2000); calculations for this report suggest that it absorbs 10% of SA's manufacturing employment, a figure which contrasts with a rate of (formal) unemployment currently at about 30% in SA (House and Williams, 2000 and TIPS, 2002a). Generally, the combination of the sector's high labour intensity, the low barriers to entry and to investment and the new incentives provided through recent 'preferential' access to the EU and the US through the Trade, Development and Cooperation Agreement (TDCA) and the African Growth and Opportunity Act (AGOA) makes the prospects of the sector attractive to South African policy makers. This is in a context in which SA's manufacturing export performance, whilst improving, has been disappointing (Salinger *et al.*, 1999; Chandra, 2002 and Rankin, 2002). Yet, whilst Jachia and Teljeur (1999) find that the prospects for clothing production and exports are favourable under the TDCA, and whilst Stern and Netshitomboni (2002) illustrate that the opportunities offered through AGOA are the greatest in clothing, these have not been fully taken up (see Stern and Netshitomboni, 2002 and Gibbon, 2002 for instance).

The difficulties facing a stronger clothing export momentum are routed in both the domestic and international context. Domestically, Dunne (2000) illustrates that SA shares with other developed countries an established and oligopolistic retail sector as well as a declining share of consumers' expenditure in apparel (see also Salinger *et al.*, 1999: 13-14). Moreover, SA has only comparatively recently formalised its integration into the international economy and confronted the resulting changes in the production incentive structure (Holden, 2001; Lewis, 2001 and Van Seventer, 2001). Prior to 1995, firms had little incentives to undertake the technological investments required for the industry to be internationally competitive. South African textile as well as clothing producers were focused on domestic sales. The fabric range tended to be 'wide and shallow' with production capacity and products geared for the small domestic market. Internationally, the difficulties relate to the strong position of already established Asian clothing exporters. Asian clothing exports to North America and to

Western Europe increased annually by 5% and 4% respectively between 1990 and 2000. The difficult international clothing export context might be compounded by evidence that SA and/or the Southern African region has, potentially, a comparative disadvantage in the sector (although there is mixed evidence as to whether textiles or clothing fares relatively better) (Yeats, 1998; Valentine and Krasnik, 2000 and TIPS, 2000: 3). This is not to say that opportunities cannot and have not been taken up; as an upper middle income country, SA has the infrastructure (physical and institutional) required for exports to expand. Compared to its neighbours, SA is well endowed in sophisticated synthetic fibre production capacity and there are potentials for regional clothing and textile pipeline developments (Roberts and Thoburn, 2001 and Coughlin, Rubin and Darga, 2001). Moreover, on the basis of unit labour costs, SA would appear internationally competitive against some suppliers with labour cost per hour of the order of US$1.[3] However, South African clothing producers are engaging in the international economy at a time when the opportunities available to penetrate the major importing markets have become limited. Powerful end-customers and intermediaries control access to the US and the EU consumers' market (Gereffi 1999a,b; Gibbon, 2001 and Baden and Velia, 2002). Furthermore, China has become a major competitor to garment exporting economies, by virtue of the volume of its exports, and its productivity and labour cost advantages.

In spite of a context of intense international competition, SA's clothing exports have expanded. However, an export expansion *per se* does not, in and of itself, shed light on the sustainability of an improved export trajectory or of the returns generated. This issue is best addressed through a value chain (henceforth VC) 'upgrading' analysis. Upgrading relates to a positive process of change undergone by the industry that enables producers to successfully penetrate foreign markets. Firms can follow four trajectories in seeking to upgrade: process, product, functional and chain upgrading (see for instance Kaplinsky and Readman, 2000; Kaplinsky and Morris, 2001; Gereffi and Kaplinsky, 2001).

The report takes upgrading as a core theme for the analysis of South African clothing exports. This report aims to: (1) identify and evaluate the current exporting path that is being followed by the leading South African exporting firms in the most significant clothing sub-sectors; (2) highlight and explain any evident upgrading or downgrading trends; (3) better understand the dynamics of the most successful exporting firms; and (4) evaluate the prospects for expanding exports to the major importing countries. Given this background, the report attempts to determine: (1) what the characteristics are of the leading clothing exporting firms; (2) whether successful exporters are locked into virtuous or vicious circles of global specialisation; and (3) to what extent the exporting firms are able to change their positions in the VC. The report thus focuses on both the nature of the South African clothing exporters' integration in the international economy, and the prospects for upgrading.

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[3] At the time of writing the wage rate for an experienced machinist is R192 per week in the decentralised areas, and R441 per week in urban areas. Converted at the rate of R11 to the US$ and a working week of 48.5 hours based on the figure for Africa for 1998 from ILO (2000), the rate would vary between 0.4$ and 0.8$ per hour. However taking a rate of R8 to the US$ for the end of 2001, the hourly labour cost (narrowly defined) would increase to 0.5$ to 1.14$. According to ILO (2000: 41), 1998 wage rates in the clothing sector in China, India, Pakistan, Vietnam and Indonesia were below 0.45$ per hour. The managing director of a South African clothing firm interviewed reported labour cost per hour for China of 0.18$ to 0.35$ compared to 0.22$ to 0.30$ for Malawi and Mozambique and 0.90$ (rural) to 1.20$ (urban) on a 42.5 hours week for SA. Whilst not competitive with some of the Far Eastern and SADC neighbouring countries, SA appears competitive against Romania, Morocco, Turkey etc. where labour cost was in 1998 in excess of $1 (ILO, *loc. cit.*). However labour productivities across exporting economies vary considerably.

This report is organised into three main sections. *Section 2* sets out the methodological approach adopted for this study. The section returns to the concept of upgrading and explains how quantitative and qualitative sources were utilised to construct the evidence base. It also sets this report against other similar work. *Section 3* presents an analysis of various macro level indicators of performance. The objective of this section is to present a broad sectoral overview of production, value added, employment and factor productivities, and to provide three sets of detailed analysis, i.e. (1) the growth of SA clothing exports in the major foreign buying markets; (2) the share of SA producers in each of these markets; and (3) the performance of SA exporters in relation to unit prices. This section gives an overview of upgrading over the 1990s for the South African clothing sector. Some broad indicators of efficiency are presented (process upgrading) and trade data are analysed to indicate changes, and more specifically, whether the changes point to product and/or process upgrading. *Section 4* focuses specifically on the micro data analysis, which is based on firm level interviews with the most significant exporters in the most important exporting sub-sectors. The rationale for this (largely) qualitative section is to investigate some of the issues generated by the macro data analysis; to better understand the upgrading benefits (if any) accruing to major exporting firms as a consequence of their exporting activity; to yield qualitative information on the 'enablers' and 'blockers' for exporting firms; and to identify the driving forces governing the SA clothing export VC. *Section 5* concludes the report.

2 ORIENTATION: METHODOLOGY AND CONTEXT

Whilst upgrading applies to firms exploiting and developing their core competencies so as to secure a competitive advantage that enables them to adapt to, as well as resist adverse change, the concept takes a somewhat different meaning in a VC perspective. "Upgrading involves insertion into local and global value chains in such a way as to maximise value creation and learning. For the firm this often means changing its array of competences either by bundling or unbundling value-chain activities." (Gereffi *et al.*, 2001: 5) This description which emphasises both, an absolute and relative dimension to upgrading underlies that there are difficulties in *identifying* upgrading. Upgrading aims to allow exporting firms "to sustain existing markets and *offset the impact of new competitors* as well as to expand into new market niches". (Dolan and Tewari, 2001: 96, emphasis added). However, whilst the behaviour of individual firms can generate spillovers onto sectors of activities what matters is that the changes are observed at the sectoral level, that is across a number of firms.

Finally, by overlapping evolving production and export characteristics and performance as well as changes in the direction of trade flows, upgrading sets a connection between sectoral and national development within a global perspective (see for instance Sturgeon and Lester, 2002). For clothing, complexities arise from VCs in the sector being buyer-driven (Gereffi, 1999a). As such, upgrading needs to account for governance being in the hands of end-customers with rents accruing in the form of increases in their market share.

The global clothing VC is characterised by a process of consolidation of power organised around an evolution of end-customers' functions. Shifts of functions coincide with the fact that profit margins increasingly lie with the ability of the end customers to pass risks onto the producers. At the level of the consumers, risk is managed through a greater proximity to consumers' demands which takes the form of a process of increased product differentiation

(which moreover aims to yield greater revenues).[4] Upstream, risks are managed by shifting stock management costs onto the producers and by transferring the more tangible functions (and the costs associated with these functions) down the chain. With sales and design functions and accordingly product specifications (the "specs") still largely with end-customers, tasks related to managing and co-ordinating supply have been delegated to a series of intermediaries.[5] These control the flows of goods and of information. The feature of power lying with end customers derives from their capacity to shape the functions of the producers and to extract rents from intermediaries and producers. The hierarchy of producers and their location is shaped accordingly. Upgrading takes this into account with, for clothing, the particularity that producers' performance relates to their ability to meet foreign quality requirements whilst offering cheaper goods and/or goods which have a shorter lead time. Competition amongst producers (and its corollary of the possibility of buyers to rapidly find alternative production sources) lies with the low set up cost of new production facilities.

In order to incorporate upgrading as a developmental objective, focus has to shift further to bear on the performance of all sectors of economic activities. A view in the literature is that upgrading is defined so a strategy that prevents an "immiserising" growth trajectory by moving production out of commodities. Thus, for Fitter and Kaplinsky (2001: 70), "[t]he development challenge is … not to move out of commodities defined as primary products, but out of all activities which are subject to sustained falls in their terms of trade."[6]

Although work is still lacking in transforming the concept into a tool, we take the concept broadly to be applied to a sector of activities to illustrate how an export trajectory can be analysed qualitatively. This section exposes the methodology applied to this purpose and takes 'downgrading' as the counterpart to an upgrading export trajectory.

Data for this research has been generated through a basic statistical analysis of secondary data (trade and others), and primary data from face to face interviews with top management in leading South African clothing exporting firms.

Whilst the analysis is underpinned by the caveat that trends vary substantially depending on the data source (and underlying methodology) used and the way in which the sector is defined, we first consider upgrading through an analysis of indicators of performance (*Section 3*).[7] We investigate the performance of the clothing sector during the 1990s primarily based on data from DTI and from the Trade and Industrial Policy Strategies (TIPS)

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[4] Private and store brands attempt to separate "upper to mid" price point from "mid to lower" price point consumers. Discounters generally sell to low price point consumers. However, there is a range of price point within any one end-customer.

[5] However, there are signs that the more tangible design activities (pattern making etc.) are shifting out of the hands of end-customers (Gibbon, 2000).

[6] There are difficulties in determining whether upgrading systematically entails positive development outcomes (see Wood, 2001). Generally, the developmental argument associated with upgrading is complex as upgrading bears on and contributes to the creation or development of barriers to entry as manufactured commodities are associated with low barriers of entry into production and limited skill requirements. Upgrading is thereby a more urgent objective for the developing countries and is of particular relevance to the clothing sector.

[7] Roberts and Thoburn (2002) use a different data source and present somewhat different findings to ours.

although other sources are occasionally referred to wherever appropriate.[8,9] TIPS' database and major trends are presented in TIPS (2002a).[10] Data are used to provide a contextual analysis of the sector's production and trade performance. The latter is considered generally and at the sub-sectoral level.

The issue at hand in this report is not only whether exports have expanded but whether this expansion has translated into SA's sub-sectoral market shares growing in import markets. Imports and shares are scrutinized to indicate whether foreign demand for clothing has shifted in favour of SA. This shift might reflect relative improvements of the characteristics of the exported good which make it comparatively more appealing to the importers. Yet, improvements need to be qualified by considering the type of returns generated by the expansion of the market share. Unit value of imports from SA are also accordingly analysed. If both quantities and the prices received per unit exported increase to a given market then exporting firms are undergoing positive adjustments, responding to the conditions necessary for an improved export performance. Increases in unit prices indicate that improved goods are exported. Another context in which upgrading happens is one in which market share increases and unit price declines. Here, it can be assumed that reductions in production costs occur so that cheaper goods are exported. A downgrading path would typify market share declines and unit price either increases (exporters fail to produce the goods competitively), or decreases (strong competition is around cheaper goods against which SA cannot compete).

In order to isolate whether SA's clothing exports might be on an upgrading trajectory, values of imports from SA as well as from the top 5 suppliers by the US and the EU for the 1990s were analysed for some apparel core sub-sectors determined on the basis of South African export data (from TIPS). We focused on five core sub-sectors that dominate the composition of SA's exports and which correspond to two clothing sub-sectors per fabric type (woven and non-woven). One additional group was included as it is the knitted/crocheted counterpart of the dominant woven export sub-sector. The key competitors were those that emerged in 1998–9. The analysis bears on EU and US trade flows with the sub-sectors defined according to the HS nomenclature at the four-digit level and pre- and post-1994/95 trade performances. Unit prices of goods imported from SA**,** from the main competitors, from extra-EU/the world are analysed to observe whether positive export developments have occured. A point to note is that the depreciation of the Rand (with pronounced changes after 1996) affects the returns generated by exporting. This can distort the identification of

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[8] DTI data uses clothing defined according to the Standard Industrial Classification (SIC) nomenclature version 5. Clothing is defined as SIC 313, 314 and 315 aggregated. These are the manufacture of knitted and crocheted fabrics and articles (knitting mills), the manufacture of wearing apparel except fur apparel and the dressing and dyeing of fur sectors respectively. For purpose of comparison clothing is defined through Harmonised System (HS) codes 61 and 62 which differentiate clothing according to fabric type (knitted/crocheted and woven). Groups defined under the referred SIC are more encompassing than trade product groups. For instance, SIC 313 incorporates HS 61 and 60 goods – the latter is the knitted and crocheted fabric group. SIC 314 incorporates HS 62, part of HS 65 and one HS 61 product, with HS 65 referring to headgear items. The text specifies which classification is used.

[9] Values from the DTI database are at 2000 constant prices. Original quarterly DTI data were transformed into yearly averages (2001 figures are however for 9 months only). Other data are yearly data.

[10] TIPS (2002a) is a preliminary document which provides an overview of sub-sectoral performances. Trends for the first and second half of the 1990s (*viz.* 1991-95 and 1996-00) are distinguished and nine main economic sectors (i.e., transport, business service, electricity, trade, manufacturing, community services, construction, agriculture and mining) are considered which are decomposed into 46 sectors including 28 manufacturing sectors. Sectors are defined at the 3 SIC digit level. The indicators provided are based on values at 1995 constant prices. As DTI data are from 1993 to 2001, these provide different insights into the changes over the 1990s.

upgrading by suggesting that exporters receive less over time for a unit of good exported whereas they gain in their domestic currencies. In order to address this issue, US$ data are converted in Rand in cases in which unit price decreases.[11]

Fieldwork information is next scrutinized (*Section 4*). Fieldwork was necessary to assess determinants of performance which macro-level analyses fail to capture (i.e. changes in the ways in which firms adapt to international competition etc.). More specifically, macro data cannot isolate features pertaining to leading exporting firms only, which is the focus of this study.

Time and financial constraints determined a target of 25 South African exporting clothing firms to interview. Firm selection was complex since several criteria are available to establish a framework for the selection of firms. A first benchmark relates to the characteristics of the good produced. Garments can be considered from the perspective of the fabric type (the woven or non-woven distinction which serves as a criterion for product good separation in the HS and partially, SIC nomenclatures) or the type of consumers to which the good is destined (i.e. men's and women's wear breakdown).[12] A second set of criteria relates to a typology based on the characteristics of the exporting firms (factors such as technologically advanced or know-how intensity that support value adding), size (number of employees, turnover etc.) or export orientation (percentage of turnover exported). In the absence of a database which details the characteristics of South African (exporting) clothing firms, the first set of criteria was chosen. Whilst a framework for sampling is readily available on fabric type and broad consumer groups (loosely, as with the HS nomenclature), there were problems with this method. Firms advertise themselves or are listed according to a mixture of criteria. Whilst the men's or women's wear distinction dominates, firms can also present themselves differently. As there was insufficient information to establish a set of exporting firms solely on the basis of the fabric type breakdown, and as information was more readily available across the type of goods produced a mixed approach was adopted. Women's and men's wear exporters were identified. A knitted group was also identified. Given the strong position of Denim production in Southern Africa, these firms were considered for the woven segment. A miscellaneous group was included to account for other clothing segments, namely school wear, foundation wear and hosiery. In this typology, 'large' exporting firms were defined on the basis of the amount of revenues generated from exporting bearing in mind that large exporters in small clothing sub-sectors might be substantially smaller than large exporters in other sub-sectors.

An initial list of clothing exporting firms in SA was drawn from information from a series of sources. The most comprehensive of which is the Clothing Federation of South Africa's *Handbook* for 2000/1 (Clofed, 2000). The handbook classifies Clofed's member companies and firms according to garment type.[13] Whilst, not all exporting firms in SA are Clofed members with a small number of firms members of the Export Council for the Clothing Industry in South Africa (ECCISA) only, other large firms do not belong to any industry

[11] There is another issue, which is that different exporters face differing trade restrictions. However, whilst barriers to trade affect (increase) the unit prices received for imports when not associated with upgrading, the trends identified for SA and their outcome are not altered. What is altered however is the allocation of orders for specific garments. This caveat has to be acknowledged in this report.

[12] Children's wear, whilst a small apparel segment, can also be classified according to gender.

[13] Whilst, the classification does not follow the HS principle of a first breakdown according to fabric type and whilst one given name might appear more than once depending on the product range, it specifies for each firm whether it exports, the number of sewing machines available and the brands produced.

organisation, at least not in SA.[14] There is no directory listing firms of the latter type. A second key problem with the *Handbook* stems from the fact that no information is available to establish whether a firm is a large exporter. Whilst the number of sewing machines which is specified can be taken as a first proxy for output and export (when the firm is listed as an exporter), a first follow up showed that the status of some of the 'large' firms according to Clofed (2000) was not always correct.[15]

Information was refined by triangulating information from a series of sources. Additional information was gathered through interviews with key informants (discussions confirmed rapid changes of firms' involvement with exports). Fieldwork was undertaken between February and April 2002.[16] From a total of 31 firms initially identified, 29 were approached which were initially taken as 'large' exporting firm in terms of the revenues generated by exporting relative to the clothing sub-sectors in which these are classified.[17] Some anomalies emerged as three of the 29 firms interviewed appeared to be small exporters based on the proportion of turnover exported.[18] Of the small firms, one had stopped exporting a particular garment and had actively engaged in surveying potential export markets. Another firm stopped exporting following the withdrawal of the license to produce a brand as a result of the restructuring activities associated with the brand owner in SA. A third firm was seeking to expand its exports and had recently secured a relatively important export contract. Two additional cases are to be note for a clothing manufacturer attached to a large retailing group and for a Denim wear exporter for which the divisions contacted had 'little' export involvement, not the firm. The information gathered from the smaller exporters is integrated in this report.

Table 1 categorises the firms according to product breakdown. There are overlaps and the fieldwork revealed discrepancies around the major product type exported. However, the discrepancies do not alter the findings.

Table 1. Classification of the exporting clothing firms interviewed

Men's wear	8
Women's wear	6
Jeanswear / Denim	4
Knit (miscellaneous)	4
Other	7

Note: "Other" contains 3 school wear, 1 hosiery, 3 foundation wear and 1 sock producer. Some of the firms in "other" are textiles if the knit to shape perspective is taken and socks fall into the hosiery group. There is some arbitrariness in the distinction however.

The respondents initially selected were the managing directors. When unavailable, other knowledgeable respondents were specified by top management. The 'other' respondents

[14] Informant 5 noted that only 5% of Clofed members are not ECCISA member.
[15] Firms either had stopped exporting or firms which were not listed as exporters had become exporters.
[16] Hereafter the firms that participated in this research will be referred to as 'the firms'. It should be taken for granted that the bulk of the evidence cited in this report was gathered from interviews.
[17] Only one firm refused an interview and one appointment was cancelled which could not be rescheduled.
[18] Their proportion of turnover exported was small or likely to be small (less than 10%). Nevertheless one of these firms refused to give its proportion of turnover exported. The firms in question were seeking to initiate an export drive.

comprise export managers and other managers (sales, marketing and financial).[19] Eight key informants were consulted during fieldwork: two buying houses, the President and First Vice President of Clofed, the Executive Director of the South African Textile Industry Export Council (SATIEC), the Executive Director of the Natal Clothing Manufacturers' Association (NCMA), the Deputy Director of the Duty Credit Certificate Scheme (DCCS) at DTI, and the executive director of the ECCISA.[20]

Information was gathered in the form of personal interviews of, on average, one hour duration. Semi-structured interviews were used to obtain a core of qualitative information around key characteristics of exporting performance common to all the firms interviewed, whilst allowing for personal viewpoints and firm-specific problems to be discussed.

This report complements a series of research on the performance of the clothing sector in SA. Yet, little work has been undertaken that is specific to the performance of exporting firms in the sector and to the exporting trajectory. Three core papers have a combined sectoral and export focus, Salinger *et al.* (1999), Coughlin, Rubin and Darga (2001) and Gibbon (2002). These consider the firms' performance through fieldwork and use macro level data to set the general performance of the sector.[21]

Coughlin, Rubin and Darga's (2001) comprehensive study contains a detailed discussion of issues around the clothing-textiles pipeline. However, their concern is with regional partnership prospects in terms of the situation of textiles and capacity of the region to take up the development opportunities afforded through AGOA in conjunction with other trade deals. In other words they seek on how to tap on regional complementarities so as to develop regional textiles and clothing production strategically. Salinger *et al.* (1999) specifically deal with the competitiveness of the South African clothing sector. They set out regional differences of production and firms' characteristics and their implications. Their analysis is based on visits to 53 clothing firms carried out in 1997-98. Finally, Gibbon (2002) focuses, as with this report on the recent clothing sector export performance on the basis of fieldwork taken at the end/early 2001-2001 from a VC perspective. His concern lies with distinctive features of performance across the main markets of destination (the US and the EU).

Whilst the industry has changed since Salinger *et al.*'s (1999) fieldwork the authors identify relatively important regional nuances across clothing firms in the Western Cape (WC) and

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[19] Of the respondents interviewed, 56.2% were managing directors, 15.6% were export managers and 25% other managers (marketing production, sales and financial director). In one case the main respondent was not available and the position of the substitute respondent was not specified (3%). In total we communicated with 32 firm level respondents, at times with more than one respondent attending the interview.

[20] An attempt to obtain more quantitative information through a structured questionnaire had limited success. Only five questionnaires were returned. The combination of South African clothing firms feeling over-researched and the market intelligence nature of the information discussed explain the low response rate. The DTI faces similar difficulties although the Duty Credit Certificate (DCC) Directorate is seeking to establish a database on firms that apply for duty credit certificates. Firms applying for DCCs are however one of two groups of exporting firms. Future research on the sector needs to take into account of the market intelligence dimension of some of the information which firms are willing to share. The view expressed by one firm that "the South African industry is very incestuous, everyone knows everyone else" [Firm 19] illustrates both, the closed, established and small scale dimension of clothing production in SA. Firms are accordingly careful not to disclose information from which competitors could gather their relative strengths and weaknesses.

[21] More recently Roberts and Thoburn (2002) have incorporated to their analysis of the South African textile sector the result of their fieldwork towards 11 clothing firms. They thus develop a VC from an upstream perspective.

Kwa-Zulu Natal (KZN) Provinces. Given a perspective on competitiveness that encompasses quantitative and qualitative factors, the authors identify some features of the industry which are relevant to the theme of upgrading. However, their emphasis was towards the implications for labour of some of the changes at hand and their fieldwork was not specifically towards the performance of exporting clothing firms. Finally, their focus bears on a detailed supply chain rather than on a VC approach.

The VC approach and recent changes affecting the sector and exports of the sector are at the core of Gibbon (2002). The author uses the case of SA's export performance to raise a series of issues in terms of how VC chain analyses deal with firms' cycle (more generally industrial) models of development. A recurrent question of Gibbon (2000a, 2000b and 2002) is whether there is a general analytical framework which can be drawn from the ways in which clothing firms (in countries/regions) becoming inserted in the global clothing VC and then whether assessments can be made about the various types of insertion. In raising this question, Gibbon probes into the influence of the trade regime and whether there are types of industrial structures that are more resilient to trade regime changes than other types.

Issues around industrial development are at the core of the upgrading debate. With regards to the low and the high road (*viz.* Fordist and post Fordist) industrial development model, Gibbon (2002) reiterates a point raised in Gibbon (2000b), that there are risks and costs entailed with the latter road which does not make it systematically more appropriate than the first strategy. By focusing on the resilience of exporting South African firms, Gibbon (2002) proposes a framework that is not constrained by this dichotomy. Resilience is determined at two levels, around the capacity to tap on local endownments and in terms of the capacity of firms to be engaged with "demand driven" external requirements. This approach partially arose from the author having previously (in Mauritius) identified the possibility of a series of VCs that reflect differences in governance structure and in requirements by the buyers in the EU and the US (see also Gibbon, 2001). The difficulty of assessing these VCs is posed in terms of their varieties and of the conditions that determine these. In his research towards the South African clothing firms, Gibbon draws a distinction of firms exporting to the US and to the EU and the Asian firm model. This latter model applies to foreign owned firms in SA that export to the US.

Given the similarity in the subset of exporting firms analysed and the theme, reference to Gibbon (2002) is made in this report. In particular, Gibbon draws information on the basis of 17 firms that export more than 25% of turnover (10 of which exports to the EU). We have 18 firms in such position although our subset contains a larger proportion of firms supplying the US (41% for Gibbon compared to 48% in our subset).[22] Moreover, the study of Gibbon is at part more encompassing in terms of his large subset of clothing firms (58 firms) – some of which are small and solely turned to the domestic market and, accordingly, in terms of his focus on domestic conditions.[23]

Given that we are working on the same terrain as Gibbon (*loc. cit.*), there are several similarities in terms of assessing some core aspects of the SA's clothing export performance

[22] The difference is possibly because we have a lower representation of WC firms.

[23] This allows him to draw on specific differences and to obtain insight in specific aspects of upgrading for which we have limited information. For instance, he discussed with firms changes in terms of the number of style, issues of capacity in relation to as well as relationship with CMT. (On the first point for instance, information gathered towards non-exporting firms points to an absence of links between exporting and a process of rationalisation of styles.)

over the longer run. In contrast, our emphasis is with distinct determinants of performance and of the capacity to penetrate foreign markets. In particular we use a different typology of the feature of exporting firms from which we draw assessments of trajectory. Also, we use time series data to consider some aspects of upgrading. As will be illustrated, one difficulty in the SA context is that firms are at the crossroad of selecting the external opportunities available to them and to potentially shift away from dealing with more than one market of destination.

3 MACRO LEVEL DATA ANALYSIS

This section presents some key performance trends for the SA clothing sector. The objective of the analysis is to highlight salient upgrading characteristics over the 1990s as evidenced from the macro-data analysis. The general changes undergone by the sector, its strengths and weaknesses, its recent performance and its economic importance are set out relative to the manufacturing sector as a whole. This analysis is carried out in the first sub-section, which also sets out the trade performance of the sector for the 1990s. A second sub-section focuses on investigating upgrading/downgrading trends through trade data, and places emphasis on changes in market shares and unit prices for exports. These are considered at the sub-sectoral level. A third sub-section concludes.

3.1 THE ECONOMIC PERFORMANCE OF THE SOUTH AFRICAN CLOTHING SECTOR

There has been a small increase of value added in clothing between 1993 and 1999 (Table 2). This dropped after 1999 with the consequence that clothing value added was, by 2001, close to its 1993 level.[24] Clothing contributed between 1993 and 2001 to 2.9% of manufacturing value added. Over the period clothing value added grew by 0.75% per annum compared to an annual increase for manufacturing of 0.83%. Between 1990 and 1995 the figures were 0.01% and 3.12% for manufacturing and clothing respectively. After 1995, this shifted to an increase of 1.5% for manufacturing and a decline of 0.9% for clothing. This change suggests difficulties that are specific to the sector.

In contrast to a recent decline in value added, clothing production declined steadily in the second half of the decade. In 1998, production fell below its 1993 level. This trend is atypical of SA's manufacturing, and as total manufacturing production generally increased, the share of clothing in total manufacturing production declined, dropping from 3.3% in 1993, to about 2.2% in 2001.

Table 2. Production-related indicators of performance: manufacturing and clothing (1993=100)

	Value added [1]		Production [2]		Employment [3]		Labour productivity [4]		Capital productivity [5]	
Year	Manuf.	Clothing	Manuf.	Clothing	Manuf.	Clothing	Manuf.	Clothing	Manuf.	Clothing
1994	102.2	97.8	101.8	100.3	100.5	99.8	101.6	98.1	99.3	100.6
1995	108.6	110.0	115.1	113.2	101.0	106.9	107.6	102.9	101.3	101.0
1996	110.4	107.1	103.6	115.2	102.6	119.6	107.6	89.5	98.8	98.1
1997	113.0	106.5	106.8	120.0	98.4	111.4	114.8	95.6	97.6	104.9

[24] For purpose of comparison, TIPS (2002a) data point to a slow growth in manufacturing value added over the 1990s (value added grew by 1.1% and by 0.5% before and after 1995). Clothing value added grew for the second half of the 1990s but at half the rate that prevailed in the first period (4.8% and 2.2% change per annum). There was a decline in value added in textiles for the second half of the decade which accelerated compared to the first half of the decade (from –2.8% to –5.5%). In spite of the changes, the contribution of textiles and clothing to the economy (defined along the 46 economic sub-sectors) was little altered.

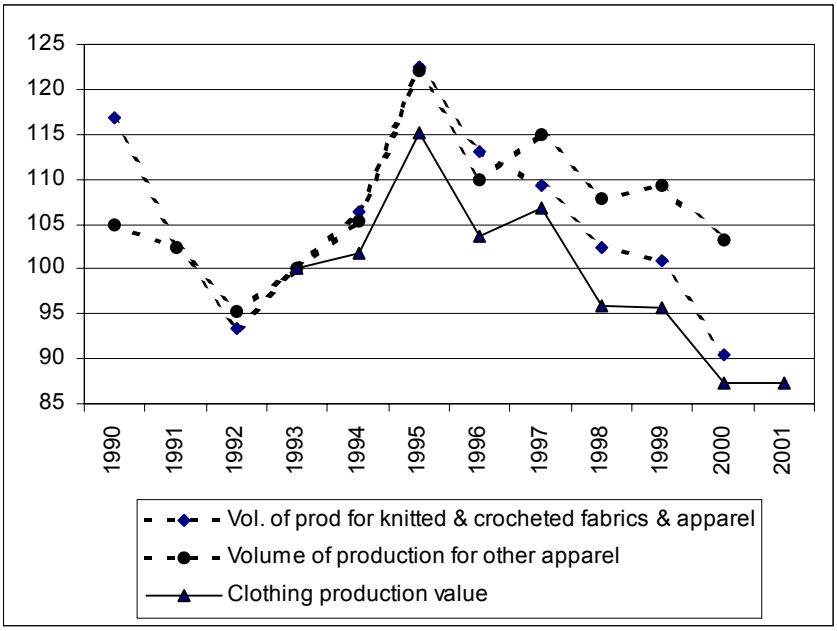
1998	110.6	110.3	95.8	108.6	95.3	103.3	116.0	106.8	93.2	94.8
1999	109.9	119.9	95.6	116.1	92.8	110.4	118.4	108.6	91.1	107.0
2000	115.5	109.1	87.3	126.3	91.6	109.2	126.1	99.9	94.7	106.4
2001	118.9	102.5	87.3	132.2	89.1	105.8	133.4	96.9	96.6	94.9

Notes: Data are at 2000 constant prices. [1] Value added is at factor costs; [4] Value added per worker; [5] is the ratio of the sector's value added at factor cost to fixed capital stock. Both series are at 2000 constant prices. It is not possible to establish whether output responds to changes in capital stock with a lag. Manufacturing is defined as all sectors under the SIC 3 heading.
Sources: TIPS SA Standardised Industry Input Structure and DTI database.

The decline in the value of production from 1995 coincides with a decline in production volumes (Figure 1). The combination of firm closures and a temporary increase in value added described earlier suggests a brief period of positive restructuring. More recently, the pattern has become problematic as production declines are not accompanied by some form of restructuring of the factors of production to yield marginally higher returns on production. The firms that have remained in the industry face the challenge of the adverse context of declining domestic demand as sales have declined similarly to production.

However, when trends are disaggregated, the decline is more pronounced in the knitted and crocheted segment than in other apparel items. Although DTI data include SIC 315 (dressing and dyeing of fur which is a small sector of activities), the observation that real production value declines are more pronounced than declines in volumes of production can tentatively be taken to indicate a reduction of the real value per unit of clothing produced in SA.[25]

Figure 1. Clothing production indices (1993=100)



Sources: Production volume indices from IDC database. Production value indices based on DTI database.

Production declines appear linked to a net process of firm closures. This process accelerated

[25] Roberts and Thoburn (2002: 28, Table 11) partially confirm this. They report that producer price indices for domestic production rose for apparel but by less than manufacturing domestic prices.

in the second half of the decade, although there are important regional variations to this pattern. Gauteng and KZN were disproportionately affected by the change in the first and second half of the 1990s respectively (Flaherty, 2002: 13). Almost half of SA's clothing firms are located in the WC. The remainder are concentrated in Gauteng (26%) and KZN (23%). The reduction in the number of firms has been accompanied by an increase in the average firm size. Although only indicative in the absence of recent data on the distribution of firms according to size, this increase has been particularly pronounced towards the end of the 1990s.

Table 3. Average clothing firm size

	Total No.	Average firm size (emp/firm)
1990	1248	115.7
1995	1064	125.9
1996	1098	136.5
1997	980	142.5
1998	894	144.7
1999	770	179.6
2000	722	189.4
2001	654	202.7

Note: The number of clothing firms is lower than that in Clofed (2001: 66) which reports data from the 1996 census of manufacturing.
Sources: Flaherty (2002: 13, Table 4). Average firm size is based on own calculations using 1990 employment data from IDC for SIC 313 and 314, and DTI data for SIC 313, 314 and 315.

Whilst employment in manufacturing declined in SA, the decline was markedly lower in clothing than in other economic sectors. According to DTI data, manufacturing as well as clothing employment peaked in 1996 and declined afterwards (Table 4). Between 1996 and 2001, clothing employment declined by 2.4% per annum compared to 2.8% for manufacturing. There were fluctuations across the years however and clothing employment increased in 1998. Declines in employment slowed down during the late 1990s.

Table 4. SA clothing sector employment

Years	Contribution to total manufacturing employment (%)	Number of employees	Average annual change (%) in emp.
1993	8.9	125,297	
1994	8.8	125,020	-0.22
1995	9.4	133,989	7.17
1996	10.4	149,908	11.88
1997	10.1	139,604	-6.87
1998	9.7	129,372	-7.33
1999	10.6	138,320	6.92
2000	10.6	136,767	-1.12
2001	10.6	132,546	-3.09

Source: DTI data.

Given the difficulty of the South African manufacturing sector to create and sustain employment, clothing outperformed manufacturing in its capacity to maintain employment from 1993 (Table 1). The fact that the clothing sector accounts for about as much as 10% of

South African manufacturing employment reflects a small South African employment base.[26] This performance is notable when it is set, historically, against the difficult economic context in which the sector operates (see Salinger *et al.*, 1999 for instance). The increase in firm size would have contributed to the notable increase of the share of clothing in manufacturing employment. In terms of employment intensities, clothing ranked 4 in TIPS' (2002a) list of 46 economic sectors. The relative importance of clothing to South African employment can be further noted through the fact that employment intensities declined for manufacturing but not clothing. Clothing employment intensity is substantially in excess of that of the manufacturing sector.[27]

A distinct performance emerges around changes to capital stock. According to TIPS' SA Standardised Industry Input Structure data, the manufacturing fixed capital stock increased by 3.6% per year between 1990 and 2001 in real terms. The fixed capital stock in clothing declined by 1% per year. The pace at which the capital stock declined in clothing was reduced in the second half of the period (from –1.6% per annum to –0.2%). The share of clothing in the South African industrial capital stock was small and marginally declining.[28] In parallel, the rate of investment increased in clothing in the second half of the decade compared to the first half.[29]

Set against the manufacturing performance, the clothing sector displays difficulties in expanding production, value added and fixed capital stock. There is moreover no clear-cut pattern of a long term investment trend when capital expenditure is considered. Yet, post-1995 changes have led to some of the characteristics of an average clothing firm (location and size) to differ. As the number of firms in the industry declined less rapidly than the fixed capital stock, the capital stock of an average firm in fact increased between 1990 and 1999.

Whilst there is a developing platform for the presence of economies of scale (EOS) around firms with a larger number of employees and capital, there is in fact a mixed performance of productivity. Improvements in manufacturing productivity have mainly been achieved through labour productivity although other factors (business cycles and improved efficiency) also played a positive role (TIPS, 2002a). As capital productivity declined, there is no clear-cut answer here as to whether overall manufacturing productivity improved or deteriorated. Yet, multifactor productivity increased from 1993 (Figure), signaling efficiency improvements. Clothing multifactor productivity grew from 1996 and appears to have caught up with manufacturing multifactor productivity. With stable capacity utilization (averaging 85% compared to 80% for manufacturing) in the clothing sector over the 1990s,

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[26] According to TIPS (2002a), clothing ranks 17 out of 46 economic sub-sectors *vis-à-vis* demand for labour, and only 13 economic sub-sectors increased their demand for labour over the second half of the 1990s. In contrast to the importance of clothing for manufacturing employment, the sector makes a small contribution to SA's total economic employment (2.4% and 2.6% of industrial employment in the first and second half of the 1990s).

[27] 2.7 times according to TIPS (2002a) but five times according to the DTI data. In contrast to manufacturing, clothing has a small share of skilled workers in the total workforce (18% compared to 39% - including 'semi-skilled' - average between 1995 and 2001). On the basis of figures from the TIPS database, the proportion of skilled workers was generally stable during the 1990s.

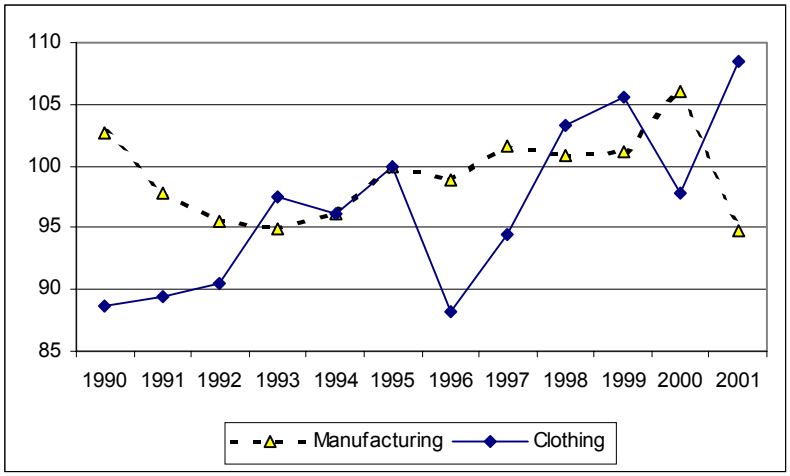
[28] Clothing's share of SA's economic fixed capital stock is 0.1% (TIPS, 2002a). Own calculations based on TIPS' SA Standardised Industry data converted at 2000 constant prices give an average share of 0.55% in manufacturing between 1990 and 2001.

[29] The pattern of capital expenditure (not reported here) suggests cyclical investment decisions; fluctuations are pronounced compared to the total manufacturing capital expenditure trend for the period. Capital expenditure at 2000 prices in clothing amounts to only 0.7% of total manufacturing capital expenditure between 1993 and 2000.

factors of production in the sector might have been re-organised yielding increased sectoral efficiency gains. According to Salinger *et al.* (1999: 11), rising multifactor productivity is caused by reductions of unit labour cost induced by the introduction of new machinery.

Distinctively from manufacturing, capital productivity fluctuated widely in clothing from 1996 (Table 1). Whilst one can observe a general pattern of expanding capital productivity in clothing, the manufacturing performance suggests general difficulties between 1993 and 1999. In contrast to both capital and multifactor productivity, labour productivity has not systematically grown (Table 1). There are 3 periods of changes. Between 1993 and 1996, labour productivity declined. It then increased until 1999 and dropped afterwards in such as way that in 2000 it fell below the 1993 level. In contrast, total manufacturing labour productivity grew consistently. Generally, the gap between the performance of the sector and that of manufacturing has widened.

Figure 2. Multifactor productivity indices (at 1995 constant prices)



Source: TIPS SA Standardised Industry Analysis.

There is evidence that SA would not be in a position to compete against some of the Far Eastern and neighbouring Sub-Saharan African suppliers once productivity is set against labour costs. For instance in the case of a casual man's shirt, the South African unit cost of assembly is over twice that of China and over three times that of Lesotho and India. In the example provided below, SA would have to produce 721 pieces per operator per month to compete on a unit cost basis with China instead of the current 327 pieces.

Table 5. Productivity and labour cost comparison for men's casual shirt

	Pieces per operator day	Monthly salary (US$)	Unit Cost of assembly (US$)
South Africa	15	248	0.75
China EPZ	20	150	0.34
India	16	72.5	0.21
Swaziland	15	105.4	0.32
Lesotho	18	87	0.22
Mauritius	18	108	0.27

Note: Unit cost of assembly is based on the assumption of a 21.8 days worked per month.
Source: Part of Coughlin, Rubin and Darga (2001: 37, part of Table 9).

Although as noted by Coughlin, Rubin and Darga (2001), the need for SA to close its productivity gap relative to other exporting economies might currently be dampened by the preferential US and EU trade deals, this is a core issue around the South African clothing sector's potential for upgrading. On the basis of the labour productivity, issues centered around managing the workforce become important. Thus whilst growth of multifactor productivity indicates that (some) factors of production have been re-organised efficiently, there might be shop-floor problems in terms of the interaction between workers, between workers and management or in terms of how workers are organized for production purposes. The latter might happen if product characteristics or organization of production change without yielding increases in production, thus suggesting intra-firm problems.

Two main features characterize the performance of the South African clothing sector over the 1990s. First, the sector is small but employs a disproportionately large number of people. Between 1993 and 2001, clothing accounted for 2.9% of SA's manufacturing production, 2.8% of total manufacturing sales and 0.7% of manufacturing capital expenditure. However, the clothing sector absorbs over 10% of manufacturing employment. The sector is labour intensive and in light of a manufacturing base that is shedding labour, this employment intensity has increased. As such, developments that encompass the workforce (training or changes in organisation structure) will impact relatively strongly on the performance of the sector. The increasing gap between clothing and manufacturing labour productivity during the 1990s is one significant area where improvements have not systematically occurred. Clothing labour productivity increased between 1993 and 2001 but this increase was small and erratic. In light of the productivity gap between SA and some Far Eastern and neighboring SADC suppliers there are further long run issues around the sustainability of the sector's production and possibly, maintenance of employment at its current levels. This is notwithstanding the performance within the large informal clothing sector (Skinner and Valodia, 2002). Second, some positive trends emerge for the clothing sector which pertain to multifactor productivity improvements (and potential efficiency gains) and, marginally to a growth in capital productivity and value added. Also, in spite of a large number of firm closures, employment has been shed in the sector at a lower rate than in other manufacturing sectors. This feature combined with a pace of capital stock decline that is below that of firm closures points to an increase in the "average" firm size. There appears to be a platform for an expansion of production whilst securing EOS. Given the decline in sales and the fact that clothing sales per worker have, from 1996 been below their 1993 level, room for an expansion of clothing production revolves around a growth in exports.

Relative to the changes of performance of the other industrial sectors, TIPS (2002a) indicates that clothing is an average performing sector. This is confirmed in the above analysis whenever the sector's performance is set relatively to that of manufacturing. However, as no information is available to identify the ways in which exporting firms differ from other firms it is not clear as to how important the nuances of performance are across these two groups and across sub-sectors.[30]

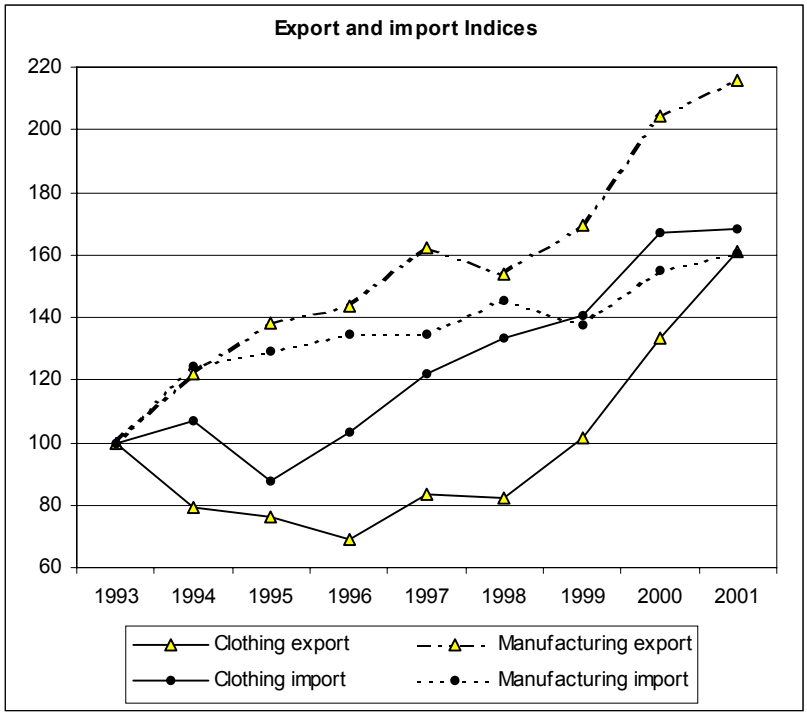
Clothing is a small export sector in SA. Between 1993 and 2001, clothing exports amounted, on average, to 1% of total manufacturing exports (and imports to 1.1% of total manufacturing imports). However, as argued next, the South African clothing sector is at least displaying an

[30] In an analysis of manufacturing firms surveyed in the Greater Johannesburg Metropolitan Council areas, Rankin (2002) notes a series of differences (for instance that employment matters as a determinant of export no matter the market of destination up to a certain threshold and that, tentatively, exporting contributes to firm efficiency).

increasing export orientation. It is important to bear in mind, in the discussion that follows, that as SA has only recently benefited from preferential trade deals (2000/2001), recent trade changes cannot be properly accounted for.

According to DTI data, the manufacturing sector in SA showed an increasing export orientation between 1993 and 2001. Despite fluctuations in trade balances, a general pattern of reduction of SA's trade deficit emerged between 1994 and 1997.[31] The clothing deficit coincides with a decline in exports. It is only from 1999 that clothing exports reached their 1993 level (Figure). As for clothing imports, the pattern between 1993 and 1995 was one of relative decline, and as export declined, increasing domestic clothing sales were catered for by domestic production. Imports increased rapidly afterwards, and from 1997 onward, the pace of growth of clothing imports loosely coincided with that of manufacturing imports.

Figure 3. Clothing and manufacturing trade indices (1993=100)



Source: Calculated from DTI data at 2000 constant prices.

The trends depicted in Figure also appear in the export intensities and import penetration ratios (Table 6). Between 1993 and 2001, the manufacturing export intensity ratio was 2 to 4 times higher than that of clothing. Since SA's manufacturing export intensity increased throughout the period but that of clothing only increased from 1996, the contribution of clothing to total manufacturing exports has been generally static. There is, however, a recent process of catching up with the import penetration ratio. Notably, the import penetration ratio for clothing was below that for manufacturing.

[31] SA reached a trade surplus of R861m ($124m) in 2000. In contrast, clothing had (at 2000 constant values) a deficit from 1994. There was a small trade surplus in 1993 to the value of R8.7m at 2000 constant prices ($13.6m using current trade values converted into US$) which subsequently deteriorated. The deficit increased between 1993 and 1998 when it reached R142m at constant prices ($17m at current values). It was then reduced to R8.7m ($0.8m at current values) in 2001.

Table 6. Export intensities and import penetration ratios (%) for selected years

	Export intensity		Import penetration ratio	
	Clothing	Total Manufacturing	Clothing	Total Manufacturing
1993	10.3	21.4	10.1	26.0
1995	6.8	26.1	7.6	29.8
1998	8.9	30.4	13.3	34.7
2001	19.1	35.0	19.3	34.0
1993-2001 average	10.3	29.3	12.4	31.6

Source: Own calculations based on DTI data at 2000 constant prices.

The DTI trade data suggests that clothing exports have taken off prior to the major trade deals with which SA is involved. (In spite of discrepancies this is a pattern commonly observed in other clothing trade data sources.) What underlines the changes is that South African clothing firms are increasingly becoming export orientated. However, there is a difficult trade context that is signalled through the mismatch between the export and the import performance as import penetration ratios have increased and are still in excess of the export intensity ratios. Reassuringly, the position of SA clothing exporters has strengthened as indicated by the fact that the gap is narrowing. The expansion of exports suggests generally some success in SA's export trajectory fuelled by external demand. Whether the expansion is towards a particular market or spread across a series of market and whether this expansion is positive from a long run perspective is set out next.

3.2 AN ANALSYIS OF THE SUB-SECTORAL PATTERN OF TRADE: UPGRADING OR DOWNGRADING?

South African clothing exports have recently expanded. Exports improved progressively towards the end of the 1990s, that is at a time when barriers to trade were reduced and rationalised.[32] Yet, the export 'take off' is from a small export base and as such, might simply reflects expanding successful orders for the foreign markets rather than a positive strategy of exporting that is followed by the firms. This sub-section details SA's trade performance. A general presentation of SA's clothing exports at the sub-sectoral level precedes a qualitative assessment of export trends. In particular, this sub-section is concerned with SA's clothing export performance so as to suggest whether upgrading or downgrading typifies exports by the sector and whether there are differences across the main markets of destination.

SA's clothing exports occur across a small set of sub-sectors (Table 7). Yet, one sub-sector dominates SA exports in the second half of the 1990s, *viz.* HS 6203, a woven clothing sub-sector. Combined with exports of such goods in the knitted segment, men's outerwear excluding overcoats and shirts amounts to almost a third of SA's exports. In terms of export growth, this has been more pronounced in the core knitted sub-sectors. In particular HS 6203 has grown by only 0.3% per year between 1995 and 2001. From 1995, exports from the core knitted sub-sectors have grown at a pace in excess of that for HS 61 generally.

[32] Whether the changes matter depends on the customs' effectiveness in accurately monitoring and controlling trade flows. There are disagreements in this regard with reports of illegal imports of textiles and clothing goods from neighbouring countries (see Gibbon, 2002). In contrast, measures are still in place that yield some protection against international competition. Kuhn and Jansen (1997) provide an assessment of the importance of SA tariffs and of the tariff structure on the effective rate of protection and illustrate how some of the early sector specific production and export support measures reduced the anti-export protection bias.

Table 7. South Africa's clothing export sub-sectors (1995-2001)

		% of clothing exports	HS Code	Av. annual Change in exports (%)
Woven items	Men's or boys' suits, ensembles, jackets etc. (excluding swimwear)	26.2%	6203	0.3
	Women's or girls' suits, ensembles, jackets, blazers, dresses, etc. (excluding swimwear).	9.4%	6204	3.8
	Men's or boys' shirts.	5.2%	6205	13
	Women's or girls' blouses, shirts, and shirt-blouses	3.2%	6206	15
Knitted/crocheted items	Women's or girls' blouses, shirts, & shirt-blouses	9.8%	6106	61
	T-shirts, singlets, & other vests	8%	6109	28
	Men's or boys' shirts	7.6%	6105	20
	Jerseys, pullovers etc.	4.8%	6110	19.1
	Men's or boys' suits, ensembles, jackets, etc. (excl. swimwear)	3.2%	6103	24
Other garments		22.5%	Other	

Source: TIPS HS trade database. Based on data in US$.

SA's clothing exports are primarily destined to the US and the EU. (Appendix Table 2, page 57 provides detailed comments of the changes over the 1990s.) Between 1995 and 2001 44% and 36% of SA clothing exports were to the US and EU respectively, with another 13% absorbed by African countries. The dominance of the US as a market of destination dates from 1998. The shift has been with knitted goods but the overall distribution across markets conceals the fact that SA had already established an export base in the US for some woven goods prior to that date (particularly for women's shirts, HS 6106 – see Appendix Table 3, page 58). Within the EU, the major market is the UK.

Although an export expansion characterises the export performance of the major sub-sectors, this has been from a small starting base. With the highest ranking of 29 in the US in T-shirts, SA only accounted for 0.34% of US imports of T-shirts in 2000. In men's wear excluding shirts and overcoats (HS 6103 plus HS 6203), SA accounted for 0.38% of US imports. The pattern of SA's clothing export has changed. Before 1998, export flows to the US and to a series of other markets fluctuated. Such pattern, indicative of an *ad hoc* export behaviour became attenuated afterwards. Moreover, the position of SA improved in the US from 1998 but deteriorated in the EU from 1995 (Table 8).

Table 8. Share of US and extra-EU imports from SA in core products

	US (%)	Extra-EU (%)
1995	0.15	0.33
1996	0.13	0.28
1997	0.12	0.30
1998	0.16	0.26
1999	0.21	0.24
2000	0.25	n.a.

Note: The share is for HS 6203, 6204, 6106, 6109, 6103 - HS 6103 was considered as a counterpart to HS 6203 with the view that exporting firms might substitute fabrics. The calculations are from values in US$.
Sources: Eurostat (various years) and USITC (2001).

A closer look at SA's sub-sectors point out that the export performance varies depending on the major market of destination considered. SA has the strongest export position in HS 6103 and HS 6203 in the EU and in HS 6106 and HS 6103 in the US. A common sector of 'importance' in both markets is HS 6203.[33] In 1999, $27m and in 2000 $28m of products within HS 6203 were imported by the EU and the US respectively from SA.

Whilst SA's exports are small, exporters were able to substantially and rapidly improve their position over *some* key-sub-sectors in the EU and over *all* the core sub-sectors in the US (Table 9). SA's position deteriorated in three sub-sectors in the EU, the women's knitted tops, the woven outerwear (excluding overcoats and tops) and in the T-shirt segments. In contrast, its position in men's wear improved. The ranking however hides a strong and increasing concentration of extra-EU and US imports across a small set of partners in some of the sub-sectors (Appendix Table 5, page 59). With the EU, China and Turkey appear consistently among the top five suppliers. A similar pattern emerges in the US with Mexico, the Dominican Republic and China.

Table 9. Change in SA's rank at the sub-sectoral level in extra-EU and US imports

		HS 6103	HS 6106	HS 6109	HS 6203	HS 6204
		Men's/boys' suits etc., knitted or crocheted	Women's/girls' blouses etc., knitted or crocheted	T-shirts, singlets or other vests, knitted or crocheted	Men's/boys' suits etc., not knitted or crocheted	Women's/girls' suits etc., not knitted or crocheted
EU	1990	61	32	33	41	37
	1999	29	41	49	34	49
US	1991	69	58	105	89	105
	2000	30	32	29	35	58

Sources: Eurostat (various years) & USITC (2001).

When proportions of goods externally imported by the EU from SA are considered at the sub-sectoral level, fluctuations over the years appear, in particular for some of the knitted/crocheted exports. There is in contrast a clear-cut pattern in the US where SA's market share has markedly increased. Table 10 outlines the broad features of penetration into the EU and into the US (sub-sectoral average figures are reported in the Appendix) with period averages considered (basically, pre- and post-1995).

In the EU, SA was able to secure unit prices for some of its knitted/crocheted exports substantially in excess to that received by other extra-EU suppliers. The mark-up is particularly high for men's wear of the knitted/crocheted type. Moreover, not only have unit-prices improved, EU imports from SA have also increased. The distance between SA's unit prices and that received by other suppliers further signals some amount of export specialisation, possibly towards 'better' quality/higher price garments. This specialisation emerged in the second half of the decade as values for a unit of import were lower before 1995 (even at times declining). Yet, competition from other suppliers has caused the rank to fall in two sub-sectors. Thus, an upgrading *trajectory* is only for HS 6103 for which SA has

[33] 0.45% and 0.47% of extra-EU imports of HS 6103 and HS 6203 are from SA. Imports from SA in HS 6106 and HS 6103 amounted to 0.53% and 0.49% of US imports in 2000. 0.36% of HS 6203 imports by the US in this segment are from SA.

improved its rank. In the other dominant knitted/crocheted segment, SA's product changes are not sufficient to generate market share gains in excess of its competitors. In other words, the niche market identified is one in which the EU imports cheaper garments.

Unit prices received by SA have also increased in the woven segment. Here however, unit prices for SA are below those offered to an average non-EU supplier. Thus, whilst unit value increases in woven goods suggest product upgrading, garments exported by SA appear to be distinct from those exported by other suppliers. A shift in quality appears which takes the form of a 'catching up' towards the quality available from an average extra-EU supplier. This shift is taking place within a 'lower end' product segment. Moreover, extra-EU imports in HS 6203 from SA have declined by 0.7% per year (in €, or a 5.6% per annum decline with US$ values).

A dual pattern of export performance appears in the EU for SA depending on whether knitted/crocheted or woven goods are considered. On the one hand, SA exports higher value added goods than other suppliers in the knitted/crocheted segment. Possibly, SA exports woollen garments whereas garment exports by other suppliers are of the more basic knitted type. Although SA might be set here against the wrong competitors, some form of upgrading is nevertheless indicated by two trends (the expansion in exports and rising unit prices). However when upgrading is taken more widely so as to account for the competition from third countries in the importing market, only HS 6103 exports are on an upgrading trajectory. Specialisation is signalled by the fact that extra-EU import values are markedly lower than those available to SA. What is going on in the woven segment is more difficult to account for. Again, differences in fabrics and/or end-customer types might account for the ability to secure different prices.[34] Yet, SA is being displaced by competitors in HS 6204 as well.

The trend observed in the US is one in which market shares have expanded rapidly. This expansion exceeds that of all other competitors except Mexico in men's wear even though US imports from Mexico have typically grown more rapidly than imports from the rest of the world. (This can be seen by comparing the first with the second period growth rate of imports reported in the Appendix). Given the proximity to the US and consequent lead-time advantages, the apparent competition with Mexico in HS 6203 might be limited (Mexican garment exports might be in the higher fashion segment). It is more difficult to comment on the pattern of unit values with the US. In general (that is for HS 6103, 6106, 6203), the value of a unit of clothing by the US from SA fell from 1995. Moreover, the decline was such that unit values fell below world price in HS 6106 and 6203. Nevertheless, South African exporters gain in Rands, except in HS 6204 where the decline in unit value was in excess of the rate at which the currency depreciated. In parallel, import demand for garments from SA

[34] Alternatively exports might be to different EU markets. Although one can assume price arbitrage across the various EU markets, differences in consumer preferences and in retail across Member States (MS) might result in different products being exported to different MS (see Baden and Velia, 2002). The outcome would be one of differing prices being secured for competitor's exports. The point however, is that as the UK is one of the MS with the highest extra-EU import orientation, it can be assumed that the top suppliers are representative of the trend for the UK so that the extra-EU competitors are likely to be competitors to SA.

improved. If we take men's wear, there is an upgrading export trajectory. But it is process-based. In the US market, SA is operating in a context of strong competitive pressure characterised by price decline of a unit of garment exported from the world – as in the EU – but here SA exports "commodities". With the possible exception of HS 6109, what is observed generally confirms Gibbon's (2002) fieldwork findings.

Table 10 – Part 1. Summary of unit value of imports in the EU and trends in extra-EU imports

HS	Value of a unit of import SA *vs.* Extra-EU	Trend of extra-EU imports from SA (1990-94 *vs.* 1995-99)	Extra-EU change in imports	Summary*
6103	Unit value of SA is from 1990 in excess of extra-EU average unit value of import. In 1999, SA unit value was 1.8 times that of extra-EU unit value. Value of an extra-EU unit of import declined over the 1990s.	Decline in the pace at which imports from SA is increasing but growth of imports in excess to that of the top 5 extra-EU suppliers.	Increased throughout the period. Decline of pace of increase of imports over the second period.	SA is upgrading in an increasingly competitive (potentially cost driven) context.
6106	From 1996/97 unit value of import from SA in excess of extra-EU. The gap is increasing. By the end of the period SA was receiving almost twice as much as an average extra-EU supplier. Prior to 1995, the value of a unit of imports from SA was declining. The value of an extra-EU unit of import declined over the 1990s.	Initial decline of import reverses in the second half of the 1990s when SA was in a strong position. Competition is mainly with Bulgaria on quantity, but not on unit price.	Increased throughout the period. Increased in the extra-EU imports over the second period in excess to that of the first period.	SA is upgrading in an increasingly competitive (potentially cost driven) context. Downgrading trajectory signalled by a fall in rank.
6109	From 1995/96 SA received 1.3 to 1.4 times more for its exports than an average EU supplier. Competition is with Mauritius where unit prices are similar.	Growth is above that for extra-EU as well as above the top 5 extra-EU suppliers. There was a decline in imports from SA in the first period.	There was an increase throughout the period. The increase in extra-EU imports over the second period was in excess of the first period	SA is upgrading. Competition is notably with Mauritius where upgrading also occurred. Downgrading trajectory signalled by a fall in rank.
6203	SA is slightly below the extra-EU average and showing similar fluctuations over time. Unit prices (marginally) increased throughout the period, whereas there was a (small) decline in the extra-EU average value per unit of imports.	Declined and below extra-EU import growth. Imports from top 5 suppliers have expanded over the period.	Increased throughout the period. Increased in extra-EU imports over the second period which was in excess to that of the first period.	SA faces some problems in that whilst unit prices have increased, market share has declined. There are signs of competitive pressures in this sector as SA's rank as an exporter improved. SA's product characteristics might not be in line with the characteristics of extra-EU imports from the top 5 suppliers as extra-EU values for a unit of imports in this product segment has declined. China is upgrading.
6204	SA was below, by as much as half, an extra-EU unit value in 1995/96. Thereafter some catching up was evident. In the first period unit value of imports declined.	Expansion but imports from SA have grown at a rate lower than that for extra-EU. Period averages suggest an expansion but a lower pace than that of 4 of the 5 top suppliers.	Increased throughout the period. Increased extra-EU imports over the second period in excess to that of the first period.	SA is upgrading. However downgrading trajectory signalled by a fall in rank.

Table 10 – Part 2. Summary of unit value of imports from SA by the US and trends in US

HS	Value of a unit of import SA *vs.* World	Trend of US imports from SA (1991-95 *vs.* 1996-00)	Change in imports from the world	Summary
6103	Unit value of SA is in excess of world until the end of the 1990s. Throughout the second half of the 1990s, unit value declined for SA, the world and for all top five suppliers.	Rapid increase in excess of world - less fast increase in second period	Increased throughout the period. Increase in imports over the second period slightly in excess to that of the first period.	Process based upgrading (potentially shift of product type as well). At the end of the 1990s, the decline in the value of one unit of import from SA stabilised. SA exporters are increasing their returns in Rands. Competition is indicated by a relatively sharp and consistent decline in unit price of import from the world.
6106	Unit value of SA generally in excess of that of the world prior to 1995. Sharp decline afterwards. A unit value of import from SA by the US was, in 2000, 72% that of a unit of import from the world in this HS segment.	Rapid increase in excess of world, although with a slower increase in the second period. (Imports from Hong Kong slowed down and Hong Kong lost market share.)	Increased throughout the period. The increase in imports over the second period is more than half that of the first period (i.e. displaying signs of slowing down).	Process based upgrading (potentially shift of product type as well). At the end of the 1990s, the decline in the value of one unit of imports from SA stabilised. SA exporters are increasing their returns on a unit of clothing exported in Rands.
6109	A somewhat erratic pattern in the unit value of imports from SA over the half of the 1990s. From 1995 SA received 1.7 times more for its exports than an average supplier. Whilst unit value declined over the second half of the 1990s, it was comparatively stable between 1998 and 2001.	Rapid increase in excess of world with a slower increase in the second period.	Increased throughout the period. The pace of the increase of import growth over the second period declined somewhat.	Upgrading around product change if end of period data are considered (increasing product variety?) No clear cut case of process upgrading but overall upgrading indicated by increasing exports and improved rank. Increasing returns in Rands.
6203	SA is increasingly below world and fell below the top 5 suppliers in 1999. A unit value of import from SA by the US was, in 2000, 78% that of all import in this HS segment.	Expansion but less impressive than that observed for other sub-sectors. It is in excess of world but below that of Mexico	Increased throughout the period. Increased in imports over the second period, which was in excess to that of the first period	As for HS 6103 although there are sharper signs of continuous process upgrading for this sub-sector. Competition is indicated by relatively sharp and consistent decline in unit price of import from world.
6204	An erratic pattern with SA generally below world. The pre- post-1995 analysis is here misleading is that unit prices increased between 1992 and 1998 and declined afterwards. Taking the pre- post-1995 breakdown up to 1999 suggests an increase in the unit value. On the other hand small decline taking the 1995-01 value. On average between 1998 and 2001, SA exporters receive 65.6% that of average exporter to the US. Competition is with China and Indonesia.	Increase in excess of world and all exporters, however with a less rapid increase in the second period.	Increased throughout the period. Increased in imports over the second period in excess to that of the first period is taking palce.	Competition, indicated by relatively sharp and consistent decline in unit price of import from world. China is upgrading in that product segment. There were losses in Rand in terms of the returns from exporting between 1998 & 2001. Yet, there is a recent pattern of upgrading which is “process“-based. Possible shift towards low commodity segment.

Notes: * - “Upgrading” is used narrowly here to describe isolated changes of exports and of unit value. The export trajectory is on the other hand described in terms of changes in rank. These inform about the capacity to be ahead of competitors and long run export prospects. Unit value performance varies depending on whether the data considered are in €/kg or in US$/kg for the EU. Performances differ also when 2 year moving averages are considered. However the pattern for the trend and summary points remain unaltered.

3.3 CONCLUSION

Relative to other sectors, the South African clothing sector is an average performer. Moreover the contribution of clothing to SA manufacturing economic performance has remained small except in employment. A mixed pattern of process upgrading emerges from efficiency indicators set out in the analysis of the macro data although when adjusted for the number of firms in the industry the size of an average clothing firm (defined in terms of the number of employees and the stock of capital available) has increased. Moreover, general efficiency gains seem to be a broad characteristic of the sector. In contrast, one area of difficulty lies with clothing labour productivity lagging behind that for manufacturing which suggests that adjustments are towards an overall re-organisation of production not entirely routed in a more efficient use of the workforce. Value added also fell at the end of the 1990s. These point to the setting up of a small platform of process upgrading over the second half of the 1990s. However, in parallel to minor production related improvements, clothing exports have taken off from the late 1990s.

SA core exports are concentrated in sub-sectors for which the EU and the US are increasing their imports. Setting aside the issue of difference in performance at the level of specific garments and considering performance at a relatively aggregated level of analysis, there are tentative signs of product upgrading in the EU but no systematic all around signs of upgrading export trajectories. In isolation of the performance of SA's competitors, product upgrading appears to differ depending on whether knitted/crocheted or woven apparel is considered. For the former, SA seems to operate in niche markets, exporting products with higher value added than its competitors. The adjustments within this segment are comparatively recent and might underlie marked improvements in the returns from exporting. Although South African exporters are taking up some of the opportunities available to them in terms of an expansion of exports of knitted/crocheted core products, SA exports little in this segment. In woven, upgrading appears to take the form of a catching up with the value of an extra-EU unit of import. There are some issues around the performance of SA's largest clothing export group (HS 6203). In this segment SA's exports fell in the EU although extra-EU imports from SA fluctuate over the years. There are possibly competitive pressures in this particular product group from a series of sources.

SA has shifted its exports away from the EU in favour of the US. US imports from SA have grown consistently in excess of imports from the world. There are some sharp differences between the EU and the US markets. Two striking features of SA clothing exports to the US are, first, the extent to which its unit values are below world average values and second, the consistency of the decline over a comparatively long time horizon. Very tentatively, recent year to date data (2001-2002) points to the maintenance of this trend as unit values of a garment imported by the US from SA have continued to fall (even markedly in some sub-sectors except in HS 6103 where unit prices increased). This trend is not adverse, in the aggregate, to exporters in that these gained in Rands and insofar as it might reflect declining production costs. In the context of a rigid labour market and regulations and comparatively low productivity of the sector in SA, it might be the case that EOS associated with exporting cause a decline in unit value.

Although the US and the EU have increased their imports in all clothing sub-sectors of importance to SA, it is difficult to assess the shift to the US. On the whole, across both markets and across its core clothing sub-sectors, South African clothing exporters have

secured stable average unit values in US$.[35] As such there is no *all around* evidence that SA exports "commodity" items. Instead, commodity items are towards the US. There are several risks into a further expansion of exports into the US market which lies with the fact that the returns are lower for a unit of garment exported to that market than to the EU (Table 11) although the elasticity of demand in the US appears to be high. In parallel, there are greater returns from a product upgrading strategy in the US market in knitted/crocheted goods as indicated by a higher price afforded to some exporters to that particular market. In the long run those supplying the EU with knitted/crocheted goods could find new opportunities with US end-customers.

Table 11. Per unit value of imports from the EU and the US by clothing sub-sectors

HS	Price range in the EU (1999)	Extra-EU average price (1999)	Price range in the US (2000)	World average price (2000)	Average unit of import from SA***	
					In the US	in the EU
6103	7 to 17$/kg	11$/kg	9 to 15$/kg	11$/kg	13$/kg	27$/kg
6106	7 to 23$/kg	16$/kg	13 to 30$/kg	**18.5$/kg**	12$/kg	50$/kg
6109	7 to 17$/kg	**14$/kg**	7 to 23$/kg	10$/kg	16$/kg	19$/kg
6203	14 to 23$/kg excl. Morocco*	16$/kg	14 to 18$/kg excl. Italy and Canada**	16$/kg	13$/kg	18$/kg
6204	20 to 32$/kg	23$/kg	20 to 32$/kg	20$/kg	11$/kg	23$/kg

Notes: Values are customs values. The figures are for the top five extra-EU and world suppliers. Values in € have been converted into US$. Unit value performance varies depending on whether the data considered are in €/kg or in US$/kg for the EU. *: Extra-EU unit value fell abruptly to US$7/kg in 1999. **: The range increases to 14 to 93$/kg including Italy. The unit value of US import from Canada is also high standing at 50$/kg. ***: based on a 2 year moving average for 1998/9 for the EU and for 1999/0 for the US.

It is not possible from the trade data to comment on whether the export pattern at hand is the outcome of the strategy of a small set of large South African firms increasingly established overseas or whether the shift is across a series of South African clothing exporting firms. The trade data does not allow an assessment of the dynamics generated from exporting for the firms either and thus fails to capture the detailed characteristics of the export expansion. In particular, some forms of upgrading (such as functional) cannot be suggested from macro data. Fieldwork was undertaken to inform about the changes experienced by the exporting firms, the results of which are set out in the next section.

4 MICRO LEVEL ANALYSIS

In this second part of the empirical analysis, attention shifts to the fieldwork findings. The analysis of these findings complements the trade data analysis. A first sub-section provides a profile of the subset of exporting firms interviewed. The second sub-section details the changes associated with exports across the various upgrading platforms. A third sub-section concludes.

[35] Based on an aggregation of imports (values and volumes) by the EU and the US in the core clothing sub-sectors and an examination of the average annual change of the overall unit price secured between 1995 and 1999.

4.1 KEY CHARACTERISTICS OF THE FIRMS INTERVIEWED

In the absence of indicators specific to the exporting firms it is not possible to discuss whether the subset of firms interviewed is representative of South African clothing exporting firms. That said, we begin by describing the key features of the firms interviewed, *viz.* location, age, number of employees, export orientation, the type of garments produced, and the markets of destination.

The firms interviewed are primarily located in the WC (51.7%) and KZN (35.5%). A small set of firms were in Gauteng and the Eastern Cape (EC) provinces (6.9% in each case). Set against the figure from Flaherty (2002: 13, Table 4) that 24% of clothing firms are in KZN, it would appear that clothing firms in that province have a marginally greater export orientation than firms in the WC. The average exporting firm interviewed was established 45 years ago (n=27) with dates of establishment ranging from 1909 to 1999 (Table 12). One set of firms was established 20 to 30 years ago and another at least 50 years ago. The sample contains few recently established exporting firms (only two were established after 1991).[36]

As noted earlier, the average firm size in the clothing sector increased to over 200 employees in 2001. The number of employees of our subset of firms varies from 330 to 4000, with an average of 1187 employees. The distribution contains a large group of 600 to 700 employees and another group of firms that has more than 1200 employees (Table 12).

Two points can be noted with reference to firm size. First, there seems to be some variation in firm size in terms of geographic distribution. For example, firms located in Gauteng were larger with an average of 1850 employees. This is followed by KZN where the firms interviewed had, on average, 1506 employees (1194 employees if the larger firm is excluded) compared to 1250 for the EC. The WC firms were smaller with an average of 870 employees. Second, firm size appears to be related to value-added since the smaller firms are generally the ones which are involved with producing higher value added garments.

The domestic market remains an important market for the firms. On average 43.65% of the firms' turnover was exported. There is a mixed pattern with a trimodal distribution of firms' export intensity. Also, there is no correlation between the number of employees and the proportion of turnover exported.[37]

Table 12. Key characteristics of the firms interviewed (n=29)

Age Structure			% of turnover exported			Number of employees		
Est. (years)	Frequency	%		Frequency	%	Emp. range	Frequency	%
[1-10[	2	7.4	[1-10[	2	8.7	[200-500[	3	10.7
[10-20[	1	3.7	[10-20[	4	17.4	[500-600[	0	0.0
[20-30[	7	25.9	[20-30[	1	4.3	[600-700[	6	21.4
[30-40[	1	3.7	[30-40[	2	8.7	[700-800[	2	7.1
[40-50[	2	7.4	[40-50[	4	17.4	[800-900[	3	10.7
[50-60[	5	18.5	[50-60[	3	13	[900-1000[	0	0.0
[60-70[	4	14.8	[60-70[	3	13	[1000-1200[	3	10.7
[70+	5	18.5	[70-100]	4	17.4	[1200+	11	39.3
n.a.	2		n.a.	6		n.a.	1	

[36] Exporting appears to predate, for some firms, the opening up of the domestic market. For the ten firms who stated when export started, these have been exporting for 10 years on average.
[37] Correlation coefficient = 0.13 with n=23.

Although some of the above traits simply confirm the fact that we have successfully selected large exporting clothing firms, there are nuances in terms of the export orientation of the firms selected which are unlikely to be representative of South African clothing exporting firms. In particular, there are duty free fabric import incentives that are available to firms on condition that fabrics are transformed into full package garments which are exported. Little information is available on these pure 'export platform' firms and we only have one such firm in our sample.

The fieldwork confirmed the difficulties of relating specific goods produced by firms to either HS or SIC categories (Appendix Table 6, page 63 lists the set of goods produced by the firms). Whilst the firms appear to be predominantly involved with woven garments, there were nuances in terms of the mix of consumers targeted over the original breakdown.[38] Further nuances emerged across value added. For one group, this is secured through:

- the type of fabrics incorporated (i.e. worsted wool);
- a know how advantage (i.e. tailoring of suits and jackets);
- the technology available in the firm. The technological advantage in our subset appears through important investments in specialised machines or through managing the available technology. In the latter category, one firm established a comparatively high value added niche production around wrinkle-free trousers. Here the firm incurred high learning costs of dealing with the technique which constitutes a significant barrier to entry.

Another set of firms is engaged in exports of basic lower cost garments for which labour costs are important. These firms were located in the decentralised areas. In spite of complexities in identifying a common thread connecting value added and the type of garments produced, two patterns emerge. First, firms involved with the production of more basic items appear larger (in number of employees) than more specialised firms (Table 13). Second, trousers dominate the subset: 15 of the firms interviewed produced and exported trousers. This is representative of the view that South African clothing exporters produce garments with either a low or static fashion content (Informants 3 and 5).[39] One explanation for this lies in long lead times.[40] Overall lead time figures put forward varied from 4 weeks to 6 months and averaged 4 months, possibly set against a 3 to 4 weeks average for the Far East (Firm 19).

Table 13. Typology of firm surveyed according to product type

Firm type	Aver. No. of emp.	% of subset
Basic garments (low fashion content and value added)	1675	39.3
More fashion-oriented garments	1050	14.3
Value added achieved through technology	660	10.7
Specialised garments (brands, fabrics, know-how)	820	35.7
n.a.	1	

846

[38] Five, seven and two firms respectively produced men's, women's and children's wear only. Seven firms produced for men's and women's, and two produced women and children wear. Finally, five firms produced all types. 58.6% of the firms appear to be engaged with woven garments (including worsted), 27.6% with garments of knitted fabrics type and 13.8% with both types (n=29). The problem is that some of the fabric types might have been for the domestic rather than for the export market.

[39] The term low fashion does not apply to suits. For these goods fashion changes are static relatively, that is when compared to other garments (i.e. women's wear).

[40] This would furthermore partially account for the fact that SA's clothing export composition being dominated by the more stable, less fashion oriented men's wear segment.

Table 14. Lead time

Lead time	% of subset
More than 4 months	29.5
About 4 months	35.3
3 to 4 months	17.6
Less than 3 months	17.6
n.a.	12 cases

The majority of firms (53.8% with n=26) exported to more than one market and a relatively balanced pattern of involvement with the two main markets. The UK market dominates only marginally as there are 13 occurrences of exports to the UK only or to the UK as the first market of destination compared to 12 such cases for the US. (Table 15). With the exception of firms exporting to the US more recently established, there is no apparent link between the date of establishment and the main market of destination.

Table 15. Distribution of market of destination and average age (n=29)

Market of destination	Frequency	Proportion (%)	Established (years)	No. of employees
US only	8	30.8	19*	1669
US is the first market of destination	4	15.4	50.5	1362.5
UK only	4	15.4	53	701
UK is the first market of destination	9	34.6	53	944
Other market is first market of destination	1	3.8	71	600
n.a.	3		4*	3

Note: When the US is the first market, the UK is typically the second market except in one instance when it is France. When the UK is the first market, the US is typically the second market. Sporadically, exports were to France, Germany, Australia and Japan.

There are nuances of market served depending on the location of the firms. WC firms were primarily involved with the UK only whilst the two Gauteng-based firms were engaged with the US market only. A mixed pattern emerges in terms of the export markets being supplied by firms in KZN and WC.

This section set out some key features of the firms interviewed. Generally, the exporting firms are important employers, they export mainly to the EU and the US, and the garments exported have a comparatively low/static fashion content.

4.2 THE STATE OF UPGRADING IN THE SOUTH AFRICAN FIRMS

Concomitant to exporting is a series of intra- and inter-firm changes taking place around processes, product and/or functions. Inter-firm upgrading would result from deeper involvement with various chain actors (input suppliers, logistical agents and intermediaries). In addition, firms might shift towards distinct domestic VCs. The latter has not been observed during fieldwork.[41] This section uses the information gathered towards the firms interviewed to detail the various components of each of the three upgrading platforms. The objectives of this section are first, to draw a general picture of the current state of upgrading for the exporting firms and second, to identify the most dynamic platform for upgrading. As will be shown, the South African clothing VC conforms to the global clothing VC (see for

[41] Functional upgrading can be of a deepening or broadening type (respectively, between VC links movements, and expansion of links within a VC). In other words we have no case of deepening functional upgrading from fieldwork.

instance Gereffi 1999a; Gibbon, 2002).

4.2.1 Product Upgrading

As end-customers forward "specs" to South African manufacturers, product upgrading is triggered by the process of aligning the characteristics of the good produced with those externally required. The fact that links between SA and the import market are heavily mediated suggests a great deal of interventions. These, for the purpose of product upgrading principally take the form of quality control (QC). QC is contained within the practice of quality assurance (QA) functions. The latter entails assessing the state of the firm's process as well as the firm's progress over process changes. These assessments, carried out on the behalf of end-customers, can also be carried out on the behalf of the firm's top management. As such, the two dimensions overlap although QC contains the more immediate tasks of dealing with improvements of the characteristics of the garments produced. The characteristics associated with QC are detailed following a presentation of the network surrounding access to the importing markets. The discussion then turns to how textile constraints affect product development.

Figure , page 31 depicts the channels of communication and interventions identified from the firms. The figure is organised so as to distinguish, at the top, the main export markets. As links with the Far East clearly emerged from the fieldwork, relations with actors in this region have been incorporated in the figure. The bottom layer represents actors based in SA namely, the intermediaries (the dominant intermediaries based in SA primarily deal with the US whereas other smaller intermediaries serve a series of markets) and the producing firms.

The network to the UK differs from the US connection in numerous ways: 1) there is a greater involvement with wholesalers/importers in the former market; 2) relations with UK/EU buyers are more amenable to negotiated agreements; and 3) agents in the UK tend to be small and often operate on an *ad hoc* basis. More specifically, Gibbon (2002) reports firms dealing with one intermediary (agent) in the EU but, more frequently, with two agents for the US. In some sense, these differences can be partially attributed to the smaller size of the UK (and other European markets).

As for the activities undertaken in East Asia (Hong Kong and to a lesser extent Taiwan, Korea and Singapore), these are important. The term "triangle manufacturing" describes the fact that the nucleus of global apparel trade is with these countries. Most global sourcing companies have an East Asian origin and/or ownership link with headquarters in Hong Kong.[42] Besides contacts with their parent companies, they are also in close contact with US end-customers and with end-customers' buying offices in East Asia. The East Asian platform is also important given the contact Asian subsidiaries in SA have with their parent companies (four firms including three with Taiwanese investment). A sharp and complex pattern of interactions with East Asia emerged for the Asian-owned firms. Finance was dealt with through either Singapore and Taiwan and in the case of the South Asian owned firm, pattern grading was also supplied from East Asia. These firms' interactions with US end-customers were managed through East Asia with Asian owners exploiting an established and pre-existing network of contacts in Taiwan and Singapore and, to a lesser extent, Hong Kong for export orders. The network tapped into the established presence of end-customers'

[42] These are typically but not solely Hong Kong owned. In the diagram these are reported as involved with the management of the VC. Gibbon (2000) documents a blurring of functions with companies becoming active beyond sourcing (i.e. involved with retailing and production).

buying offices of retailers and branded marketers in these countries. QC (and QA) was engaged from East Asia but carried out by the global sourcing companies based in SA.

The top layer of Figure sets forth the type of end-customers and other buyers associated with the subset of firms. This layer cannot be considered in isolation of the various intermediaries involved. Firms exporting to the UK/EU reported a variety of export channels and buyer type. Some deal with importers/wholesalers overseas or based in SA. These were typical intermediaries in the school wear segment. One firm interviewed sold branded garments overseas to small boutiques and independents. Six firms mentioned contracts with mail order houses. Whilst interviewees mentioned the presence in the past of mail order houses such as La Redoute and production for and enquiries from Quelle (respectively French and German owned), mail order houses were not always specified. Two exceptions were Littlewoods and Cotton Traders. For the latter exports are organised through a global sourcing company which has a presence in SA. Some contacts were with generally unspecified specialty retailers and department stores (although generally not specified Next and Laura Ashley were listed in the first group and Marks & Spencer in the UK and Galeries Lafayette in France in the second group) and attempts to establish orders with UK chain department stores. One firm mentioned being involved with a discounter chain in the UK and another with a specialty apparel retailer.

US end-customers are varied. The end-customers mentioned were mostly branded marketers (i.e. Liz Claiborne, Wrangler, Camel), specialty retailers (i.e. JC. Penney, Jones of New York, 'Old Navy') and a US mail order house, J Crew.[43] There were mentions of sales to unspecified department stores (including sales to Department Stores on the East Coast and in the Southern States). Also some references were made of garment exports for Timberlands (a specialised retailer). A difference appeared between the US and the UK end markets with 21% of firms exporting large volumes to US discounters (namely Target, K-Mart, Walmart but also Cost Co).

Given that end-customers were not always named, it is not possible to accurately assess which end-customer type South African garment firms primarily supply overseas. Thus, the primary end-customers emphasised in the Figure are those mentioned more frequently. However, according to Informant 3 "the bulk of trade is being done by major retailers at the moment … [who] know strategically that they want to source from a country". Moreover, it is not possible to assess the end-customer type when firms mentioned production for mail order houses since US specialty retailers often organise some of their sales through mail order catalogues. Gibbon (2002) with a specific focus on end-customers sheds some light on this, finding that in fact, exports for mail order houses dominate the EU *and* US markets (amounting to 25% and 11.5% respectively of sales channels). A third of SA's end customers in the US are independent. For the EU, he finds that end-customers are polarised towards "larger" and/or "more marginal" end-customers.

In our subset, when firms mentioned end-customers, JC Penney dominated, accounting for about 17% of the end-customers described and Old Navy for another 8.5% (of a list of 47 end-customers specified). These have been secured through the presence of representatives of end customers' buying offices and global sourcing companies based in SA (Kellwood, J Crew, JC Penney, Target and Old Navy for the US and Cotton Traders for the UK).

[43] Production for Chesterfield, Pineland, US Cottons and Century Place (listed as mail order houses) was also mentioned.

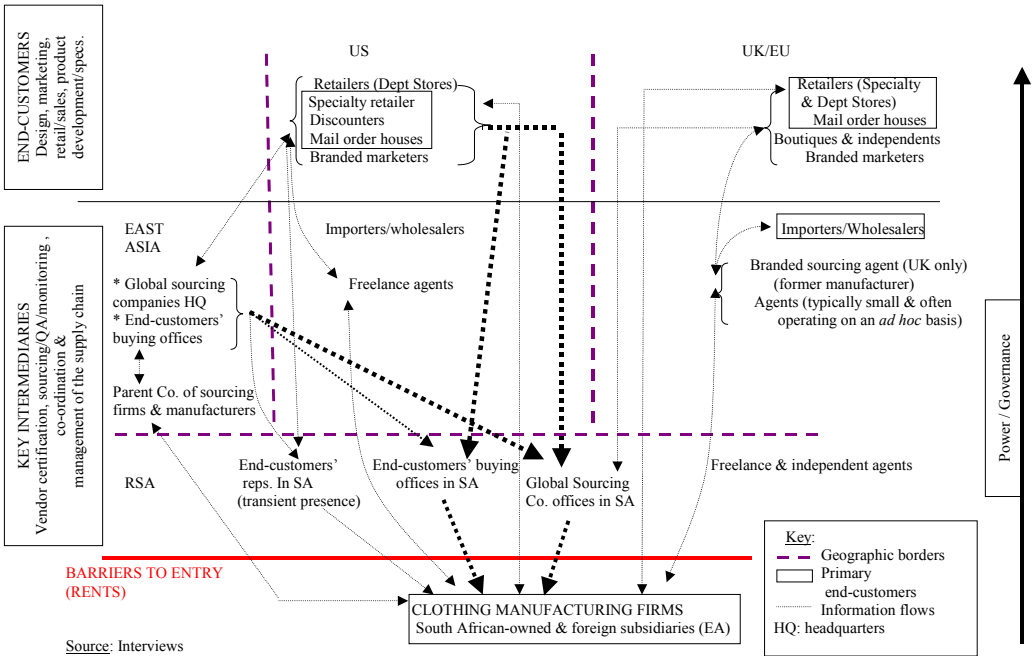
Although different end-customers are associated with different price-points, any given end-customer might sell brands at different price points. However, frequently, end-customers and buyers were at the "middle to lower middle" followed by "low" price point. More limited mentions were made of garment exported to "upper" price point end-customers (Table 16). This pattern does not preclude that production might be predominantly with repeat goods, a feature documented by Gibbon (2002). However, our subset might under represent firms dealing with US discounters or dealings with these.

Table 16. Price point secured by South African garment exporters in the UK and the US

Price point range	%
Specialised high price point buyer	4.3
Higher to middle price point	8.5
Middle to lower middle price point	46.8
Lower to low price point	14.0
Low price point	25.5

Note: Based on mentioned end-customer(s) or end-customer type (i.e. wholesaler) overseas. Firms might have listed more than one (type of) end-customers. The relative price-point position is arbitrary but takes into account brands and retail type.

Figure 4. Network connecting South African clothing manufacturers and foreign end-customers



Notes: The figure oversimplifies the presence of alternative locations for parent companies in two cases although in one case the parent company had limited relation with the subsidiary. See Gibbon (2002: 10, Fig. 2) for a detailed typology of intermediaries in the clothing VC.

Whilst higher value added producers appeared in mid to upper middle price points, some of the larger firms (in number of employees) produced for Old Navy and/or other discounters. According to Informant 3, "the biggest growth to the US has been in products that are made in the decentralised areas." Firms located in these areas generally export basic garments with a higher labour content than those located in urban areas. They are thus operating at the more price-sensitive end of the market.

34.5% of firms had direct contact with foreign end-customers. (Direct channels are described in Figure by unbroken arrows.) Some firms expressed a preference for this route and those successful in such contacts felt that, in turn, retailers favour this method. At stake are tighter communication linkages between the two parties and opportunities to induce some form of leverage or engage in negotiations with the final buyers. The direct route was further associated with savings over the commission taken by other intermediaries. Yet, this route initially entailed numerous visits overseas and a high initial start up cost of a marketing approach designed to signal the ability of the firm to meet foreign requirements. Given that retailers also face a risk in engaging in production with a new supplier and the low likelihood of breaking into a network of already established suppliers, this is a rarer occurrence in the US. When markets of destination are considered, 36% of direct contacts were with the US (with the remaining 64% with the UK). Direct contacts with the UK are more recurrent, possibly because there is a longer history of exports to end customers in that market. Alternatively, the need for intermediaries might reduce as firms establish a reputation based on trust. Reputation building is derived from already having successfully engaged in production for a known end-customer. There are two possibilities here. Either there were intermediaries but these were bypassed once trust-based relationships became established. Alternatively, conditions were favourable (reputation building was easier or the sales conditions easier) at the time at which export contracts were first established. This finding is similar to that of Gibbon (2002) who reports that 27% of all separate transactions to the EU are direct compared to 23% with the US. Moreover, he notes that intermediaries were involved before direct transactions were developed in the EU (*loc. cit.*: 40). The theme of the importance of trust between end-customers and producers and the view that SA has an advantage in this regards over competing economies was stressed by the firms dealing with the UK market.[44]

There is a diversity of communication channels and "information" intermediaries between manufacturers and end-customers. The key type of information which reaches South African manufacturers relates to instructions about production characteristics (the "specs") or to patterns for production. Intermediaries and/or end-customers are contacted when information is required (i.e. agreeing on a sample or payment). The role of independent agents appeared more towards providing South African manufacturers with information about potential end-customers. A case in point is a manufacturing firm which was dealing with a UK branded sourcing agent, which was a former manufacturer. Also present in the importing markets and in SA are freelance and independent agents who provide information (about a firm, an end-customer or the industry) and sources of contacts. Social networks (i.e. the South African diaspora, family links, etc.) or company representatives based overseas also played a role in securing contacts overseas. In addition, global sourcing companies with offices in SA (e.g. Linmark, Li & Fung, Hotsource, and Mast) are commissioned by end-customers (particularly the US) to assist firms to meet the production requirements and to monitor the flow of production so as to ensure timely delivery (under the process of QA). The parallel presence, albeit small and recent, of representatives of end-customers buying offices in SA (The Gap and Target) gives some support to the view that exports to the US have already exceeded a threshold beyond which the presence of these is economically

[44] See also Appendix Table 7, page 64 for the importance of cultural affinities as a determinant of export competitiveness. This perception is debatable in light of the current competitive pressures and changes to the sale structure overseas. However, the point remains that the firms *felt* that the export channels were functioning. Note that two firms have a long export history with the US.

rational.[45] The arrows are drawn thickly with US end-customers as 80% of the transactions of the global sourcing companies' SA offices are carried out on the behalf of US end-customers. 12 firms explicitly stated that they had dealings with global sourcing companies and representatives of end-customers based in SA. For the UK market, end-customers' representatives come for QC and QA purposes. (They at least ensure that various production and social compliance requirements are in place or met.) They have a transient presence as they engage with manufacturers primarily during firm visits. However, manufacturers undertake visits to their end-customers overseas.

The role of the global sourcing companies and of other end-customers' representatives and agents rests predominantly with QC and QA functions. The arrows in Figure point downward to account for the fact that the dominant function of these intermediaries lies in specifying foreign requirements and monitoring that these are met. Again, this is an oversimplification in that South African manufacturers are approached by as well as approach the global sourcing companies and end-customer buying offices based in SA. Moreover, the producers themselves undertake visits to end-customers.[46] Whilst the process is complex, the search for a supplier is largely undertaken by the intermediaries, and thus, they act as major drivers in SA *vis-à-vis* establishing export contacts.

Representatives of end-customers and of the global sourcing companies in SA are involved with a series of QC related tasks. These are:

- Pre- delivery inspection and QC of garments produced by South African firms. These, undertaken on the behalf of foreign buyers are associated with QA functions.
- They also carry out QC of firms engaged in production for foreign brand licensors. In the case of one firm involved in producing for the domestic market under foreign (US) license, it was the licensor that had "engaged" the independent buying agent into QC tasks.
- Similarly, global sourcing companies (and end-customer representatives) are approached by foreign sellers who have already established contacts or selected a South African garment producing firm to carry out QC on their behalf.

The above stresses that the core function of the dominant intermediaries based in South Africa is one of monitoring of quality.

Whilst QC is undertaken internally, firms noted that the challenges were emerged with external QC. QC aims to ensure that firms develop some minimum capability around the characteristics of the garment destined for export. External QC is relevant to firms that manufacture according to specs (23 firms opposed to 4 firms not producing according to specs). Yet, whilst generally, US specifications are more technical (i.e. more explicit, more detailed and encompassing a large number of product criteria), there is some amount of ambiguity as to the scope and nature of the QC between the US and the EU/UK. The explanation might lie with the fact that a set of end-market specific quality standards influences the standards specified in another end-market so that there is a process of "standardisation of the standards" [Firm 25]. The firms noted, however, that differences in

[45] Thresholds are put forward in Gibbon (2000) for Mauritius. This strategy is also noted by Sturgeon and Lester (2002). The latter report the adverse outcome of exclusion of small new firms (p. 59). There are nuances over the functions of the global sourcing companies. For instance Li & Fung (and to a far lesser extent Linmark) are global merchandisers whilst MAST is both a global merchandiser and a 'global' buying office for The Limited (considered in the US as a competitor to The Gap). However, their functions in SA are those of a global sourcing company. They are labelled as such accordingly in this report.

[46] Little insight was offered by the firms around the nature of the visits overseas.

customer expectations partially account for the difference in requirements.

QC appeared to be as 'strictly' applied to more basic as well as to higher value added garments. There were nuances around the depth of the involvement and impact of the intermediaries. There is some amount of competition across global sourcing companies based in SA because of an overlap of their functions and because different commission rates are charged (Informant 1). However, whilst there are variations in the extent of their interventions, these differ in the end-customers to which they have access. The fact that external QC is constant further bears on the fact that dealing with other intermediaries or producing for a specified end-customer generally does not reduce the scope for QC by another intermediary. An exporting relationship between a producer and an end-customer beyond a certain duration might lead to QC "interventions" being reduced or deemed of marginal relevance. (Informant 2 noted a minimum of 2 years, but more frequently 5 years.) Moreover, for any given end-customer, the intensity of QC does not reduce with distinct garments being produced.

The continued presence of global sourcing companies and end-customer representatives in SA, the increase in exports to the US under stringent QC, and the fact that the value of unit of goods imported by the EU from SA has increased all signal that quality improvements occur and thus that the platform for product upgrading is strengthening continuously.

Product upgrading is largely limited to a process of QC related interventions. The firms did not raise the issue that the process of meeting externally specified requirements has caused an increase in internal inspection. As for reject rates these vary greatly although some key figures advanced were of 5-8% for the South African industry compared to an international benchmark reject rate of 3%.[47] Firms stressed important differences caused by different fabrics used, the technical specificities of the garments and whether there was room for an excess number of items to be shipped for a given order to correct for the reject problem. However, exporting is not systematically associated with the ability by firms to induce product innovation. Decreasing scope for product modifications or changes largely accompanies exporting. This is because changes induced by external QC are of an engineered nature. This entails quality that is defined according to a benchmark of acceptable rate of rejects. Global sourcing companies use a threshold of acceptable quality level (AQL).[48] Firms' room for manoeuvre is towards minor suggestions (reported in one case for production efficiency purposes) and minor product design changes although this is likely not to apply to firms involved with tailored goods. The shift to minor design adjustments explains that five firms consider 'product development capacity' as a moderate outcome from exporting (Table 20, page 43, part 2). In contrast, 62% of the exporting firms were able to maintain some of their design capabilities through their portfolio of brands for the domestic market. Although 'new' products can be generated and used overseas for marketing purposes, product design capabilities are largely associated with the domestic market.[49] Even though the manufacturer design platform is small, manufacturers complained about the level of design currently with the retailers. In contrast four firms that exported to the EU under specs were in a position to initiate some design changes.

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[47] Yet 61.9% of reject rate figures reported by the firms for exported goods were actually below 3% (n=21).

[48] AQL is based on a statistical distribution. Provided that a proportion of a sample can be rejected that is below a certain threshold, quality is fine.

[49] Product portfolios appeared more specific to the UK market and to cases in which a direct route to an end-customer is sought.

Finally, whilst production can shift to tap on quota premium variations in the US, and whereas trade advantages are noted as a determinant of performance (see Appendix Table 7, page 64), few firms could drive the opportunities. On the basis of information firms have gathered towards their buyers, there is a perceived relationship between the production of trousers and a trade advantage in that particular garment (see also Gibbon, 2002: 3, footnote 2). Firms were order takers with two exceptions. Firm 12 was seeking to leverage AGOA from a product specific perspective. Another firm approached the South African Board of Tariffs and Trade for a raw material not available in SA to be declared "not available in commercial quantities" so that the finished garment could be exported to the US duty free.

The above discussion concerns product changes. Although, as noted earlier, constraints are of the process type (lead, response and turnaround time), external constraints for the production and/or export expansion of new product arise with the domestic textile supply base (whose importance can be gathered by consulting Table 17). Availability problems were stressed by nine firms (31% - see Appendix Table 8, page 64). The problem, around a relative shortage of fabrics of the right quality *at* the volume required nuances a core argument of Coughlin, Rubin and Darga (2001) of a regional shortfall in fabrics and yarns and of the capacity of textile firms to tap on unused capacity. There are several reasons for this. First, following the currency depreciation clothing manufacturers face greater incentives to use local textiles for garments destined to domestic retailers. Second, rules of origin pressures with AGOA mean that firms exporting to markets other than the US have to compete with orders of fabrics destined to clothing firms exporting to the US.[50] Third, textile quality has improved and quality textiles are exported.

Table 17. Proportion of textiles sourced domestically for garments exported

% sourced locally	Number of cases
100	10
[90 – 100[	3
[80 – 90[	3
[50 – 80[	2
Mostly local	11

Note: Mostly local refers to small imports of specialised fabrics from a series of countries. Firms did not give a percentage breakdown. Firms who gave proportions of fabric sourced locally for the domestic market reported between 0% to 100% (averaging 65% for n=8).

The strong demand for local fabrics translates in orders being placed 3 to 6 months ahead for delivery, which contributes to the long lead time associated with garment production. Moreover, three firms reported that contracts were lost because of a fabric-related problem. In one case the firm shifted the bulk of its garments' export away from SA into Lesotho, partially as the result of fabric-related difficulties. Furthermore, garment producers face an increase in the price of local fabrics caused by an increase in the price of raw materials through inflation and the depreciation of the currency and international price increase.[51] The alternative of importing the fabrics from the US (as well as from the UK) was considered "prohibitive".

[50] AGOA requires that exports meet some rules of origin requirements for duty free access to the US, namely the incorporation of domestic fabrics.

[51] At the extreme is a rapid increase in the price of wool of 42% between 21 November 2001 and 31 January 2002 caused by international shortages. One firm noted that, since this was a global problem, prices would increase internationally. As such, they would be able to pass this increase onto the end-customers. The issue was instead whether consumers would substitute cheaper alternatives.

The increase in raw materials, particularly wool has triggered some minor changes. In two cases firms were in a position to shift to melanges. Also, according to Informant 4, there are nuances in terms of fabrics development, more specifically, "wool is not standing still in terms of competition from cotton." Finally, as firms purchase components (accessories, trims, etc.) internationally manufacturers have to occasionally engage in their own QC and gather market intelligence in this regard.[52]

Quality improvements embodied in the process of meeting externally specified "specs" is a core dimension to product upgrading. This is an intense process associated with South African clothing exporting firms responding to foreign end-customers' requirements. The development of new products is however constrained by the situation of the textile industry. Clothing producers involved with repeat goods might find some advantages in this regard. This might be compounded by, as well as contributes to, long lead times. Thus, whilst QC positively shapes the quality of the finished garments, SA might be building a reputation for being a quality supplier of these garments. In parallel, there is limited room for manoeuvre around product innovation in the product upgrading path being followed. Although the Mauritian experience, detailed by Gibbon (2000b), illustrates the risks and difficulties in following the design route, the nature of the factors surrounding the pattern of South African product upgrading either favour clothing exports to the US or are symptomatic of the fact that some aspects of SA production are more suited to US needs. It is more difficult to set the pattern of product upgrading within the global clothing context. A possibility here is that although there is an intense process integrating the specs and associated gains around "product change" across firms, costs pressures are more likely to be exerted with the US market with commission and price pressures exerted by the intermediaries involved. This is stressed by Gibbon (2002) who points to another dimension of product upgrading, the extent to which the choice of the garment is contextualised (i.e. firms' positioning themselves to incorporate foreign requirements that are market/VC specific). We find that there is no outright difference across markets of destination in terms of the presence and intensity of the factors that drive product upgrading.

4.2.2 Process Upgrading

> "In the past South African firms were too narrowly focused on the domestic market. Whatever you do internationally opens your brain and you learn daily. Exposure to the international market is the fastest learning curve. They are out there competing for orders and at the same time the foreign buyers are setting tighter and tighter requirements." [Informant 3]

This section details the characteristics of process upgrading. Process upgrading relates to changes around cost, quality and delivery. Preliminarily to the discussion a clarification needs to be made with regard to the fact that since QC is about quality improvements it entails process upgrading. Yet, the improvements achieved through QC have been discussed under the theme of product upgrading. Whereas the distinction between product and quality improvements is arbitrary for clothing, we have adopted a specific framework here. This framework relates to the distinction highlighted by one firm, that QC is in terms of the presence that influences and determines the tasks on the factory floor whereas QA entails the functions of monitoring intra-firm progress (i.e. flows of production and actual improvements) and of reporting problem areas. The latter, which is for the purpose of

[52] Lack of skills was sporadically mentioned as constraining product development but the issue was with the training level of the workforce. There is one important exception to this which is the lack of tailoring skills for the suits and jackets exporters.

management but particularly for that of end-customers, comprises assessments of the limits of production and of capabilities of firms. In the case of the exporting firms, agents outside the firms deal with these assessments and monitoring. One clear-cut issue emerges here in assessing the process upgrading platform. By considering the outcomes of QC as of a product upgrading type, we are setting aside positive process changes that are the outcome of changes at the production line level which are triggered by QC. Having said that, firms did not set out links between external "interferences" and intra-firm process changes. Generally, firms provided limited detailed insights into process changes. Instead the focus was predominantly with broad cost and profitability issues. There are two explanations for this. First, there is a market intelligence approach associated with discussions of indicators of process changes.[53] Second, whilst the process upgrading path for exporting firms is largely inter-agent determined, it is still rooted in the domestic context. As will be emphasised in this sub-section, some drivers of performance are important and function in such a way that they do not allow determinants of process upgrading to be sharply isolated.

This sub-section, shifts attention to costs and profitability issues and to efficiency changes. Whilst partially incorporating the focus towards increasing volume based orders, emphasis is given to specific elements that shape domestic performance. Perception data are used here.

A small number of firms pointed out that they had engaged *independently* in a process of learning about their export markets prior to exporting. This learning was around establishing information around foreign market conditions and foreign demand characteristics. A process of establishing contacts overseas in anticipation to AGOA noted by four firms (Firms 25, 12, 1 and 5) complemented a pro-active market intelligence gathering exercise. Other firms (24%) were seeking to expand their current export level to the US. In contrast, four firms (13.8%) sought to expand their exports to the UK/EU, including three firms presently engaged with the US. Another four distinct firms sought to "re-engage" with the EU. Three of these were seeking "easier" export markets than the US. The factors affecting firms' export performance shed light on some of the difficulties at hand. Although Gibbon (2002: 41) shows that "volume protection" is the dominant reason for exporting, the capacity to deal with large volumes is, in turn, a frequently mentioned criterion of export competitiveness (Appendix Table 7, page 64). The capacity to meet the quality requirements and prices offered are however conceived concurrently with the ability to engage with large volumes of production. As for price and quality, ranked relatively as being of lower importance, firms stressed that price and quality are a "given". (See Coughlin, Rubin and Darga, 2001 on the importance of price relative to other determinants of performance). Compliance has not been listed as a distinct determinant as whilst important, firms noted that the costs attached to meeting external social (environmental and labour) clauses are generally small, involving

[53] A point to note about intelligence gathering is that whilst no database is available about the performance of exporting firms, firms benchmark their performance through the General Sewing Data system (GSD). GSD is used for garment costing and other purposes of benchmarking internal performance. As much as 80% of the South African firms would be equipped with the GSD program (informant 2).

"lots of small changes".[54]

The above has consequences for the cut make and trim firms (CMTs) in contact with the large exporting firms. Although the study did not focus on CMTs, some firms reported on their relationship with these. One impact noted of the drive to quality was that CMTs were at a disadvantage in this regard. One firm mentioned a 40% reject rate on a garment produced destined for export by its CMTs. CMTs might have difficulties in meeting timely delivery and other process-related requirements [Firm 2]. Constraints at the level of CMT orders lie with know-how and machinery limitations (reported by one and two firms respectively) although firms would outsource parts of their production for export to CMTs when specialised tasks (e.g. embroidery) are required. Other problems are likely to face the CMTs in their relationship with the exporting firms. If CMTs were in a position to provide goods at the "right" quality, they would have to be able to meet the compliance associated with the export markets.

> "Normally, we don't prefer to subcontract to CMT factories because you lose control over the process. In any event, the CMT factories have to be approved by the buyers." [Firm 23]

In turn, there is the risk for the buyer to jump over the CMT contractor or for the CMT to jump over its contractor to try and secure the export order directly. Such occurrence was reported by Firm 2. The CMTs mentioned by the firms appear to become involved in period of excess demand for production capacity, but turned to production for the local market (Firms 20 and 1) for the following reasons:

> "95% of this outsourcing remains with the local market. There are two reasons for this. First, traditional and specialised machinery is required which is not always available with the CMT and second, because of compliance issues." [Firm 1]
>
> "We only CMT when there is pressure. But we try and avoid this. It is all about trust and partnership [with the end-customer]." [Firm 16]

Yet, the relationship between exporters and CMTs is complex. Two large exporting firms engaged in CMT activities on the behalf of another large exporting firm for a particular garment.[55]

> "In the greater scheme of things the production runs in SA are unbelievably insignificant." [Firm 4]
>
> "The issue of the South African retail sector is that 98% of SA efforts are in trying to sell in the smallest domestic market in the world. Anyway, whether you are exporting or not you are competing with the rest of the world." [Firm 3]

The emphasis on volume recurred in the discussions with the firms, particularly when set against the size of orders for the US. This is not surprising, considering the size, problems and risks associated with the domestic market. Some firms provided an extent of the gap in

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[54] The changes mentioned were of the type of "lowering the lights", "re-designing fire door exits" and "meeting fire regulations" etc. Compliance requirements are, on the whole, easily met and consultants are often contracted by management in the process (i.e. by ITS international auditors, private, from the National Productivity Institute (NPI) and South African Bureau of Standards (SABS)). Some firms however, did feel that some of the demands made on them were not reasonable. One firm had difficulties in securing a contract on the basis that, although the trade union set the minimum wage it was at such a level that one end-customer first withdrew, scared that its competitor "would hear about it". With foreign firms under pressure from special interest groups in the US and some EU countries, SA's labour law and regulations would ensure some advantage over some of its competitors. However, the interviewees did not feel that these compliance measures were likely to yield a competitive advantage.

[55] One firm's export expansion resulted in its setting up former employees as independent contractors to absorb excess production demand. This was somewhat different from a typical CMT operation in that payment, contracts and financial support were guaranteed to the independent contractors.

production requirements; orders from overseas are between 10 to 250 times the size of an order for the domestic market (n=5). There are differences however in terms of the size of the orders across foreign end-customers as well as a trade off between volume and price received for the finished garment.

> "A smaller order of high value-added JC Penney garments is equivalent in value to the larger volumes of basic commodity garments for Wal-Mart." [Firm 23]

A point generally emphasized is that production capacity has become a new 'given' criterion of performance.[56] This position further relates to the fact that managing production across a series of firms for a given order appears to be atypical of global sourcing companies (Informants 2 and 3 –one exception was listed at the time of fieldwork).

The focus for the firms is not, however, with volume *per se*, but with securing the gains generated by larger production runs. Greater production volumes associated with exporting prompts costs to be reduced with emerging EOS. Although not always set out specifically, this argument is spelled out from what firms report as key aims associated with exporting. These aims are to secure repeated orders and/or to increase production length as well as to maintain production near full capacity for as long as possible throughout the year.[57] These underline objectives of per unit cost of production decline achieved through increased efficiency and/or a reduction in overhead (fixed) costs. Both contribute to profit margin improvements (at constant offered prices), occasionally noted to accompany "rationalisations of the product line".[58] Views such as those reported below are typical.

> "The export market is a volume driven business with small margins, but if you can get the production runs then you can make a profit." [Firm 19]
>
> "For optimum efficiency we need 3-6 month production runs of the same item." [Firm 12]
>
> "The export market is characterised by high volumes and less variety but money is generated more rapidly on exports than on the local market. The local market, however, is characterised by short production runs and greater variety in styles. Each time you change the styles productivity falls. The reverse happens with exports for which the number of styles is less." [Firm 13]
>
> "To produce one style for the local market may take 4 days of production time, whereas to produce one style for the UK market may take a month, because of the bigger volume. Bigger volumes means that the line works longer on one product/style – this results in greater efficiencies and less production problems. Volume is an 'educating factor'." [Firm 24]

Costs and efficiency affect profitability levels. Although the cost of a finished garment accounts for the cost of the various factors of production, the issue for producers is also one of managing the production process so that there is little discrepancy between the price at which the order is agreed upon and the cost of production at delivery (and shaping the extent to which gross and net profit margins differ).[59] Such discrepancies are according to Informant 2 important and production inefficiencies *cause* net profit margins to be small.

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[56] There are reports in which the capacity to produce quality garments is perceived as more important than the capacity to produce large volumes. This might be emphasised by firms who believe that they were approached for an order on the basis of an already established domestic reputation. It might be the case that firms approached for a foreign order perform better domestically than other firms.

[57] Whilst the latter falls in the "volume protection" argument, firms seek to ideally achieve both aims.

[58] Firms might also seek economies of scope in their relationship with a smaller set of customers. However rationalisation of inter-firm relations was set under the light of managing risk and thus forms part of functional upgrading.

[59] Intermediaries and global sourcing companies have a limited (according to one informant "no") role in price negotiations. Following discussion with two informants and two firms, there appears to be no consensus as to the level of profit margin in the industry.

Cost pressures are likely to be compounded with the heavily intermediated export context (see also Gibbon, 2002: 60).

The extent to which the exporting firms are profitable needs to be further set against the background of public support available to them. As firms are rarely willing to discuss their profitability, and whilst this is an area which has to be inferred upon, the low returns secured by the sector generally can be seen through the difficulty these firms face in obtaining finance. More specifically, profitability issues can be seen around the position taken by the firms towards the importance of the DCCS for their survival.

The DCCS, introduced in 1993, is one of two export supply side support measures available to exporters. Currently applicable up to April 2005, it is subject to regular revisions. All but three firms interviewed use the DCCS and one firm uses the rebate schedule that allows duty free imports of fabrics for the purpose of exporting the finished good.[60] The rebate is 470.03 of the Customs Schedule Number 4 (Customs and Excise Act, 1964).[61] As the schedule cannot be used in conjunction with the DCCS, the two instruments are distinct. The DCCS has two broad components. Its first component is with the financial 'export' incentives provided specifically to clothing and textile exporting firms through import certificates (the Duty Credit Certificates or DCCs). These, obtained by clothing, household textiles, fabric and yarn exporters, allow beneficiary/ies to import specified textile and clothing duty free. DCCs can be claimed for up to 35% of the value of exports with the highest value for clothing and the lowest for yarn (8% to 12%).[62] [DTI (2001:Annexure A, figure for 2001/2002)]. Even allowing for the fact that credits are issued on a yearly basis and that manufacturers sell these at a discount when required so that the value in real terms of DCCs might be only 15-18%, the Scheme was widely perceived as an important contributor to the viability of clothing exporting firms.[63]

There is a range of positions on the DCCS (Table 19), some of which reflect specific problems facing the firms and that are indirectly addressed by the DCCS. 13.8% of firms expressed reservations towards the fact that the DCCS creates uncertainty about the conditions of the domestic market, and that it perversely triggers textile exports and clothing imports. Three firms that were the most critical of the DCCS stressed that the scheme fails to

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[60] The first key requirement was that the proportion exported in the sales turnover had to grow by at least 10% in real terms per year. This has recently been amended to apply to those companies whose export share is below 15%. The amendment effectively opens up of the scheme to more established exporters for whom a marginal export expansion would be difficult. It also reduces the risk associated with incorrect export growth forecasting. The scheme contains a series of components and the description given here is oversimplified.

[61] The rebates are subject to permits obtained from the DTI following recommendations from the Board on Tariffs and Trade. In our subset four DCCS firms mentioned having considered the rebate. They reported that there were too many difficulties associated with obtaining the permit. Moreover, firms generally cannot supply the local market under the rebate. Whilst the rebate schedule appeals to foreign MNCs, the absence of information around the extent to which the schedule is used and the fact that we only have one representative of such scheme in our subset of firms mean that the discussion of the profitability associated from exporting is biased.

[62] Figures range from 25% to 35% depending on whether the exporter is a small, medium or micro enterprise (SMME), a partnership of exporting firms or a CMT firm supplying a trading house or a firm/company. Appendix Figure 2, page 63 illustrates the context within which DCCs are available to SA-based textiles and clothing exporters.

[63] The figure allows for inflation and the discounted value of selling the certificates on the open market (subject to the DTI being notified). The discount varies depending on the time at which the DCCs are sold. This contrasts to a possible net profit margin of 3-5%. Whilst there is some amount of disagreement as to the margin figure set forth and uncertainty around forecasting export accurately, the point is that profit margins vary greatly (one firm even showed losses) across buyers and that the returns from securing DCCs are higher.

build a foundation for the right process improvements to be put in place. For instance:

> "Price is not a factor of performance of the sector because the overheads are too high and this is not good for exports. There is no example of a consistent determinant of performance internationally …. Anyway, even value added is not enough as a coping strategy. Look at what happened to Germany. There is no real means to stay ahead …. what one does is to try and find a niche customer and to try and meet the customers' demands. If it [performance] is *price driven*, someone else will come in. There is always somebody that will get you." [Firm 3]
>
> "In our sector some of our competitors have put forward prices to foreign buyers for similar goods for which we cannot believe that they are competitive. May be the explanation lies with the DCCS." [Firm 29]

The fact that the DCCS is generally perceived as being a strong contributor to the firm's and/or sector's profit level is perhaps one reason why there is no discernible pattern between value added and increasing reservations towards the DCCS. 64% of firms report that they would face severe to short run problems following the phase out of the DCCS.[64]

Table 18. Degree of vulnerability to the phasing out of the DCCS (n=25)

Degree of vulnerability to the phasing out of the DCCS		%
1	Resilience to dismantling the DCCS: the firm would be unaffected.	16
2	DCCs strongly contribute to the profit level. Firm would be affected in the shorter run.	60
3	The impact would be severe (export division might have to close). Typically DCCs are the firms' profit (i.e. selling below costs).	24

Attitudes towards the DCCS unraveled specific problems, *viz.* working capital, cash flow and even export finance constraints (30.4% with n=23). Finance constraints are rooted at the institutional and private sector level (firms 23 and 12). At a broad level, of 12 firms who expressed specific viewpoints on the availability and cost of finances, six emphasised capital/finance (i.e. working capital and cash flow) 'shortages' and an additional two firms that the high cost of finance acted as an export expansion constraint. In contrast, none of the Asian firms interviewed reported difficulties with regard to raising finance. Only recently shipping finance, available through the Industrial Development Corporation of South Africa (IDC), was seen as alleviating pressures.[65] One point raised in fieldwork was that textile exports to Mauritius appear to be increasing mainly because Mauritian firms are able to offer 30 day credit guarantee whereas South African firms normally operate on a 90 day credit cycle. The financial constraints might thus have widespread implications for upstream relations and process upgrading.

DCCs partially address financial problems by being traded to other firms in the group or sold to brokers at a discount. The problem is such that manufacturers have sought for the frequency at which DCCs are granted to be altered (from a yearly to a quarterly basis).

Table 19. Positions towards the DCCS

[64] Although the extent of the difficulty facing the firms might be exaggerated to the researchers because the firms made comments about the importance of the DCCS for the industry rather than for themselves, (so that a breakdown of 60%, 12% might be more accurate for grades 1 and 2), the authors believe that in fact the DCCS phase down would severely impact on 24% of the DCCS beneficiaries. Whilst this subset is different to that which is self reported, this subjective assessment is based on general discussions with the firms about the difficulties they face and the type of end-customers currently supplied.

[65] The IDC provides other type of finance. One firm labelled the current financial support *via* the IDC as "very much on an experimental basis" and another described IDC funding as "project focused".

Types of reservations towards the DCCS	Frequency	% of firms
The DCC is not good for the sector	4	14.8
Subsidises inefficiency	2 mentions	
There are problems with the DCCS	14	51.85
Time taken for DCCs to be granted.	4 mentions	
Costs in managing DCCs requirements are high	3 mentions	
Subsidises inefficiency	2 mentions	
No reservation	9	33.3

Note: Based on n=27, that is incorporating feedback from 2 non-DCCS beneficiaries.

Advantages of the DCCS	Frequency	% of firms favourable to the DCCS
Releases financial constraints	9	39.1
Contributes/contributed to the export drive	5	21.7

Note: As above but excluding the 4 firms who have strong reservations (n=23). Firms might have listed more than one advantage to the scheme.

Whilst it is not possible to accurately assess the extent to which the DCCS contribute to the profitability of the exporting firms, the above discussion suggests that firms might be facing strong profit and cost related pressures. Further pressures were noted around the fact that foreign buyers know about the DCCS and that this might cause the price offered for orders to be partially discounted. In a similar line, firms rarely reported that gains were achieved from the depreciation of the Rand. Some foreign buyers factored depreciation effects in their requests for discounts from manufacturers. This was reported by 31% of firms although the depreciation would heighten inter-firm competition.

More specifically, 33% of firms emphasized that the currency depreciation only generated short-term gains and that some of the effects were partially absorbed by increases in fabric and international transport costs.[66] Although unit labour cost increases were mentioned by three firms (and concomitant garment price increases), more emphasis was given to raw materials price increases. This might be on account of the fact that raw materials amount to a comparatively large proportion of the costs of production.[67] Moreover textile firms were occasionally reported to be selling goods in US$ (in three cases firms listed being given fabrics quotes in US$ by *domestic* textile producers). The main reason for this seems to be with textile firms' increasing export opportunities:

> "AGOA has switched power to the local textile mills. They have offices in New York. The fabric deal is struck in New York and is transacted in US$. As a result producers lose advantage in any currency move. The textile mills are now calling the shots and the textile price is determined in US$." [Firm 8]

Generally, price pressures emerged in the context of South African firms having little leverage over prices. Prices are likely to be supplier specific with possibly, Far East prices used as reference for South African orders (the latter was reported by two firms and Informants 1 and 2). In one case:

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[66] It is not possible to give a breakdown of the position of the firms towards the depreciation for two reasons. First, since manufacturers that use woollen fabrics faced important price increases, it will take some time for these to assess the effect of the depreciation. Second, three firms stated explicitly that the DCCS was a more important determinant of their competitiveness than the depreciation. Very tentatively, 21% of the firms might see longer term effects from the depreciation. In contrast, 14.3% commented that the depreciation has not triggered new or expanding orders.

[67] According to Clofed (2000: 92) over 50% of the value of sales. This figure is for 1994 but Informant 5 mentioned a similar level.

> "There is no one company in SA which can produce 60 000 men's tailored jackets because they are very labour-intensive. The order was split between 4 companies, …– 15 000 pieces each. The firms got different prices on the same order !" [Informant 3]

Few firms were willing to provide examples of prices offered for their goods on the grounds that products cannot be compared and/or that there were too many variations across end-customers. Tentatively, four firms mentioned declining prices in US$ or £, seven firms noted that prices were stable in foreign currencies, and one firm reported an increase in the price of its goods in foreign currencies. Finally, two firms reported that the price was increased to keep pace with the rate of inflation.

In contrast to the depiction of the difficultly in establishing the returns from exporting, 17.2% of the firms reported that discounts were granted to foreign buyers because of improved competitiveness at the firm level. In other words, efficiency improvements have taken place with exporting. Other changes were also mentioned, some of which were not positive (Table 20, part 1).

Table 20. Process changes associated with exporting

Process changes	Frequency
Efficiency gains (including EOS gains & reduced overheads)	18
Productivity changes	11 (incl. 4 reports of this still being a problem area)
Reject rates changes	6 (incl. 2 cases of worsening)
Time speed changes (i.e. lead time)	5 improvements
Managerial-related changes	7
Other changes	5

Notes: "Other" relate to miscellaneous changes (handling improvements, exposure to international trends, increase in the number of employees). Firms occasionally mentioned more than one type of change.

Key changes induced by exporting	Average score
Improved economies of scale	8.50
Increased profitability	8.00
Increased productivity	7.50
Improved price competitiveness	7.50
Increased technology competence	7.25
Improved manufacturing processes	7.25
Improved product quality	6.67
Increased product development capacity	5.75
Enhanced labour skills	5.75
Enhanced management skills	5.00

Note: Based on data from five questionnaires. The scale ranged from 1 to 10, where 10 denotes 'critically important', 5 'moderately important' and 1 'not important'.

Productivity improvements were commonly reported, but occurrences of productivity loss accompanying quality improvements were also noted. For instance, reject rates differences between the export and domestic markets that were mentioned were attributed to the

introduction of new fabric types to handle for the export market.[68] Variations around the initial structure of production lines and the type of garments produced for export might account for some of the responses. In contrast, the emphasis on efficiency change is caused by an overall perception that exporting has brought about general improvements but that particular areas have not improved sufficiently. Since firms reported on process changes generally rather than specifically it is difficult to comment on distinct aspects of the platform for process upgrading. The following statements illustrate how efficiency changes were set out:

> "[Our] average ex factory unit prices have increased by 6%. This is in line with inflation. It has absorbed labour cost increases in the decentralised areas. … [But] 25% of the increase in unit prices has been lost to inefficiency, increase in transport costs, and the cost of maintaining our marketing office …." [Firm 2]
>
> "For us exporting has led to a sharp learning curve. The biggest adjustment was our mindset – now we are globally minded. Since exporting, we have become more efficient, more creative, and more engineering minded." [Firm 1]

A similar stand was taken towards labour productivity with the issue complicated further by the presence of government training support measures and by different training type.[69] Firms stressed that whilst training is positive and at least undertaken in-house, there is a separation of training for 'education' and from 'multi-skill' development purposes. Most frequently firms commented on the absence of a link between investments in training and overall productivity improvements. Little enhanced labour skills appear to explicitly accompany exporting (Table 20, part 2).

Although DCCS are allocated on condition that a number of process related performance criteria are met, the firms reported that these conditionalities did not have a profound impact on process changes. Awarding of the DCCs requires that firms meet certain conditions which relate mainly to labour relations, workforce training and competitiveness improvements. For instance, a performance audit associated with the DCCS seeks to influence productivity improvements by inducing firms to engage consultants (who undertake site visits and consultations with the firm), and by benchmarking the performance of the DCCS beneficiaries over time and against an index of performance. In addition to a performance assessment, the basic amenities and facilities available to employees are checked, and a management practice audit and training and development reviews are undertaken. Four firms (13.8% of the subset but 16% of DCCS beneficiaries) indicated that interventions by consultants were helpful but that by and large, the process was merely a formality. As for the training audit, Informant 6 noted that is "is only done to get the DCCs. There is little or no value for the company."

The drive towards greater efficiency is perhaps constrained by two factors; 1) that decisions are short-term because they revolve around meeting immediate order-associated demands; 2) decisions are strongly externally driven. The emphasis on a short-term strategy can be gathered indirectly through the firms' position towards ISO 9000. Although ISO accreditation in clothing is supported by sectoral (i.e. clothing sector specific) agreements in the US and the UK, few of the firms interviewed appeared to have ISO 9000 accreditation.[70]

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[68] Firms reported that soft fabrics were generally more difficult to work with, hence reject rates were typically higher for this segment. Also, lower final reject rate on exported goods might be accompanied by a higher cost of internal inspection.

[69] Besides the DCCS, the Service Development Levy (SDL) aims to encourage workforce training.

[70] For the two firms who explicitly stated ISO this was driven within a group strategy. As these were vertically integrated, the trend might be more typical of a trend in textiles rather than in clothing. No firm listed ISO of the 14,000 series. One firm had SABS accreditation.

Three firms are considering ISO 9000 series accreditation in the near future. The objective for one was:

> "To upgrade the whole company. This is because we found that export market standards were not good enough." [Firm 10]

For another, the motive behind ISO accreditation was to use it as a signaling device for the firm's process commitments. In contrast, six firms reported that the accreditation would not help them to secure end-customers or that it is "not required by the foreign customers" (Firm 24) or that "the QC people already do behave like ISO 9000 people" (Firm 6), "because the quality requirements have already been met" (Firm 8), and as "it is not suited to the nature of garment production" (Firm 2). In this regard, four firms noted that they already implemented an AQL of 2.5.[71] AQL was the key contributor to signaling the firm's reputation as a quality producer.

Another dimension shaping quality and costs relates to investment. According to Informant 4, 25% of the exporting firms would be engaged in important export-related investments. Yet, there were sporadic reports of recent *export-triggered* investments decisions during fieldwork.[72] The investments undertaken included the introduction of specialised machinery set up to meet specific product characteristic requirements (finishes and specific processes), to ease the handling of goods on the factory floor or to test fabric for colour continuity consistency. The new technologies introduced were expensive and relied on repeated and/or large volume orders. Firms also mentioned investing in the expansion and modernisation of the stock of sewing machines. This is a process of catching up which coincides with a context of constraints generated by low returns and capital flow shortage. Whilst general cash flow constraints might have been partially released through the export expansion, some investment decisions were affected by the depreciation of the Rand. For example, computer aided design (CAD) was considered too expensive a new investment to undertake by two firms.[73] Issues also emerged around the export prospects. A first area of uncertainty is associated with a perception that the AGOA related export expansion might be short lived, whilst a finance shortage was affecting other areas of production and delivery. A second area of uncertainty facing clothing manufacturers rests with textile investment decisions. Manufacturers expressed doubts about the textile production capacity to sustain the clothing firms' export production expansion. Finally, 17.2% of the firms argued that in order for productivity gains to be reaped around the technology investment, organisational, management, workforce developments and process changes need to be put in place *to ensure* that there are returns from a technology investment.

Logistical support did not appear to be a major problem area for the exporters. Generally, the relationship with shipping agents and customs officials was felt to be good, or functioning sufficiently adequately to warrant it not being considered a major problem area. One exception to this was with the firm exporting under schedule rebate. The firm stressed the issue of *inconsistent* customs behaviour in clearing imported goods, and regarded it as affecting its ability to meet delivery deadlines. The firms perceived remaining delivery

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[71] An AQL of 2.5 uses 14 rejects from 200 pieces which are drawn randomly from a total of 10,000 pieces.

[72] Firms reported that one of the areas of investment during the 1990s was around information technology improvements – see Moodley, Morris and Velia (2002).

[73] When CAD was available it was used intensively with a series of foreign buyers involved in pattern grading tasks and supplying the patterns. Yet, the relevance of CAD varies with labour intensity. In one decentralised area firm, CAD was shifted to the production of goods for the local market. In another firm the shift was with the Gerber-cutting system. These decisions were taken on price considerations where, in order to compete, the labour content of a more standardised long run and repeated order became more prevalent. This case illustrates that there are trade-offs associated with the uptake of new (or second-hand) technology.

problems to be at the firm, rather than inter-firm level. Five firms stressed that the inflexibility of the buyers around the delivery date caused some amount of difficulty. Three firms explicitly mentioned that garments had to be air-freighted (an option for top-end and lower weight garments). In case of delays, there were mentions of deliveries returned, cancelled or (heavily) discounted once the delay was in excess of one week. It is likely that some amount of pressure is applied by SA-based global sourcing companies as their payment takes place once goods are shipped. Yet, foreign buyers were also occasionally reported to send the patterns and/or their approval of the sample late in the cycle. They thus contributed to some difficulties in meeting the production deadlines.[74]

With the exception of the absence of a textile base to support clothing investment decisions, it was not possible to distil from discussions clear-cut barriers to productivity improvements. The above discussion infers from various aspects related to process upgrading that the process upgrading platform is, at parts, weak. First, exporting is rarely explicitly related to sufficient (or to the right) productivity improvements. Second, profitability appears to be largely sustained through government support (the DCCS). Nevertheless, dynamics changes have taken place with exporting firms facing difficult price pressures, which they seek to meet by controlling or reducing costs. As for inter-firm changes, whilst the relationship between manufacturers and intermediaries is intense, it is unclear that QA itself has led, at least, to any systematic positive productivity change. There are occasional mismatches between what seems to be required and what has been achieved. Gibbon (2002: 55) illustrates that time speed improvements have been insufficient and that these with communications are perceived by the sourcing agents as export constraints. (One area of mismatch which in fact also emerged progressively from our fieldwork was around the response time associated with a query for an order.) No substantial process upgrading coincides with meeting external compliance requirements as this is an area where little change seems required. Firms might currently be over-emphasising the importance of meeting short-term product upgrading needs and by doing so partially fail to address the context within which these particular requirements need to be defined. The above description undoubtedly oversimplifies the deeper engagement of some of the firms surveyed to address process difficulties. Some firms were actively seeking process upgrading by selecting their intermediary, by expanding their machinery park, by carefully surveying their export markets etc.

4.2.3 Functional Upgrading

It is difficult to identify changes in functions which are triggered by exporting dynamics. Such changes need to be placed in the context of a small South African production base still largely oriented towards the domestic market. For SA, there is a minor process of broadening of the VC towards new management tasks and market intelligence gathering activities. Also, at the inter-firm level some manufacturers have adopted strategic partnerships. More visible is the fact that some firms have taken a strategic pro-active stance towards managing the risk contained in exporting. In contrast, as argued before, there is little evidence of a strengthening of the branded and design activities for the export market. This section presents these various dimensions.

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[74] The discussion relates to the *perceived* situation as there was little time in the interviews to discuss logistics issues specifically. Two firms reported that airfreight was used in a crisis. Goods sent by plane could reach the foreign stores in a shorter time than it would take for goods to be displayed locally, if they were dispatched the same day.

Seven of the firms dealing with the UK and the US appeared to have separate export divisions for each of the market. This separation (or "market specialisation") forms part of a functional upgrading strategy as it is associated with a channelling of the expertise around a given market and responding to the specificities of the demands from the export market. In parallel, financial tasks and related information can be gathered and dealt with separately.[75] The process of market intelligence development was stimulated through direct visits overseas to end-customers and intermediaries (and occasionally to machinery suppliers). The frequency of these varies however (ranging from "every five weeks" and "three to four times a year"). End-customers themselves encouraged visits overseas to impart information about foreign requirements. Intermediaries also contributed by sharing their experience of production characteristics in foreign countries. Functional changes are implicit in the exporting management cost:

> "Exporting is not a short run venture; you have to stick to your commitments." [Firm 2]
>
> "Exports are very management intensive. One cannot add a department and then make the necessary appointments. One has to build an export team." [Firm 4]

Two firms broadly set out functional changes anchored around the development of core competencies:

> "The [export] culture is not only on the factory floor, the whole process – shipping etc. – has to be standardised." [Firm 23]
>
> "Change is towards getting rid of the things we are bad at. Core competencies need to be developed and these have to be used to guide the product type. Level 1: Change in image (the way people see us). Level 2: Create a level of understanding in terms of the sophistication we can offer." [Firm 22]

Few (two) concrete examples of change emerged, possibly because the changes are small and difficult to unbundled. For instance:

> "There has been a change of behaviour towards making the person responsible for mistakes to explain to the customers why they have made a mistake. … There is a process of incremental change. … the staff is more prepared to sort things out … [the response to a change of colour which used to take from 2/3 now takes 1 to 2 days.] … in the past the staff would respond that it does not matter that these are only samples." [Firm 3]

Undoubtedly, there are risks in the long run in a broader strategy of functional change not pinned in well defined objectives. Follow-up research would be required so as to properly detail functional changes over a longer time horizon and the extent to which functional upgrading is conditional to or conditions process upgrading.

Manufacturers seek to engage the interest of buyers by forwarding samples to global sourcing companies, representatives and end-customers to signal for quality. Some strategic inter-firm relationship developments have however been undertaken. One firm notably sought a strategic partnership with a specific global sourcing representative in order to induce a pattern of process upgrading. The mentoring role of the global sourcing company was actively sought to bring the domestic market in line with the export market. More generally, firms attempted to spread their agents so as to achieve a portfolio of end-customers. Also, in relation to textile suppliers, although the widespread view is one of loss of 'leverage', five cases revealed a strategic alignment between clothing manufacturers and textile suppliers. This alignment taps into the existing export platform and reputation-based relationships already established by South African textile exporters. Interactions range from seeking information about the textile exporter's intermediary overseas to clothing firms negotiating

[75] The separation of managing exports as distinct from management of the domestic market is not linked to a separation of production across markets on the shop floor however. This depends on the production line set up. In six cases, firms stated that it was separated and in five cases that it was not.

with the end-customers together with the textile suppliers. This "alliance building" behaviour was in four cases more specific to worsted for which South African textile suppliers have an established reputation overseas. [Informant 2]

One of the firm who established a quasi-strategic alliance started from putting forward a new product to UK buyers:

> "The product was presented to the buyers and then the yarns were found. The niche was with the yarn: it enabled us to supply a unique product. … For the export market we have got to act like a vertically integrated operation. The foreign buyer now wants to go on a factory visit to the firm that is our main source of fabric for the export market …" [Firm 25]

In contrast two firms negotiated as a group to leverage their fabric purchases towards domestic suppliers.

> "Relationships with export customers are based on trust. For the export market 'relationship building' is absolutely vital." [Firm 8]

In spite of profitability pressures, the vast majority of South African manufacturers have commented that they are selective about the type and volume of orders they accept. This behaviour conveys a strategy of risk management, possibly linked to September 11 effects as well as to the difficulties and/or closure of firms which were over-reliant on a particular end-customer.[76] The increasing reliance for performance on a small core of new (and/or large) buyers and the need to assess their reliability in an unfamiliar context has caused firms to enquire about the behaviour of some end-customers in other exporting countries. The firms stated that they often have to make a trade off between enforcing a maximum limit on production capacity that is allocated to any given end-customer and the accompanying potential foregone profit and efficiency gains. The problem is that South African firms have a limited choice of foreign end-customers, with the same names appearing regularly as the "buyer lists" available though the global sourcing companies and other agents based in SA. One significant exception was a firm that had *direct* contracts with 12 large foreign end-customers. On average, firms would allocate 23% (n=12) of their export production capacity to a given foreign end-customer. An upper figure of 30% (n=12) accounts for the fact that some customers are more trusted than others. In essence, this means establishing a relationship with three to four core (foreign) end-customers. Also, firms were keen to maintain their base of current foreign customers with whom they have a good relationship over the introduction of new "untested" customers. With increasing number of customers, production commitments and production availability becomes more uncertain and being a "footloose" supplier was perceived to adversely affect the reputation of the firm. Commitments are perceived of importance.[77]

Finally, without contradicting the view that clothing exports form part of a defensive response to adverse domestic developments, the vast majority of firms sought to hold onto

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[76] The financial problems facing K-Mart and the retrenchment and rationalisation of the M&S production base has had an adverse impact on several South African clothing firms. A large account has also been lost by one firm.

[77] Little information was set out that enables to set how the exporting strategy differ across markets. A cultural frontier *vis-à-vis* US end-customers was noted that separates dealings with the US from those with the EU. South African manufacturers, particularly those in the WC favour trust and communication with their buyers. Cultural advantages and political influences matter (see Appendix Table 7, page 64 and Informant 5) generally but some exporters found dealing with US buyers difficult. "The 'Yanks' speak a different language. UK buyers behave differently, they have a similar culture to us, they believe in long-term relationships. This is the market to keep…this is the market I like." [Firm 25] The resistance generally laid with the footloose and unpredictable nature of the relationship with US buyers. Some firms believe that they have greater leverage in negotiation with established buyers. It is important to stress though that the inverse is also true.

the domestic market. With over 75% of the firms were engaged in production for mid-market local retailers (Woolworth, Edgars, Markhams etc.), the local market is important. The purpose of the interaction was not to expand the domestic market but rather to tap into some of the opportunities associated with domestic end-customers. Although the firms expressed some amount of dissatisfaction around pressures applied by domestic retailers, a number of strengths associated with supplying these were mentioned. For instance, some firms felt that they had leverage as a result of their design capacity, especially since many of the retailers were perceived as having an inadequate base of design skills and capacity. Thus, they argued that their design and product development capabilities could be maintained by supplying the domestic market.[78] More specifically, the view was expressed that the domestic market "allows flexibility" (i.e. small runs or varying orders) which underlies value adding opportunities. In other words, there are higher returns to be made from supplying the local market than from exporting for a given garment. There are positive spillover effects from being involved in both the export and local markets. Table 21 summarises the various views expressed of how firms seek to incorporate the gains that derive from both markets.

Table 21. The export and local markets: perceived strengths and weaknesses

	Export market	Local market
Weaknesses	High transport costs associated with longer distances. Cost discipline is imposed through competition. The volatility associated with export orders.	Supplying domestic retailers is becoming less attractive in terms of the prices offered. Little opportunity for EOS gains a small customer base.
Advantages	Greater room for efficiency. Full production capacity – potential to exploit EOS and lowering of overheads associated with production. Rationalisation of the product range. Production process improvement at the intra-firm level and/or through QC (and possibly QA.) Learning about international prices and pricing.	Proximity advantages. Maintenance of design capabilities. Allows small run production with the associated flexibility. In some cases productivity is over shorter run / value added platforms (producing more fashion oriented garments). Risk management since export orders are perceived as being more volatile (September 11 effect). Greater market intelligence capacity.

Gibbon (2002) points to risks associated with the maintenance of links with the domestic market. These are with a dichotomy between resource use as whilst exporting firms "under-utilise" some of their resources, they are locked in their relations with particular retailers (see Gibbon, *loc. cit.*: 62). The above, in contrast, presents the relations and decisions more explicitly as forming part of a strategy.

We found no evidence suggesting the transformation of the exporters into lead firms, although this transformation has taken place for manufacturers supplying the local market. To summarise, firms are at the early stage of developing their market intelligence and of positioning themselves strategically. The local market is felt to be, at this stage, important in this regard. Exporting does not appear to enhance management skills, although shifts in management thinking are emphasised.

4.3 SUMMARY AND CONCLUSION

"The changes with export have shifted the firm from sunset to mid afternoon." [Firm 8]

[78] Firms were critical of South African retailers on a series of factors (unjustified returns, poor communication and untimely responses, price pressure, etc.) One firm stated that pursuing the export opportunity allowed it to shed one of its domestic buyers. That said, a series of factors contribute to the maintenance of some of the exporting firms' local production base (the depreciation of the Rand, problems related to trust, etc.).

Fieldwork yielded little insight into a distinction in the upgrading trajectory according to markets of destination. The time-series trade data emphasise a difference first highlighted by Gibbon (2000) that there might be distinct EU and US VC at hand that characterise fundamental differences between the end-customers – and accordingly in terms of the functions of the intermediaries. Differences in end-customers, price points and the presence of distinct intermediaries in SA emerged from our fieldwork. However, with over 50% of the firms involved in both EU and the US market it is more difficult to draw a sharp distinction as to whether there are differences across the principal end markets that have *implications* for the functional, process and product platforms for export upgrading. This is not to say that nuances were not set forth during fieldwork (Table 22). However, the information is only indicative given the small number of firms involved with *each* of the market.

Table 22. Reported differences between the two major markets of destination for South African garments

	UK/EU	US
Product	Greater concern with aesthetics / appearance & tend to be more fashion-driven.	Measurement driven. Engineered garment.
Process	UK/EU buyers are reported to prefer dealing with neighbouring partners (Eastern Europe, Turkey and Morocco).	Orders are price sensitive. Prices are 'given' to the South African manufacturer.
Functions	Greater room for manoeuvre to adapt and to negotiate. Potential for partnerships	Lack of partnership / 'more controlled interaction' 'Footloose' behaviour of the buyers

The table does not report all the differences noted in the course of fieldwork. This is become some of the trends put forward might have been gathered from secondary information rather than from dealings with both markets. Nevertheless, specific differences were noted by the suits and jackets manufacturers around fabrics (synthetic or synthetic melange for the UK/EU as opposed to natural fibres garments being supplied to the US). Yet, it might be that EU end-customers source natural fibre garments from other countries (i.e. Italy) so that the observations are not in line with differences in preferences in the end-markets *per se*. For suits and jackets producers, one important consideration is whether they supply tailored as opposed to engineered garments to the US market or a mixture of both. Tailored goods are for higher income consumers. Thus what is going on my be US end-customer specific although one producer stressed that the suits it produced for the US were "commodities".[79] One last point relates to the qualification that the concern with 'aesthetics' difference might reflect the fact that the UK was the market of destination for firms that had greater room of manoeuvre around design changes and/or innovation.

In contrast, Gibbon (2002) identifies clear differences in firms' performance and strategy according to markets of destination. Thus, whereas clothing exports to the EU are towards product developed on the basis of competence, those to the US are based on a strategy by firms of product rationalisation, delivery development and the development of relations with CMT. As for Asian firms they are involved in a pattern of labour-intensive and value-

[79] This and the fact that exports to the US are subject to QC suggest that suits and jackets might be becoming increasingly 'engineered'.

through specialised activities exports. The Asian model, "represents a more radical contrast with the 'supplier-driven' assumptions of the [firms supplying to the EU model] …, and a more comprehensive expression of demand-driven ones." (Gibbon, 2002: 59).[80]

Differences do not preclude similarities across firm types and markets of destination (Table 23).

Table 23. Similarities and differences across South African exporting firms

Similarities across markets of destination and firm type	Differences across markets of destination and firm type
- Decentralisation (with underlying cost pressure)	- Strategy of product rationalisation (domestic market link and labour intensity and whether the change is incremental or discontinuous)
- Management of the textile base	- Export business set up separately
- Development of a presence overseas (through agents, sales offices and direct contact) and … … a market intelligence gathering approach.	- Nature of inter-agent relations (including with retailers, CMT partners)

Source: Drawn from Gibbon (2002: 57-58, parts of Tables 17A, 17B and 17C).

As should be clear South African clothing exporting firms are at a crossroad in their integration in the global clothing economy. Notwithstanding uncertainty as to whether exports will continue to shift away from the EU and how the various dimensions of upgrading will further develop over time, there is limited evidence of an *overall* upgrading trajectory taking place. First, around the product upgrading platform, firms appear to have developed the capabilities to meet the specs. Firms were, at the time of fieldwork, set to produce at or at near full capacity. In some instances, firms faced a stringent internal reject rate threshold for foreign end-customers. Process upgrading (albeit to a limited extent) is taking place and, as quality improves, cost reductions are actively sought. Delivery was not specifically mentioned a problem area. There are also some signs of functional upgrading in the market intelligence terrain. Yet, of the three upgrading platforms, product upgrading, and some aspects of process upgrading are the most dynamic, with changes being externally driven. Whilst exporting firms have little room for manoeuvre to engage in product innovation, the UK market is more amenable to product modifications and adaptations.

The process upgrading platform, in particular, needs to be strengthened so as to enable exports to expand further. Whilst efficiency gains appear to have taken place, the pace at which the changes are occurring and the depth of the changes remain uncertain. The effects of exporting on productivity, reject rates, efficiency and systemic efficiency (organisation of workers, multifactor efficiency etc.) are not always positive. Although it is not possible for all firms to secure immediate process gains from exporting, the overwhelming focus on making the changes required for 'meeting the specs' might cause a neglect of the process improvements elsewhere within the firms. The fact that QA is not considered to have had a major impact on process improvements suggests that some aspects of the infrastructure for greater returns on exports to be generated are lacking.

The extent to which firms are currently protected from competing with other lower cost

[80] Moreover, Gibbon draws similarities between the Asian model in SA and the original Asian model in terms of portability and "quota mining" objectives. One issue emerges for SA which relates to the absence of incentives (and a history) which would posit a shift for clothing exporters to this particular firm development model. The broader problem for South African clothing firms is thus one of positioning.

suppliers (either through the DCCS or through AGOA) matters in assessing the position of the exporting firms and how they would withstand the withdrawal or reductions of these benefits. Further process upgrading would thus be required to ensure that firms produce efficiently *vis-à-vis* other international competitors in the longer run. New export products are conditional on the capacity of the firms to negotiate some of the changes with their end-customers.

5 CONCLUSION AND SOME KEY POLICY IMPLICATIONS

SA's upgrading trajectory can only be considered against a complex domestic context. As such, no amount of research will properly capture at any point in time the wide range of factors that shape and characterise the various platforms for upgrading. Consequently the upgrading trajectory as detailed in this report remains open to alterations and alternative interpretations.

This report shows that while there has been no systematic efficiency improvement, there have been improvements around some efficiency indicators (*Section 3.1*). Data also points to a pattern of product upgrading in relation to the unit prices of South African garments exported to the EU (*Section 3.2*). This notwithstanding, there is evidence of falling export volumes and loss of market share in the product segment which dominates SA's clothing exports in the EU market. In other words, there is a mixed signal and an upgrading trajectory only emerges for one small export sub-sector. Exports to the US exhibit different trends. South Africa clothing exports have, over the second half of the 1990s, increasingly penetrated the US market. SA's clothing export growth was in excess to that of the world. Whilst unit value of exports declined in US$, exporters gained in Rands. "Commodities" are associated with the trajectory of clothing exports to the US. This trajectory is, on the whole, of an upgrading type from the perspective of the South African exporters.

The second part of the analysis, which discusses results from fieldwork suggests a process of integration into the international economy that is heavily mediated by agents and middlemen (*Section 4*). Product upgrading is driven by a core of global sourcing companies and end-customers' buying offices based in SA, as well by QC visits from end-customers themselves. Thus, intra-firm changes incorporate a strong inter-firm/intermediary dynamic. Process upgrading seems limited to QC induced efficiency gains. Three salient points are worth noting here:

1. Firms experienced difficulty in defining a process upgrading trajectory beyond reductions of costs.
2. Firms are seeking to minimise risk by maintaining a significant amount of production for the local market.
3. Cost and profit considerations drive efficiency improvements and are currently the major determinants of process upgrading. We, however, found little evidence to suggest that significant changes are in place that would systematically trigger improved and strategic use of the factors of production. Moreover, there were few signs to indicate that measures were in place specifically aimed at boosting productivity gains, lowering reject rates and improving lead-time. Thus the platform for process upgrading seems to be weak and its development appears to be uncertain. Nevertheless, this might simply be because SA is a small, emerging exporter. More research, is required to confirm or reject this preliminary finding.

We suspect that some of the constraints shaping the prospects for continuous VC export upgrading might be related to an over-prioritisation of meeting the most urgent needs of product upgrading. Other constraints or determining factors are specific to the South African context. These relate to government export incentives and preferential trade agreements such as AGOA. AGOA, for instance, has simultaneously opened up new opportunities and created new pressures since the deal does not contain any incentive for textile production to serve the interest of the South African clothing exporting firms.

The findings reported in this report suggest that product upgrading is taking place. This is occurring from a combination of intra-firm adjustments and a strengthening of the links with intermediaries and end-customers. What is the role for government in this process? We have indicated that the most critical export-support measure for the firms is the DCCS. The key contribution of the DCCS is towards supporting the profitability level of the exporting firms. 24% of the exporting firms stated unequivocally that they would face severe difficulty if the scheme was abolished. Another 60% indicated that they would experience short run problems if the scheme was dismantled. However, 13.8% of the firms mentioned that the DCCS 'encourages' inefficiency. This was even mentioned as a problem by two firms which were in favour of the scheme. A possible reason for the strong support of the DCCS is the fact that the South African clothing exporting firms are operating in an international environment in which margins are tight, especially for commodity-type products. In an intensely competitive global context, firms might be using the DCCS as a mechanism to sustain exports, rather than to make the systemic process improvements which are critically important for catching-up and remaining at the frontier of international competitiveness. Thus far, the DCCS has failed to shape or to trigger the right process changes, possibly because the process criteria are not well targeted.[81]

The above matters for the long run trajectory of exports to the US since the relative performance of South African exporters relies on the exchange rate. The trade data point that some competitors to SA in foreign markets (i.e. China and Mauritius) are upgrading in some sub-segments of importance. How this will affect SA'exports remain undetermined.

Finally, three further research questions have emerged from the study. First, the subset of firms considered does not adequately represent the 470.03 exporting firms. Therefore, more rigorous and targeted studies need to focus on this little-known group of exporters. This will provide a valuable complement to the current research and will provide a platform for designing policies that are more likely to be suited to the needs of firms exporting under 470.03. Second, the study missed out an important channel of South African exports, *viz.* the domestic retailers such as the Edcon Group, Woolworth, etc. Third, given the importance of buyers and market access in the clothing global value chain, a 'market intelligence' study of the major US buyers and global commissioning agents involved with the US market need to be drawn in order to ensure that clothing exporters take full advantage of AGOA.

[81] It should be stressed that National Productivity Institute (NPI) consultancy services (which could be linked to the DCCS audits) do contribute somewhat to process changes. NPI productivity contributions were reported by 4 (13.8%) firms.

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7 APPENDIX

Appendix Table 1. Regional distribution of employees belonging to the Bargaining Council

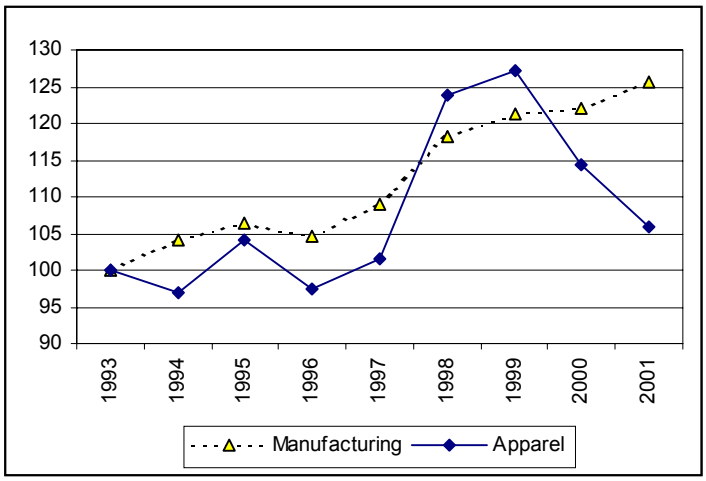
	Total	Eastern Cape Province		Western Cape		Kwa Zulu Natal		Gauteng		Northern Cape	
	No.	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total
1990	121108	3118	2.6	54564	45.1	44623	36.8	16092	13.3	2711	2.2
1995	96443	2423	2.5	46980	48.7	34720	36.0	10888	11.3	1432	1.5
1998	80320	1793	2.2	41874	52.1	26397	32.9	8994	11.2	1262	1.6
1999	70151	1415	2.0	37918	54.1	21331	30.4	8176	11.7	1311	1.9
2000	67986	1489	2.2	38262	56.3	19714	29.0	7517	11.1	1004	1.5
2001	59580	1291	2.2	34655	58.2	6626	11.1	6626	11.1	1315	2.2

Period change:

	Total	Eastern Cape Province	Western Cape	Kwa Zulu Natal	Gauteng	Northern Cape
1990-95	-4.31%	-4.68%	-4.58%	-7.39%	-7.39%	-11.84%
1995-01	-7.61%	-9.58%	-12.1%	-7.91%	-7.91%	0.27%

Note: data are for January of the year.
Source: Flaherty (2002:12, Table 36).

Appendix Figure 1. Remuneration of employees indices (at 2000 constant prices, 1993=100)



Source: TIPS SA Standardised Industry Analysis.

Appendix Table 2. Pattern of distribution of South Africa's clothing exports to the EU and US (averages for the 1988-2001 period and for 1995-2001)

Distribution of SA's exports by broad region (% for 88-01 and 95-01)		Pattern over time
61	42% to EU 26% to EU	Pronounced decline of the share of HS 61 export prior to 1994. Progressive decline thereafter. Within the EU, the UK has become the major market of destination. In 1997 more than half SA's HS 61 exports were destined to the UK. The UK absorbed 66% of EU imports of knitted/crocheted apparel from SA in 2001.
	33% to US 53% to US	Increase in proportion exported to the US market in 1994. Consistent displacement of the EU by the US from 1997. US absorbed 74% of SA exports in HS 61 in 2001.

	25% to Other 21% to Other (excl. Africa)	Share of export to other markets dropped consistently from 1998. Prior to this "other markets" peaked in 1993. 10% of SA HS 61 exports were going to markets of destination other than the EU and the US in 2001.
62	47% to EU 44% to EU	Fluctuations over the 1988-2001 period in terms of proportion of SA woven apparel exports to the EU. Between 1988 and 1990, the EU absorbed about 60% of SA's HS 62 exports. Then there was a relative drop until 1994. In the mid 1990s the EU became an important market of destination again. The proportion of HS 62 goods exported to the EU dropped from 1997. The EU only absorbed 26% of HS 32 exports in 2001. Within the EU, the UK is an important market. It became the dominant EU market in 1995. In 2000, 70% of SA's exports to the EU were to the UK.
	23% to US 35% to US	Sharp pre- and post-1995 differences (the US absorbed between 10% and 3% of SA's woven items in the first period compared to 18% to 52% afterwards). Notable increases from 1999 onwards. By 2001, the US absorbed 52% of SA's woven exports. Displacement of EU and other markets would be towards the end of the 1990s.
	30% to Other 21% to Other (excl. Africa)	Sharp pre- and post-1995 differences (absorbed between 36% and 56% of SA's woven items in the first period). There was a declined in 1995-96, and thereafter it stabilized at around 20% between 1998 and 2001.
Clothing	45% to EU 36% to EU	There was a progressive decline in proportion exported to the EU from 1996. The share of SA's clothing exports to the EU fell to 20% in 2001. The UK was the main market of destination and accounted for 80% of SA's exports to EU.
	28% to US 44% to US	The US has become the key market of destination. The importance of the US varies over time. Three distinct periods emerge: 1) between 1988 and 1993 the US absorbed a comparatively small proportion of SA's clothing exports; 2) between 1993 and 1996, clothing exports to the US was over a third of total exports but a drop of the share occurred in 1997 when exports went to other regions (excluding the EU); and 3) there was an increase after 1997. The US absorbed 65% of SA's exports in 2001.
	13% to Other 7% to Other (excl. Africa)	The reverse to what is observed for the US occurred. From 1998, exports to markets other than the EU and the US declined to reach 15% in 2001.

Note: Note that "other" refers to other than the EU, the US and Africa. The share of exports to Africa varies from 13% to 14.5% across the various segments in the second half of the 1990s.
Source: Distribution calculated from TIPS HS trade database. Based on data converted into US$.

Appendix Table 3. Shift to new markets of destination for the dominant South Africa's clothing export sub-sectors

		HS Code	Comments on markets of destination for the key sub-sectors
Woven items	Men's or boys' suits, ensembles, jackets etc. (excluding swimwear)	6203	Progressive displacement of the EU. US currently dominates.
	Women's or girls' suits, ensembles, jackets, blazers, dresses, etc. (excluding swimwear).	6204	Recent shift (from 1998) away from the EU as a major market of destination in favour of the US. Little exports to the US prior to 1998.
Knitted crocheted items	Women's or girls' blouses, shirts, & shirt-blouses	6106	US markedly dominates from 1990s.
	T-shirts, singlets, & other vests	6109	EU sharply dominates until mid-1990s. US dominates from 1998.
	Men's or boys' suits, ensembles, jackets, etc. (excl. swimwear)	6103	Fluctuations in the key market of destination. US dominates from 1999.

Notes:

- The above sub-sectors are the top 4 sub-sectors which dominate SA's clothing exports in terms of their share of total clothing exports plus HS 6103;
- An end market is said to be dominant when it absorbs in excess of 50% of South Africa's clothing export at the sub-sectoral level (4 digit level).

Source: *Ibid.*

Appendix Table 4. Regional breakdown of SA's exports (%)

	EU	US	Africa	Other Region	UK as % of EU
1988	66.6	8.4	14.7	10.4	43.0
1989	58.2	9.2	19.5	13.1	37.4
1990	58.4	9.3	16.1	16.1	45.4
1991	53.3	6.0	17.9	22.8	39.9
1992	44.4	5.4	14.6	35.5	46.8
1993	42.4	10.0	17.7	29.9	44.0
1994	47.9	37.6	9.9	4.5	46.6
1995	49.7	35.0	9.3	5.9	61.7
1996	46.2	31.0	15.6	7.2	66.7
1997	35.4	26.7	29.5	8.4	72.5
1998	40.0	41.3	10.9	7.8	81.8
1999	35.1	48.6	10.3	6.0	79.5
2000	26.3	57.1	9.5	7.0	80.9
2001	19.9	64.9	8.0	7.2	80.6
Average for the period	44.6	27.9	14.5	13.0	59.1

Source: *Ibid.*

Appendix Table 5. Extra-EU and US share of imports from top 5 suppliers (%)

	6103	6106	6109	6203	6204
1999	64.13	52.12	55.47	43.51	49.53
Average share of top 5 extra-EU exporters (1990-99)	51.76	50.65	48.54	40.90	45.25
2000	52.22	41.07	69.82	51.52	47.42
Average share of top 5 US suppliers (1990-99)	39.71	46.05	46.08	48.48	45.19

Sources: Eurostat (various years) and USITC (2001).

Average annual percentage change in Extra-EU and US imports in core clothing sub-sectors

EU: **Average annual percentage changes in imports**

	6103		
(€ values)	**1990-99**	**1990-94**	**1995-99**
Extra EU	14.3	17.4	13.8
China	29.0	39.7	27.9
Turkey	22.4	24.4	6.9
India	41.4	96.5	7.1
Morocco	4.8	6.3	0.1
Bangladesh	44.4	97.9	8.7
South Africa	74.1	219.7	23.8

	6106		
(€ values)	**1990-99**	**1990-94**	**1995-99**
Extra EU	10.4	9.7	13.5
Turkey	7.6	14.0	-0.1
Hong Kong	5.7	-0.4	17.2
Bulgaria	77.5	57.6	90.5
India	6.5	1.8	8.9
Poland	31.8	62.0	12.0
South Africa	4.2	-2.6	66.7

	6109		
(€ values)	**1990-99**	**1990-94**	**1995-99**
Extra EU	13.9	12.6	15.7
Turkey	16.2	10.3	20.8
Bangladesh	25.1	32.3	20.0
China	21.9	22.7	22.2
Mauritius	13.3	8.6	16.5
India	10.0	5.5	4.9
South Africa	-2.1	-3.4	26.3

EU: **Average annual percentage changes in the value of a unit of good imported**

	6103		
US$/kg	**1990-1999**	**1990-1994**	**1995-1999**
Extra EU	-4.9	-7.0	-5.1
China	-1.3	-1.7	-3.7
Turkey	-0.5	1.1	-3.6
India	-3.4	-5.4	-1.4
Morocco	-1.9	-6.7	0.7
Bangladesh	-2.1	-1.3	-5.4
South Africa	8.3	7.1	8.2

	6106		
US$/kg	**1990-1999**	**1990-1994**	**1995-1999**
Extra EU	-4.0	-2.8	-6.8
Turkey	-3.2	-2.9	-7.3
Hong Kong	-4.0	-1.0	-6.8
Bulgaria	-11.6	-17.2	2.0
India	-0.9	3.2	-4.4
Poland	-6.7	-10.1	-10.0
South Africa	16.2	-6.6	33.2

	6109		
US$/kg	**1990-1999**	**1990-1994**	**1995-1999**
Extra EU	-2.1	-3.2	-3.1
Turkey	-3.6	-1.9	-8.8
Bangladesh	-1.9	-1.9	-4.6
China	1.8	10.3	-5.7
Mauritius	4.6	-2.5	14.3
India	-3.0	-1.1	-3.3
South Africa	12.3	13.3	7.2

EU: **Average annual percentage changes in imports**

	6203		
(€ values)	**1990-99**	**1990-94**	**1995-99**
Extra EU	7.2	6.9	8.5
Tunisia	6.8	9.7	3.9
Romania	24.0	28.7	20.1
Morocco	6.7	9.5	5.0
Turkey	10.0	7.3	16.1
China	6.9	9.5	8.7
South Africa	21.2	57.9	-0.7

	6204		
(€ values)	**1990-99**	**1990-94**	**1995-99**
Extra EU	9.4	7.4	10.3
China	11.1	9.1	20.5
Turkey	10.1	2.0	11.9
Tunisia	14.3	12.3	11.7
Poland	19.4	37.4	3.1
Morocco	13.0	10.7	13.0
South Africa	8.4	28.3	3.3

EU: **Average annual percentage changes in the value of a unit of good imported**

	6203		
US$/Kg	**1990-1999**	**1990-1994**	**1995-1999**
Extra-EU	-2.5	-2.4	-4.0
Tunisia	0.7	-1.3	-1.3
Romania	-0.2	-2.0	-2.5
Morocco	-9.5	-4.4	-20.8
Turkey	-1.1	3.3	-5.8
China	-0.5	-3.9	0.2
South Africa	7.4	17.8	1.7

	6204		
US$/Kg	**1990-1999**	**1990-1994**	**1995-1999**
Extra-EU	-1.8	-0.7	-5.5
China	3.5	5.9	0.4
Turkey	-0.7	0.4	-6.9
Tunisia	-1.3	0.0	-5.3
Poland	-0.8	0.6	-5.6
Morocco	-3.0	-2.5	-7.5
South Africa	-0.2	-8.9	12.3

US: **Average annual percentage changes in imports**

	6103		
	1991-2000	**1991-95**	**1996-2000**
World	17.2	14.3	17.6
Mexico	81.2	135.5	31.9
Taiwan	5.7	-18.7	25.5
Dom. Rep.	14.4	23.5	3.5
Honduras	24.2	50.7	2.3
El Salvador	44.7	106.6	15.2
South Africa	138.6	252.7	77.8

	6106		
	1991-2000	**1991-95**	**1996-2000**
World	8.2	12.8	5.0
Mexico	31.4	39.0	21.5
Macao	11.4	21.0	0.0
China	10.0	27.4	-5.6
Hong Kong	-5.8	8.2	-13.5
Korea	6.3	7.3	15.5
South Africa*	65.8	69.5	43.1

* 1992-2000, 1992-5 and 1996-2000.

	6109		
	1991-2000	**1991-95**	**1996-2000**
World	23.2	24.0	20.8
Mexico	89.2	199.4	22.6
Honduras	50.5	56.4	30.5
El Salvador	63.6	105.3	37.3
Dominican Rep	28.1	38.0	17.8
Canada	48.6	66.2	32.6
South Africa	224.4	703.6	65.7

US: **Average annual percentage changes in the value of a unit of good imported**

	6103		
US$/kg	**1991-2000**	**1991-95**	**1996-2000**
World	-3.7	-1.7	-5.1
Mexico	-6.7	-8.5	-2.8
Taiwan	0.0	4.5	-5.7
Dom. Rep	-0.4	-3.8	-0.9
Honduras	-4.2	-1.5	-9.0
El Salvador	-3.2	-2.7	-6.4
South Africa	-1.3	3.9	-9.5

	6106		
US$/kg	**1991-2000**	**1991-95**	**1996-2000**
World	-0.5	0.7	-2.7
Mexico	-3.2	-5.5	-1.3
Macao	1.2	1.7	2.7
China	6.2	14.8	2.2
Hong Kong	2.9	0.0	3.2
Korea	1.8	0.0	-0.7
South Africa*	-2.3	5.0	-4.1

* 1992-2000, 1992-5 and 1996-2000.

	6109		
US$/kg	**1991-2000**	**1991-95**	**1996-2000**
Extra EU	-2.8	-4.9	-1.5
Turkey	-2.7	-4.8	-2.0
Bangladesh	-3.7	-2.6	-3.2
China	-7.2	-13.4	-2.0
Mauritius	3.4	-0.9	0.9
India	1.5	-2.8	6.5
South Africa	-1.1	-5.2	7.0

US: **Average annual percentage changes in imports**

	6203		
	1991-2000	**1991-95**	**1996-2000**
World	12.7	12.6	14.1
Mexico	28.0	31.6	23.8
Dominican R.	11.9	18.0	12.1
China	5.0	7.1	7.4
Italy	7.6	12.0	2.1
Canada	17.8	30.8	5.5
South Africa	112.1	343.1	20.1

	6204		
	1991-2000	**1991-95**	**1996-2000**
World	10.1	8.9	11.1
Mexico	30.9	30.4	28.5
China	9.6	12.5	5.3
Hong Kong	0.1	-1.4	2.3
Philippines	14.7	21.8	9.8
Indonesia	15.3	20.9	9.2
South Africa	48.2	197.1	73.2

** Orders from SA collapsed between 1989 and 1993. The 1993 figure was chosen instead of the 1991 figure. 1993-2000, 1993-1995 and 1996-2000.

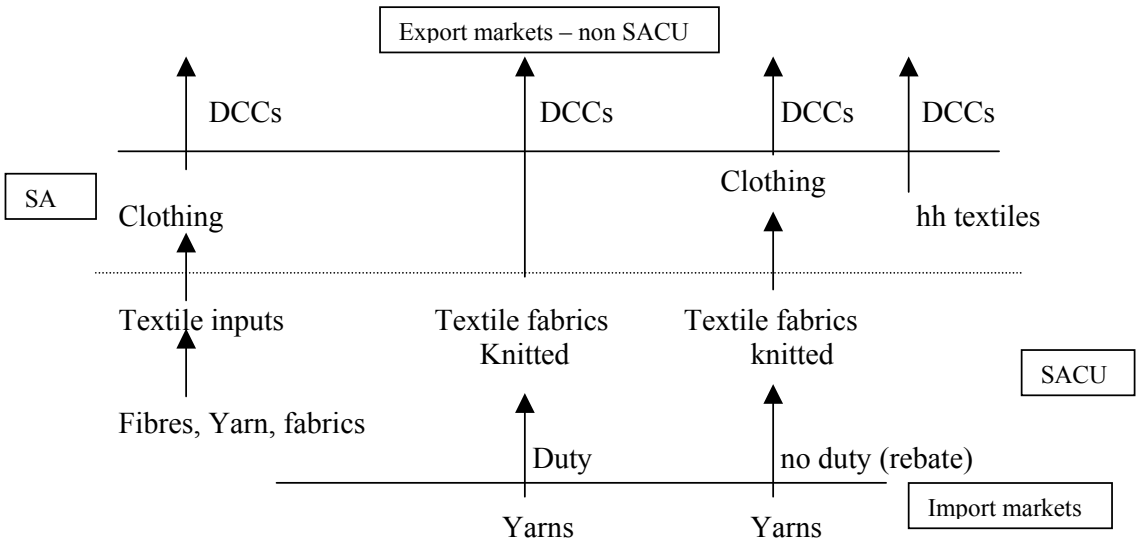
US: **Average annual percentage changes in the value of a unit of good imported**

	6203		
	1991-2000	**1991-95**	**1996-2000**
World	-1.0	-0.4	-2.5
Mexico	-0.3	1.2	-4.4
Dominican R.	-0.3	1.3	-3.4
China	2.8	2.7	3.0
Italy	-3.5	-4.7	-4.9
Canada	1.4	0.1	1.4
South Africa	-7.0	-10.8	-6.6

	6204		
	1991-2000	**1991-95**	**1996-2000**
World	-1.6	0.1	-4.4
Mexico	0.5	4.4	-4.5
China	3.4	5.0	0.9
Hong Kong	-0.5	-2.3	1.3
Philippines	3.1	3.9	1.2
Indonesia	3.0	4.1	0.7
South Africa	-3.8	-17.0	-5.5

** Orders from SA collapsed between 1989 and 1993. The 1993 figure was chosen instead of the 1991 figure. 1993-2000, 1993-1995 and 1996-2000.

Appendix Figure 2. The pipeline dimension of the DCCS



Note: For other rebated imports (Customs Schedules 3, 4 and 5) DCCs cannot be obtained.

Appendix Table 6. List of goods produced by the firms interviewed

Main product produced
Bras & panties - some men's T-shirts and underwear
Outerwear (trousers, jeans and shorts are exported)
Denim trousers & shorts
Denim jeans, skirts and shirts
Shorts, pants, jeans & shirts
Knitted sweaters
Jackets, skirts trousers
Trousers, jackets etc. / casual wear
Trousers (& shirts)
School uniform (trousers, shorts, blazers, skirts).
Schoolwear, ladieswear & boys school trousers
Foundationwear
Socks
Ladies outerwear but "bottoms" generate the largest revenue
School uniform but exports in trousers & jackets
Sleepwear outerwear & sportswear items
Blouses & soft dresses
Shirts
Shirts, tops, tracksuits (leisure & sportswear)
Outerwear & underwear - knitted cotton fabrics - no trousers
Men's and women's wear of Denim.
Ladies outerwear
Suits, jackets, trousers
Suits, jackets and trousers
Hosiery
Jersey, cardigans, T-shirts, tracksuits
Jackets & trousers
Tops (T-shirts/shirts & shorts)
Suits, jackets & trousers

Appendix Table 7. Determinants of export competitiveness

Determinants of export competitiveness	Number of times when reported as important
Production / capacity to deal with volumes	8
Quality / quality requirements	7
Price	6
Intra-firm characteristics	
Time speed	12
Process-related characteristics	8
Product-related capabilities	9
Capital	3
External to the firm	
Cultural and geo-political factors	6
Infrastructure	2
Tariff regime (quota free, tariff level)	5

Note: Firms might have given more than one response.

Appendix Table 8. Textile related issues

Problem area	Frequency
Lack of availability of required fabrics	9
Quality (i.e. handle, texture, wash)	7
Price	7
Lead time, turnaround time & delivery	6
Lack of variety/print quality problem/innovation	6

Notes: Firms might have listed more than one problem area. Some firms stressed that there are strong nuances in that some of the aforementioned difficulties are textile firm specific.