

**Durban based, COFESA affiliated CMT Clothing Manufacturing Firms:  
Their Upgrading Opportunities**

By

Shaun Gannon

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## Acronyms

|        |  |
|--------|--|
| AGOA   | African Growth and Opportunities Act                   |
| ATC    | Agreement on Textile and Clothing                      |
| BCCI   | Bargaining Council for Clothing Industry               |
| BCEA   | Basic Conditions of Employment Act                     |
| BDCC   | Buyer Driven Commodity Chains                          |
| BHPS   | British Household Panel Survey                         |
| BTT    | Board of Trade and Tariffs                             |
| CCMA   | Commission for Conciliation, Mediation and Arbitration |
| CI     | Continuous Improvement                                 |
| CMT    | Cut Make and Trim                                      |
| COFESA | The Confederation of Employers of South Africa         |
| COSATU | Congress of South African Trade Unions                 |
| DCC    | Duty Credit Certificate                                |
| DTI    | Department of Trade and Industry                       |
| DUMAC  | Durban Manufacturing Advisory Centre                   |
| EPZ    | Export Processing Zone                                 |
| EU     | European Union   |
| FTA    | Free Trade Agreement                                   |
| GATT   | General Agreement on Trade and Tariffs                 |
| GCCs   | Global Commodity Chains                                |
| GDP    | Gross Domestic Product                                 |
| GEIS   | General Export Incentive Scheme                        |
| GMA    | Garment Manufacturing Association                      |
| IDC    | Industrial Development Corporation                     |
| IDS    | Institute of Development Studies                       |
| ILO    | International Labor Organization                       |
| IMF    | International Monetary Fund                            |
| ISO    | International Standards Organization                   |
| JIT    | Just In Time   |
| KZN    | kwaZulu Natal  |
| LRA    | Labour Relations Act                                   |
| MFA    | Multi Fibre Arrangement                                |
| MNC    | Multinational Corporations                             |
| NAFTA  | North American Free Trade Agreement                    |
| NCMA   | Natal Clothing Manufactures Association                |

|        |   |
|--------|---|
| NEDLAC | National Economic Development and Labour Council    |
| NIC    | Newly Industrialised Countries                      |
| OBM    | Original Brand Name Manufacturing                   |
| ODM    | Own Design Manufacturing                            |
| OEM    | Original Equipment Manufacturing                    |
| OPT    | Outward Processing Traffic                          |
| R&D    | Research and Development                            |
| RIDP   | Regional Industrial Development Programme           |
| SA     | South Africa  |
| SACTWU | Southern African Clothing and Textile Workers Union |
| SAP    | Structural Adjustment Programme                     |
| SME    | Small and Medium Sized Enterprises                  |
| TCA    | Textile and Clothing Authority                      |
| TQM    | Total Quality Management                            |
| UIF    | Unemployment Insurance Fund                         |
| UK     | United Kingdom                                      |
| US     | United States                                       |
| USA    | United States of America                            |
| WIP    | Work In Progress                                    |





# 1 Introduction

On June, 9, 2000, the 'Independent on Saturday' reported that, '...more than 180 Durban clothing factory owners may face contempt of court jail sentences over their refusal to register workers and abide by South Africa's labour laws' (Independent on Saturday, June 09 2000). The majority of these employers were said to be members of the Confederation of Employers of South Africa (COFESA). Why, one might ask, would employers affiliate themselves to COFESA at the risk of imprisonment?

The answer lies in the fact that the Durban clothing-manufacturing sector has traditionally produced low end of the range clothing for the poor inland population. This was a profitable activity in the formally protected trade environment, but exposure to international competition (through trade liberalisation) has undermined this profitability. In order to retain some price competitiveness many Durban clothing manufacturers are circumventing minimum wage requirements (and other labour legislation) through membership of the infamous COFESA, '...a cross-sectoral federation providing legal advice on industrial relations issues with a special reference to employer protection under the new labour legislation. It is understood that the federation encourages companies to retrench or fire all staff and re-employ them as contract labour' (House and Williams: 2000: 9).

It is primarily small subcontracted clothing manufacturers that 'Cut, Make and Trim' (CMT) garments for wholesalers, retailers or full manufacturers that adhere to the COFESA system. As was discovered (through personal interviews with firm owners) the closure of these CMT firms is imminent and the COFESA system is a temporary fix for greater firm level competitiveness problems.

## 1.1 Research Questions

With the dire situation of CMT firms in mind the central question of this dissertation is: what are the upgrading trajectories of, and opportunities available to small Durban CMT manufacturers using the COFESA labour contracting system? Subsidiary questions that flow from this principal research question include:

- 1) What is the upgrading trajectory of CMT firms using this flexible labour arrangement,
- 2) What hinders upgrading in these firms,
- 3) And what are the upgrading opportunities available to these firms?

To answer these research questions I probe two strains of theoretical discourse: value chain upgrading and labour market flexibility. Thereafter a theory is developed to model value chain upgrading in the

context of labour market flexibility. What follows is a précis of the theoretical underpinnings of this dissertation.

## 1.2 Theoretical Précis

Whilst globalisation is a useful term for describing the integration of global production, the concept of 'value chains' is a more thorough method of analysing this phenomenon by linking value-adding production activities on a global scale. High value adding activities in these chains tend to be located in the industrialised 'centre' where demand is high (e.g. Japan, Western Europe and North America) whilst lower value adding activities are generally dispersed amongst the 'peripheral' developing countries.

Governance relationships are fundamental determinants of the nature of these value chains. Two types predominate. Producer driven value chains are common in capital-intensive industries (such as in the automotive industry) and are characterised by highly integrated chains. Buyer Driven value chains, on the other hand, are often highly fragmented. Clothing production chains form one of the most distinct examples in which '...large retailers, branded manufacturers and trading companies play the pivotal role in setting up decentralised production networks in a variety of exporting companies, typically in the third world' (Campbell and Parisotto: 1995: 7).

In recent times clothing consumers have begun to demand more from retailers in terms of price, quality, design and variety. In the manufacturing sector these demands translate into the need for low labour costs, greater flexibility and decreased delivery time. Whilst retailers once had some involvement in the manufacturing sector the trend is for retailers to hand activities that require the most flexibility over to manufacturing subcontractors. Subcontractors in turn outsource to smaller CMT operations. These firms are often forced to adapt their labour practices to maximise flexibility and reduce labour costs. The result has been a global increase in flexible terms of employment amongst clothing workers and an overemphasis on price competitiveness within CMT firms. Many of these firms cannot withstand the impact of global competition and are engaging in a 'race to the bottom' of the value chain.

For small CMT operations traditional value chain upgrading models offer limited insight into their predicament. The hypothesis underpinning Humphrey and Schmitz' (2000) upgrading model is that as firms link into international value chains (especially through exporting) they can initiate an upgrading path. This path begins with process upgrading (increasing the efficiency of internal processes) and is followed by product upgrading, functional upgrading (changing or increasing the value adding activities that one is involved in) and ultimately chain upgrading (moving to a completely new value chain). International experience shows that while foreign buyers are willing to help local producers raise quality and efficiency they are unwilling to support more ambitious local strategies to improve

design and marketing. CMT firms at the bottom of the value chain are particularly constricted as their customers (usually wholesalers or full manufacturers) jealously guard access to final markets.

Clustering theory offers some respite for CMT firms. In terms of this theory upgrading is possible if firms engage in conscious joint action, either through collaborating with their competitors or through encouraging vertical integration by implementing flexible specialisation techniques. Intense labour market flexibility would however tend to undermine some of the benefits of clustering if disgruntled staff work against the upgrading process

### **1.3 Methodology**

Since it has been ascertained that CMT firms have limited upgrading opportunities a model is developed for ‘upgrading in the context of labour market flexibility’ in Chapter Two of this dissertation. Chapter Three outlines the emergence of the Durban based CMT firms from which point the upgrading trajectory of 10 present day CMT firms (interviewed in August and September of 2001) is discussed in Chapter Four. Drawing on the theoretical discourse in Chapter Two and discussion in Chapter Four, the research questions are answered in Chapter Five.

Information for this dissertation was gathered through three principal sources. An extensive literature review was conducted to inform the theoretical and historical background chapters whilst discussion in Chapter Four was derived from interviews conducted with 10 CMT firm owners. Six key informants (mostly representatives from clothing related institutions) with intricate knowledge of the Durban CMT sector were also interviewed to supplement interview and theoretical data<sup>1</sup>. Since CMT firms do not tend to keep extensive business records (as was discovered through key informant interviews) the decision was made to develop a semi-structured qualitative questionnaire to guide firm owner interviews. Interview questions were derived from themes explored in Chapter Two and from key informant data (see Appendix 1 for copy of firm questionnaire). Where quantitative information was required, owners were asked to recalled general performance trends in various criteria (for example profit, turnover and productivity).

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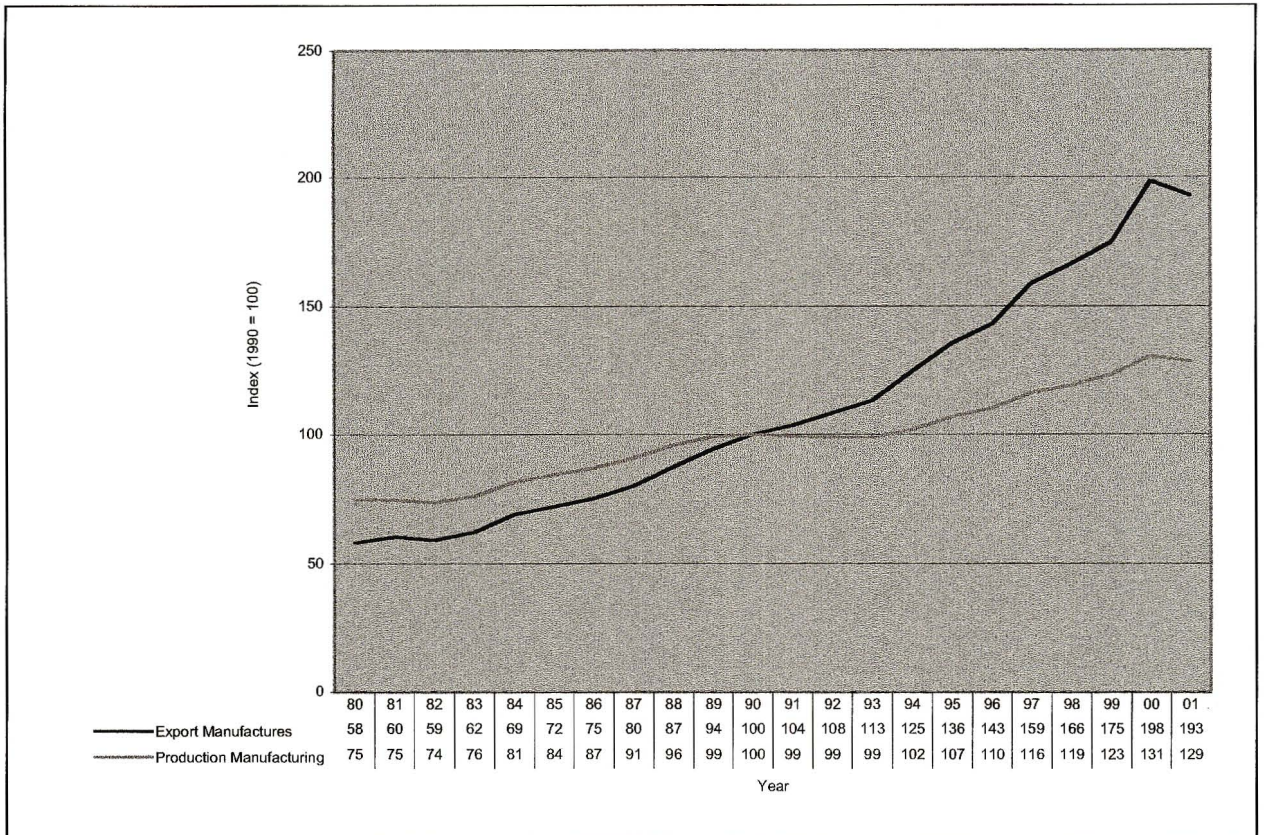
<sup>1</sup> Interviews were conducted with representatives of The Clothing Federation of South Africa (CLOFED), the Natal Clothing Manufacturing Association (NCMA), the Southern African Clothing and Textile Workers Union (SACTWU), COFESA, the Durban Manufacturing Advisory Centre (DUMAC) and the Bargaining Council for the Clothing Industry, Natal (BCCI, Natal).

## **2 Theory: CMT value chain upgrading in the context of labour market flexibility**

### **2.1 Value Chains**

During the 17<sup>th</sup> century colonial powers began their conquest of the world in search of raw materials and new markets for exports. In so doing they initiated a process of ‘internationalisation’ whereby economic activities spread across national boundaries (Ramaswamy: 2000: 192). During the era of internationalisation trade between countries usually occurred in the form of finished manufactured goods from the colonial powers and raw materials from colonised countries. This changed slightly in the 1950s and 1960s when American and European multinational corporations (MNCs) began locating entire production facilities offshore. It was only in the 1970s that the picture of international trade and production changed drastically as some multinational enterprises began to locate labour intensive manufacturing activities in developing countries in isolation from the production of finished goods (McCormick and Schmitz: 2001: 15). New transport and communication technologies fuelled the subdivision of manufacturing processes in the 1980’s and 1990’s, ‘so that even a single product could be made in multiple locations’ (Harrison: 1996). Production had in effect been globalised whereby internationally dispersed production activities are functionally integrated. The march of globalisation (characterised specifically by inter-country trade in manufactured components of the whole product) is empirically verified in the following graph (Figure 1) which shows the dramatic and sustained increase in exports of manufactured goods since 1980 as opposed to the less impressive increase in production of manufactured goods.

**Figure 1: Change in world export of manufactured goods versus world production of manufactured goods (1980 - 2001)**



Source: Derived from [www.wto.org/english/res\\_e/statis\\_e/its2002\\_e/section2\\_e/ii01.xls](http://www.wto.org/english/res_e/statis_e/its2002_e/section2_e/ii01.xls)

Value chains are an effective means of conceptualising the integration of global production (Gereffi et al: 2001: 1). Michael Porter laid the conceptual foundations of value chain theory in the 1980s with his ‘value system’ theory. This original theory was somewhat lacking in that interlinked firms were seen as complete units containing all business functions. Also power relations and governance within the chain and their impact on the chain were not explored (Gereffi et al: 2001: 3). Drawing on dependency theory, Gary Gereffi (1994) dealt with these deficiencies by developing the concept of ‘Global Commodity Chains’ (GCCs) in which he gave special attention to governance and barriers to entry in the chain.

Value chains build on the concept of global commodity chains, but have the advantage of focusing on value added at each link in the chain (Gibbon: 2000b and Kaplinsky: 1998 cited in Humphrey and Schmitz: 2000)<sup>2</sup>. In their ‘Handbook for Value Chain Research’, Kaplinsky and Morris (2001) define the value chain as the description of, ‘...the full range of activities which are required to bring a product from conception, through the different phases of production..., delivery to consumers, and final disposal after use’ (Kaplinsky and Morris: 2001: 4). In its basic form the value chain consists of four sequential value adding activities namely: design, production, marketing and lastly, consumption

<sup>2</sup> GCCs are also a slightly limiting concept because ‘commodity’ usually refers to undifferentiated, cheap product or raw material

and recycling. The basic clothing value chain begins with the development, design and manufacture of textiles, next comes garment design and production which is followed by marketing, distribution and sale to the consumer (McCormick and Schmitz: 2001). In reality value chains are far more complex with each activity in the chain impacting on (and being impacted) by activities up and down the chain.

### **2.1.1 The Clothing Value Chain: Governance and barriers to entry**

As mentioned, Gary Gereffi gave special attention to governance and barriers to entry in his GCC theory. These two factors help transform value chain analysis from a purely heuristic (descriptive) device into an analytical tool (Kaplinsky and Morris: 2001: 25). With this in mind it is possible to use these aspects of value chains to analyse the global clothing industry.

#### *2.1.1.1 Governance*

The complexity of production in the globalised era requires ‘sophisticated forms of co-ordination.’ Governance helps us understand these forms of co-ordination by incorporating a firm’s positioning in the value chain, logistics, ‘...the integration of components into the design of the final products and the quality standards with which this integration is achieved’ (Kaplinsky and Morris: 2001: 29).

Kaplinsky (2000) identifies three forms of governance based on an interpretation of civic law. These include legislative governance (setting of rules), judicial governance (auditing of performance) and executive governance (assistance to meet requirements). They can occur at different points along the chain and can occur within the chain or outside the chain. Building on the Kaplinsky’s (2000) understanding of governance (but with greater reference to the business strategies that form governance relationships) Humphrey and Schmitz (2000) say that governance is ‘...any co-ordination of economic activities through non-market relations’ (Humphrey and Schmitz: 2000: 3). They divide non-market governance relations into network, quasi-hierarchical and hierarchical (Table 1). While different forms of governance can exist in one chain, governance relationships in the apparel industry tend to be quasi-hierarchical.

**Table 1: Non-market governance relationships and definitions thereof**

| <b>Non-Market Governance Relationships</b> | <b>Relationship Description</b>  |
|--|--|
| Network                                    | Co-operation between more or less 'equals'. Suppliers and buyers jointly define the product, and combine complementary competences. This is more common when buyer and supplier are innovators, close to the technology or market frontiers. The risk of the buyer is minimised by the supplier's high level of competence.                |
| Quasi-Hierarchy                            | High degree of control of buyer over supplier; buyer defines the product. The buyer would incur losses from the suppliers' performance failures, and there are some doubts about the competence of the supplier. Where high supplier competence is not generalised, buyers invest in specific suppliers and seek to tie them to the chain. |
| Hierarchy                                  | Buyer takes direct ownership of developing country operations. The buyer carries out product definition, which may involve proprietary technology. The risks of poor performance by independent suppliers increase if the buyer uses quality as a brand attribute. These factors favour direct control over the production process.        |

Source: Humphrey and Schmitz: 2000: 6

While Kaplinsky and Morris (2001) warn that one should not confuse governance with the role of lead firms in a value chain, lead firms play significant governing roles. In the apparel value chain for instance retailer and brand name companies are major determiners of the structure of value chains as well as their co-ordination (Humphrey and Schmitz: 2000: 4)). Lead firm governance roles '...stems from two attributes: their market power...and their positioning in chain segments in which they can create and/or appropriate high returns' (Gereffi et al: 2001: 4) With the governing role of lead firms in mind, Gary Gereffi (1999b) makes a distinction between two types of value chains namely: producer driven and buyer driven value chains.

Producer driven chains are common in capital-intensive industries such as the automotive industry and tend to be characterised by network or hierarchical integration. In these chains the producer is primarily responsible for co-ordination in the chain. In this dissertation I am concerned with Buyer Driven Commodity Chains (BDCC) found in labour intensive sectors such as clothing and footwear. Co-ordination responsibility within these chains generally lies with retailers, branded merchandisers and branded manufacturers (often located in wealthy northern states) who form quasi-hierarchical governance relationships with independently owned 'manufacturers/suppliers' (often located in low wage southern nation states).

### *2.1.1.2 Barriers to Entry*

The governance role of retailers, branded merchandisers and branded manufacturers in the clothing value chain is consolidated through rents (or profits) and barriers to entry. In clothing value chains



rent is generated through organisational, branding and marketing capabilities and a protected market. These place certain barriers to entry into the retailing sector. Barriers to entry tend to fall as one moves down the value chain towards the level of the manufacturer because of intense competitive pressure at this level. They are depleted even further at the level of sub-contract CMT manufacturers. (Gereffi: 1999a; Kaplinsky and Morris: 2001)

As discussed, the three types of buyers in the global apparel chain that generate the largest rents and possess some if not all of the barriers to entry listed above are retailers, branded manufacturers and branded merchandisers located predominantly in the European Union (EU) and the United States of America (US). US buyers are listed in the Table 2.

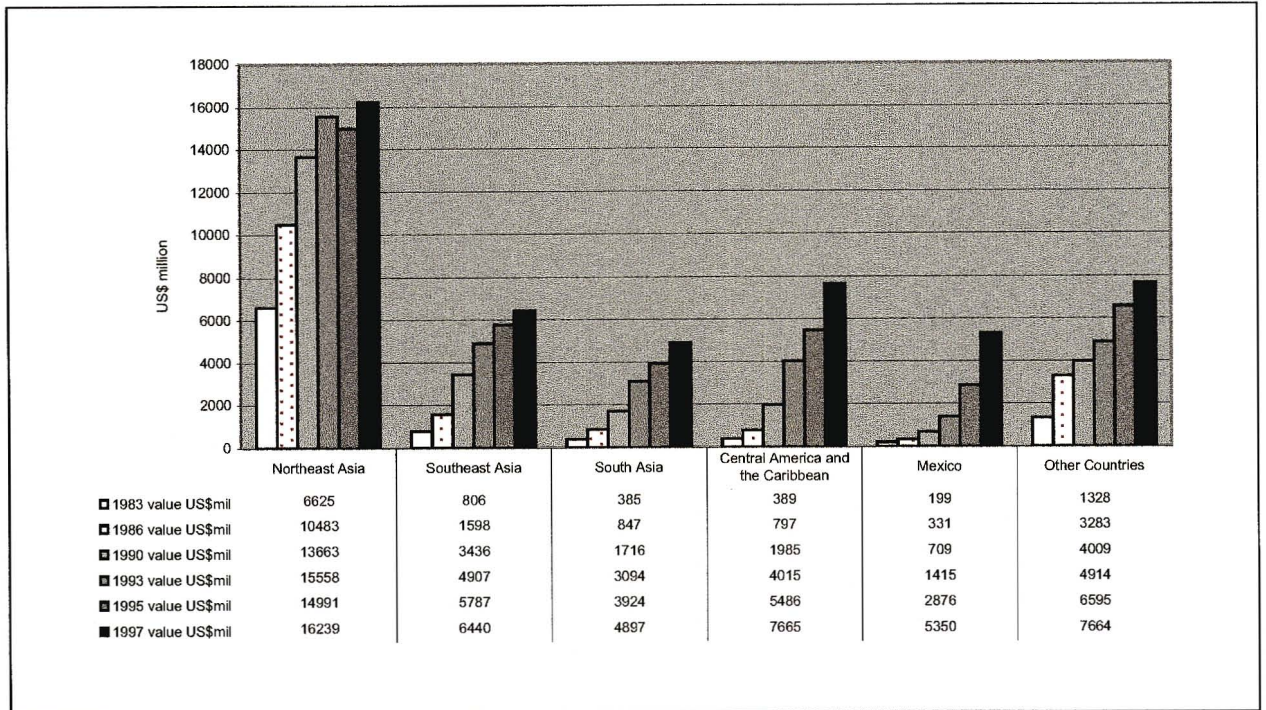
**Table 2: US clothing buyer and their buying characteristics**

| Type of Importers                               | Representative Firms  | Characteristics of Orders  |
|---|---|--|
| Discounters/outlet stores (retailers)           | Wal-Mart, Kmart, Target                                     | Low-priced store brand products. Huge orders.                              |
| Mass merchandisers (retailers)                  | J.C. Penney, Sears, Woolworth                               | Good quality, medium-priced goods sold under private labels. Large orders. |
| Department stores/speciality stores (retailers) | The Gap, The Limited, Bloomingdale's, May Department Stores | Top quality, high-priced goods sold under private labels. Large orders.    |
| Brand-name marketers                            | Liz Clairborne, Calvin Kline, Tommy Hilfiger                | Same as department stores  |
| Brand-name apparel manufacturers                | VF Corporation, Sara Lee, Levi Strauss & Co                 | National brands. Medium to large orders.                                   |

Source: Ramaswamy and Gereffi: 2000: 194

‘As apparel production has become globally dispersed and competition between [the major buyers] intensified, each has developed extensive global sourcing capabilities. While de-verticalising production, they are fortifying their activities in the high value-added design and marketing segments of the apparel chain’ (Gereffi: 1999b: 5). The dramatic rise of apparel imports into the US economy (Figure 2) illustrates the withdrawal of US and EU buyers from the manufacturing component of apparel production. While US clothing buyers used to be the main customers of domestic US clothing manufacturers they have fast become their biggest competitors.

**Figure 2: US apparel imports by region (1983-1997)**



Source: Derived from Gereffi: 1999a: 50

International sourcing patterns of lead clothing firms are generally differentiated along the lines of upper-market, middle-market and mass (lower) market clothing. As the proceeding diagram indicates (Figure 3) first and second tier countries produce upper market garments. Middle-market or basic items tend to be produced by second, third or fourth tier producers (second tier producers are sometimes referred to as ‘full package’ suppliers who control many productive and co-ordination functions in the chain). The production of mass-market clothing is outsourced to third, fourth and fifth tier countries.

**Figure 3: Production frontiers for global sourcing by US retailers: the apparel industry**

| Tiers       | Supplier Countries within Tiers   |
|-------------|---|
| First Tier  | Italy, France, UK, Japan  |
| Second Tier | Taiwan, Hong Kong, Singapore, South Korea   |
| Third Tier  | India, Turkey, Egypt, Brazil, Mexico, Thailand, Malaysia, Indonesia, Philippines, China   |
| Fourth Tier | Central America, Caribbean, Colombia, Chile, Eastern Europe, Kenya, Zimbabwe, Mauritius, Macao, Pakistan, Sri Lanka, Bangladesh, China, Tunisia, Morocco, UAE, Oman |
| Fifth Tier  | Qatar, Peru, Bolivia, El Salvador, Nicaragua, Vietnam, Russia, Lesotho, Madagascar, North Korea, Myanmar, Cambodia, Laos, Maldives, Fiji, Cyprus, Bahrain           |

Source: Gereffi: 1994: 221

While there are clear similarities between the sourcing patterns and market strategies of US and EU clothing buyers, Gibbon (2000a) notes that firms in these two market regions belong to very different value chains. The EU market is more fashion orientated and diversified and so garments are often

sourced from nearby European countries. In the US mid-market items still hold some prestige and as a result US sourcing patterns tend to be globalised. US buyers are exacting in terms of their requirements and will often plant a foreign branch where orders from foreign suppliers exceed five million US dollars. EU buyers rely heavily on the capability of their suppliers. They require them to provide more inputs and services and will make yearly or bi-yearly visits to supplier plants (Gibbon: 2000a).

### **2.1.2 Value Chain Analysis as a Development Issue**

In the clothing industry the ability of large buyers to source products from a wide variety of producers, in a number of countries, has increased the pressure on manufacturers to produce better quality garments at lower prices. In many cases firms or whole economies find themselves trapped in a cycle of 'immiserising growth' whereby competitive pressures push profit and wages below levels that sustain firms and individual workers (Kaplinsky and Morris: 2001). So while developing countries might be acquiring a greater share of global production the terms by which they trade are declining<sup>3</sup> (Kaplinsky: 2000).

The emerging theoretical discourse concerning value chains is useful in that it allows us to research production networks in their entirety. The impact of strategic practices at the top of the chain can be related to socio-economic outcomes at the lowest links of the chain. From the preceding discoveries local, national and international policies can be developed that promote positive outcomes from insertion into the chain. These positive outcomes include: even income distribution and the unimpeded flow of knowledge down the chain. Value chain analysis can also encourage upgrading in individual firms as entrepreneurs shift attention from price competitiveness (which often leads to immiserising growth) to focus on quality, market position, quick response and the establishment of effective supply and distribution networks.

Given the number of CMT firms operating in Durban and the focus of this dissertation it is critical to consider upgrading opportunities available to CMT clothing manufacturers.

### **2.1.3 Upgrading in the Clothing Value Chain**

Gary Gereffi published much of the seminal work on upgrading in the apparel value chain in the mid to late 1990's. Tam and Gereffi (1999) define upgrading as '...a process of improving the ability of a firm or an economy to move to higher value added, more profitable, and/or technologically more sophisticated economic niches (Tam and Gereffi: 1999: 12). Humphrey and Schmitz (2000) express some confusion about the concept saying that, '...while authors stress the importance of upgrading, it

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<sup>3</sup> '...[Over] the past two decades Brazilian shoe producers have commanded more than 12% of global leather shoe exports. At the same time, between 1970 and 1980 average real wages in the sector were stagnant, and during the following decade they fell by approximately 40% in real terms' (Schmitz: 1995 cited in Kaplinsky: 2000: 120)

remains an elusive concept that has been difficult to pin down. There are various possible taxonomies, and the range of upgrading possibilities across different sectors and differently structured value chains appears to be huge' (Humphrey and Schmitz: 2000: 11, 12).

Gereffi's (1994) hypothesis is that if clothing producers, '...gain access to the chain [they] have good prospects for upgrading within production and then subsequently [moving] into design, marketing and branding as a consequence of a combination of 'learning by exporting' and 'organisational succession'' (Humphrey and Schmitz: 2000: 13)). Entry into chains is seen as a necessary factor for upgrading and is determined by state policy, social and organisational factors (Tam and Gereffi: 1999: 8). Once producers gain access to the chain they become more knowledgeable (in terms of the nature of buying intermediaries and end markets, quality requirements, lead times, sourcing linkages and supply co-ordination) and can engage in 'organisational succession' meaning that they begin engaging in high value adding activities such as design and marketing (Gibbon: 2000b).

The rationale for Gereffi's (1994) hypothesis comes from the frequently cited experience of the East Asian newly industrialised countries or NICs (namely: Hong Kong, Singapore, Republic of Korea and Taiwan), who in the late 1960s and early 1970s began garment assembly work for the European and North American markets. As some assemblers became more competent they established their position as 'first tier suppliers' by extended their range of manufacturing activities, developing backward linkages with textile firms and outsourcing less skilled manufacturing work to low wage, peripheral, or second tier, Asian countries (such as Indonesia, Malaysia and Thailand). Essentially, NIC producers had upgraded from being assemblers to original equipment manufacturers (OEMs)<sup>4</sup>. Their success lay in their ability to flexibly manage overseas production systems (Gereffi: 1999a). 'Subsequently, Japan and some firms in the East Asian NICs pushed beyond the OEM export role to original brand name manufacturing (OBM) by joining their production expertise with the design and sale of their own branded merchandise in domestic and overseas markets'<sup>5</sup> (Gereffi: 1999a: 38). Despite rapid wage increases the NICs remained one of the biggest exporters of garments to the US in 1996. Some second tier supplier have also begun to upgrade to the position of OEM by outsourcing production to countries such as Cambodia, Laos, Nepal and Vietnam (Harrison: 1996).

Based on his hypothesis derived from the experience of the NICs, Gereffi developed two models for industrial upgrading. Humphrey and Schmitz (2000) criticise his models for being non-implementable at the firm level. They propose an updated (but similar) model, which Kaplinsky and Morris (2001) build on in their 'Value Chain Manual.' The model consists of four sequential upgrading stages

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4 The four most prominent Hong Kong based firms that have made the transition to OEM are Fang Brothers Knitting, the Esquel Group, Winsor Industrial Corporation and Novel Enterprises.

5 About 10 Hong Kong based clothing firms (including Novel and Fang Bothers) have made the transition to OBM.

namely: process, product, functional and chain upgrading (Table 3). Through these stages firms move from assembly, to OEM, to Own Design Manufacture (ODM) and finally to OBM production.

**Table 3: Stages of value chain upgrading and definitions**

| <b>Stages of Upgrading</b> | <b>Result of Upgrading</b> | <b>Definition</b>  |
|----------------------------|----------------------------|--|
| Process upgrading          | Assembly<br>OEM            | 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). Process upgrading is often referred to as flexible specialization (see section 2.1.4.1) |
| Product Upgrading          | ODM                        | 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       | OBM                        | 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)  |

Major source: Kaplinsky and Morris: 2001: 38,39

In this model upgrading is seen as strikingly inevitable and uni-linear and is vaguely reminiscent of the modernist bravado evident in Rostow's (1960) five stages of development. Humphrey and Schmitz (2000) warn that upgrading processes are influenced heavily by governance relationships, strategic intent by individual firms to access knowledge, external contingencies (international institutions, trade policies and agreements as well as the global economy) as well as 'local and national systems' that enhance learning (Humphrey and Schmitz: 2000: 15). I now turn to a broader discussion of these influences.

### *2.1.3.1 Effect of External Contingencies*

Putting somewhat of a damper on the upgrading model derived from the experiences of NIC apparel firms is the fact that upgrading in East Asian countries was in some part shaped by the Multi Fibre Arrangement (MFA) established in 1974. The MFA was a protectionist response by industrialised countries to rising exports from developing countries. Under the MFA, importers of clothing and textiles established bi-lateral import quotas in specific categories whenever imports began to threaten the local industry. The MFA had the unintended result of promoting globalisation of the clothing industry as well as upgrading in some firms. As quotas in one country were used up entrepreneurs would look for other countries to use as production platforms. The unintended result was that their

firms would evolve from simple assembly plants to OEM plants, co-ordinating international production processes (Salinger et al: 1999, Gibbon: 2000b, Ramaswamy and Gereffi: 2000). 'Quota hopping' as it was called caused a type of upgrading which Gibbon (2000b) shows '...has not been repeated (at least not in the same form) in the current growth poles of the international apparel industry - Mexico, Turkey, Eastern Europe and North Africa' (Gibbon: 2000b: 7).

Mauritius' garment industry grew significantly as a result of quota hopping by Hong Kong based garment manufacturers in the late 1980s. By the mid 1990s some Mauritian owned garment manufacturers were attempting to move up the value chain beyond OEM to OBM. Yet, by 2000 only two or three firms still had their own labels or brands. In retrospect, managers said that they had underestimated the capital, market knowledge and managerial skills that OBM required. While Mauritian firms had in the past achieved successful backward integration as a result of the EU/Lome Commission<sup>6</sup> this experience was not transferable to forward integration and so towards the end of the 1990s firms reverted to the production of long run basics for the middle-income market in the EU and US. In the process they consolidated their existing market segment (Gibbon: 2000b).

The MFA ended in 1994. Trade in apparel is now governed by the Agreement on Textiles and Clothing (ATC), signed as part of the General Agreement on Trade and Tariffs (GATT) in 1994. The ATC necessitates the phasing out of bi-lateral import quotas by 2005. In light of this agreement developed countries have begun signing regional trade agreements with developing countries allowing textiles produced in industrialised countries to be exported to developing countries, manufactured into garments, and re-imported at preferential rates. These regional agreements are referred to as Outward Processing Traffic (OPT) and exist between Germany and Eastern European countries, between France and the Mediterranean and between the United States and the Caribbean and Mexico. In the latter case, Bair and Gereffi (2001) show how the North American Free Trade Agreement (NAFTA) has attracted many US apparel buyers (especially retailers and marketers) to divert production from far-flung regions to Torreon in neighbouring Mexico. As a result of the requirements of new buyers producers in this region have moved away from being simple maquila (assembly) to full-package (OEM) producers. Regional trade agreements will ultimately limit the opportunities that excluded parties (especially sub-Saharan countries) have for insertion into value chains and for resultant upgrading (Salinger et al: 1999).

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6 'The European Community's unique relationship with LDC's is enshrined in the Lome Convention, a 'mixed' treaty (which connotes shared responsibility among the Community and its member states) signed between the EC and 66 African-Caribbean-Pacific (ACP) countries which are all former colonies of the West European powers. A product of the earlier Yaounde Convention, the Lome Convention was first negotiated in 1975 and is renegotiated every five years. The negotiations for Lome IV were essentially concluded in late 1989 and will be implemented in 1990. The Lome Agreement thus represents the main pillar of the Community's development activities and gives the Commission authority and legitimacy in this domain. The Community therefore has shared competence in the domain of LDC relations, but all aspects concerning trade relations with the Third World remain the exclusive competence of the Community itself' (<http://www.g7.utoronto.ca/g7/scholar/hainsworth1990/bisnorth.htm>).

### *2.1.3.2 Effect of National Policies and other National Specificities*

Edwards (1993) has shown that rapid export expansion in Korea in the early 1960s was driven to a large extent by ‘...(a) direct cash subsidies (until 1964); (b) direct tax reductions (until 1973); (c) interest rate preferences; (d) indirect tax reductions on intermediate inputs; and (e) tariff exemptions on imported intermediate materials’ (Edwards: 1993: 1376). Governments in the NICs also substantially subsidised education, health and welfare during the era of rapid industrialization reducing the responsibility of employers in providing these benefits. This improved the price competitiveness of manufacturers and released funds to be invested into upgrading initiatives (Fryer and Newham: 2000).

Tam and Gereffi (1999) go so far as to say that upgrading will only occur if governmental investment is made to encourage design and development capabilities based on knowledge acquired. According to Bair and Gereffi (2001) upgrading has been limited amongst denim manufacturers in the Torreon region of Mexico because of a weak governmental institutional environment.

### *2.1.3.3 Effect of Strategic Intent*

‘Upgrading involves changing the basis of knowledge within an enterprise’ (Humphrey and Schmitz: 2000: 13). Lee and Chen (cited in Humphrey and Schmitz: 2000) are adamant that upgrading will not occur in a subcontracted manufacturing firm unless a platform for learning is devised to ‘acquire product design and development knowledge from the outsourcing firm’ enterprise’ (Humphrey and Schmitz: 2000: 13). Without this platform, knowledge can filter through a firm but fail to initiate revolutionary upgrading within the firm.

### *2.1.3.4 Effect of Lead firm Governance*

In a case study of the Kenyan horticulture and Tamil Nadu textile industry Dolan and Tewari (2001) have shown that ‘...the impetus to acquire new knowledge and capabilities – has been driven to a large extent by global buyers’ (Dolan and Tewari: 2001: 101). This point is reiterated by McCormick and Schmitz (2001) as well as Gereffi (1999 cited in Bair and Gereffi: 2001) who show that the relationship local firms have with lead firms can affect their propensity to upgrade.

The upgrading model proposed in section 2.1.3 fails to account for the fact that ‘...[the] fate of a member of the GCC is interdependent or interlocked with the fate of most other members.’ Lead firms in the apparel industry are not likely to encourage functional upgrading in their supply chains beyond the level of OEM. Firstly, some lead firms invest in the capabilities of their producers and therefore impede producers from switching to other buyers in higher value adding sectors. Secondly, lead firms tend to be highly protective of their downstream markets and functional upgrading amongst their suppliers would encroach on their core competence. In the footwear sector some lead firms

physically limit the flow of knowledge to their upstream suppliers to prevent functional upgrading (Tam and Gereffi: 1999, Humphrey and Schmitz: 2000). As already noted, Gibbon (2000a) points out that only 10 Hong Kong manufacturers have managed to move into branded manufacture and this pattern of upgrading is not common in outer ring garment producing countries like Mauritius.

The limitations on upgrading experienced by both Hong Kong and Mauritian based garment firms were partly the result of constraints induced by foreign buyers (Schmitz: 1999: 1). It follows that the upgrading limitations on those further down the value chain (particularly CMT firms) are even greater. While the flexible management of production networks was a major factor in the upgrading of NIC garment firms (Gereffi: 1999a) we also see that ‘...[the] development of full-package networks in Torreon [Mexico] is primarily benefiting a wealthy domestic elite...’ (Bair and Gereffi: 2001: 1896). These elites receive orders from US customers but farm them out to a multitude of contractors and subcontractors. Elite first tier suppliers are under intense pressure to supply high quality apparel on a ‘Just in Time’ (JIT) basis at reasonable prices but devolve this pressure to sub-contractors who are forced to pay lower wages and engage in flexible labour practices. Summarising the experience of Torreon Jean manufacturers Gibbon (2000b) postulates that, ‘...exclusion of the many...tends to be the other side of upgrading of the few, at least where the latter process is ‘buyer driven’’ (Gibbon: 2000b: 6,7).

It would seem that small CMT firms have incredibly limited upgrading opportunities. This is largely because first tier suppliers guard access to buyers and buyers in turn reinforce barriers to entry into the design and marketing aspects of garment production. It also requires capital, time and more importantly strategic intent to achieve these forms of product, process and functional upgrading. As a result of upgrading limitations firms at the bottom of the value chain are forced into paths of immiserising growth, a pattern known as the ‘race to the bottom’ of the value chain. With this in mind, we move onto a discussion of the value chain upgrading opportunities available to CMT firms.

#### **2.1.4 Upgrading in Small CMT Firms through Clustering**

The inference of traditional value chain upgrading literature is that all CMT firms should attempt to become OEMs. CMTs are a necessary component of the clothing industry and in many ways facilitate flexibility within the sector. The challenge is to upgrade CMT firms so that they can profitably fulfil their current roles with the long-term goal of extending them (interview with CLOFED representative). While limited literature exists concerning upgrading in small and medium sized enterprises (SMEs)<sup>7</sup>, especially CMT firms, clustering theory offers some insight into this objective.

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<sup>7</sup> In terms of legislation, medium manufacturing enterprises consist of 50 to 200 employees. Small enterprises of between 10 and 50. Smaller enterprises are referred to as a micro-enterprises ([www.sairr.org.za/publications/pub/ff/199806/entre.htm](http://www.sairr.org.za/publications/pub/ff/199806/entre.htm)).



In the words of Mytelka and Farinelli (2000) and an anonymous author (ccdev.lets.net): 'In recent years, there has been an increase in interest in clusters of small firms in developing countries. They have been viewed optimistically as a source of growth in developing countries, especially for small firms in developing countries' (ccdev.lets.net: 1); and '...[for] SMEs, clustering is believed to offer unique opportunities to engage in a wide array of domestic linkages between users and producers and between the knowledge producing sector (universities and R&D institutes) and the goods and services producing sectors of the economy that stimulate learning and innovation' (Mytelka: 2000: 8).

The work of the Institute of Development Studies (IDS) has also shown that 'clustering has helped small firms overcome well-known growth constraints and sell to distant markets (Schmitz: 1999: 1). Drawing on the work of Schmitz (1995), McCormick (1998) summarises the primary benefits that can accrue from clustering, especially for African enterprises. She says that, '[by] increasing market access, fostering communication and information sharing, facilitating technological upgrading, increasing efficiency, and contributing to the development of supportive institutions, clusters can build industrial capacity' (McCormick: 1998: 7).

The 'cluster' concept emerged from Marshall's work in the 1920s and later the industrial district literature of the 1980s and 1990s (Bair and Gereffi: 2001 and Nadvi: 1997). This latter work drew on the experience of footwear and apparel firms in the Emilia-Romagna region of the 'so-called' third Italy. These geographically bound firms managed to combine '...successful export performance...with relatively high wages paid to a skilled workforce' (Bair and Gereffi: 2001: 1886). The industrial district model has been criticised for being a set of stylised facts rather than an analytical model because it does not incorporate the influence of local government, external linkages or social factors on the district (Albu: 1997: 17).

According to Schmitz (1992 cited in McCormick: 1997) a cluster is characterised by '...a geographical and sectoral agglomeration of enterprises'. Cluster theory builds on the industrial district in that it focuses on the passive benefits that can arise from sectorally related firms operating in close geographical proximity as well as the active benefits that can result from these firms collaborating with one another. The former passive gains are known as 'external economies' and the latter active gains as 'joint action'. The cluster wide advantages derived from joint action and external economies are referred to as 'collective efficiency'.

McCormick (1998) refers to external economies as the '...unintended or incidental by-products of economic action' (McCormick: 1998: 11). These include labour market pooling, development of specialised local suppliers and services, technological diffusion and market access<sup>8</sup>. By-products of

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<sup>8</sup> The last of these by-products (market access) occurs because the size of the cluster facilitates the meeting of buyers and sellers.

external economies can sometimes be disabling as investment often flows towards firms who are individually successful within the cluster rather than to the whole cluster (McCormick: 1998).

Schmitz (1997 cited in McCormick: 1998) does not consider external economies to be a sufficient criterion for clusters of firms to flourish. Conscious 'joint action' is necessary for this to occur. Joint action can occur horizontally (for example, the sharing of capital equipment by competing firms) or vertically (for example, collaboration on product improvement between manufacturer and buyer). It can also occur bilaterally or multilaterally (namely, between two players or numerous player) (Albu: 1997; McCormick: 1998; Kaplinsky and Morris: 2001). The following matrix devised by Schmitz (1997 cited in McCormick: 1998) clarifies the overlap between horizontal and vertical as well as bilateral and multilateral collaboration.

**Table 4: Matrix of joint action opportunities**

| <b>Bilateral</b>  | <b>Dimension</b>  | <b>Multilateral</b>   |
|---|-------------------|---|
| Two co-operators at the same level in the production chain<br>e.g. sharing equipment                            | <b>Horizontal</b> | More than two co-operators at the same level in the production chain, e.g. sectoral association   |
| Two co-operators at different levels of the production chain<br>e.g. a producer and a user improving components | <b>Vertical</b>   | More than two co-operators at different levels of the production chain e.g. an association or alliance composed of manufacturers and distributors of a product. |

Source: McCormick: 1998: 12

As will be highlighted in section 2.1.4.2 the scope for horizontal joint action amongst CMT firms is fairly broad. Vertical joint action, on the other hand, is sometimes difficult as full manufacturers, retailers and wholesalers prefer to foster arms-length relationships with their CMT suppliers. CMT firms can however, encourage vertical joint action through implementing flexible specialization techniques (Piore and Sabel: 1984). The central theme of the flexible specialization model is that the success and rise in efficiency of Japanese automotive manufacturers was not as a result of automation (as many of their western competitors assumed in the 1970s and 1980s) but rather as a result of '...intra-firm and inter-firm organization which overturned many of the established principles of efficient production' (Kaplinsky: 1994: 5).

#### **2.1.4.1 Strengthening of Vertical Ties through Flexible Specialisation**

There is growing consensus that, instead of fragmenting the production value chain at the local level, vertical chain integration will produce better development outcomes, improve product consistency and increase exporter control over lead times (Dolan and Tewari: 2001).

The theory of flexible specialisation (Piore and Sabel: 1984) deals primarily with the need for strengthening of vertical ties in the value chain and is the main analytical approach frequently associated with clustering. The premise of the theory is that competition is no longer simply based on price and that modern fragmented and differentiated consumer demands cannot be met using inflexible mass production techniques. Instead quality, variety, flexibility, design and delivery have become dominant competitive requirements and inter and intra-firm organisational changes are presented as a high road for industries struggling to meet new competitive pressures (Bessant: 1995; Albu: 1997; Altman: 1994). In contrast ‘...[the] low road involves relying on low cost, short-term labour and minimal investment. The firm grows and shrinks by hiring and firing workers in response to its widely fluctuating order book’ (Albu: 1997: 20).

While Kaplinsky (1994) outlines that ease with which flexible specialisation techniques can be implemented in developing countries, much of the work on flexible specialisation in the developing and developed world centres around the aeronautic and automotive industries where vertical integration is necessary because of product standardisation requirements (Bessant: 1995; Kaplinsky: 1994; Humphrey et al: 1998; Fleury: 1999; Womack, Jones and Roos: 1990). In traditional industries inter-firm vertical collaboration, despite being beneficial, is not a necessity and has not until recently been promoted. Some larger clothing manufacturing firms (such as those in Mauritius) are however seeing the benefit of vertical integration and improved supply chain management. Subcontracted CMT firms can promote vertical integration and consolidate preferred supplier status through intra-firm reorganisation, which requires relatively low investment. In so doing CMT firms engage in process upgrading (as presented in Table 3). Hypothetically, once CMT firms have consolidated their supplier status buyers might encourage further upgrading (such as ISO accreditation and electronic data interchange to smooth lead times) and the CMT firm might be entrusted with greater responsibility in co-ordinating production (for example, sourcing fabrics and outsourcing production) and hence make the move from pure assembly to OEM production.

According to Humphrey et al (1998) and Kaplinsky (1994) a ‘toolkit’ of intra-firm organisational changes are available to firms to improve their supplier status. These include changes in production flow, total quality management (TQM) and continuous improvement (CI). I will briefly expound on each of these changes beginning with production flow.

*Production flow:* Large inventories of incoming material, Work in Progress (WIP) and finished goods tend to hinder production flow and the ability of the firm to respond flexibly to orders. Incoming and finished goods inventories are, to a large extent, out of the control of the manufacturers and dependent on supplier capabilities and the characteristics of the market. It is however, possible for individual firms to manage WIP in such a way to optimise the flexibility of the firm. This can be done firstly by

activating production at one stage of the production line 'just in time' (JIT) for demand at the subsequent stage and secondly, by reducing lot sizes to near one. This would allow for the commencement of manufacture of a new batch without having to wait for WIP to pass through the production line. The last recommendation for improving factory flexibility is to alter the factory floor plan (from a production line) into a cellular layout. '...[In] cellular layouts, machines performing sequences of operations are grouped together, and each part moves rapidly through the whole sequence of operations in each cell' (Humphrey et al: 1998: 60)

*TQM:* Large inventories, common in mass production factories, promote poor quality, as there is always back-up inventory if production defects emerge. In the flexible specialisation model small inventories necessitate that each item is manufactured correctly. Individual workers are commissioned with quality control at each stage of production instead of quality control being a function tagged onto the end of the production line.

*Continuous Improvement:* In the flexible specialisation model worker are not only charged with quality control. They must also collaborate with R&D and management divisions in identifying incremental improvements that can be made to the production process (Humphrey et al: 1998).

Altman (1994) presents a flexible specialisation model devised specifically for the South African clothing industry in 'An industrial strategy for the clothing industry.' In this book she identifies four nodal points for productivity improvement that 'enhance dynamic competitiveness'. These include: the supply of textiles, the pre-production aspects, the production related aspects and marketing. We have already concluded that incoming inventories are difficult for CMT manufacturers to control (pre-graded textiles, with patterns printed on, are simply delivered to these manufacturers). Marketing is also beyond the domain of CMT operators. Consequently we focus on pre-production and production organisational changes with the intent of strengthening vertical linkages within the garment value chain.

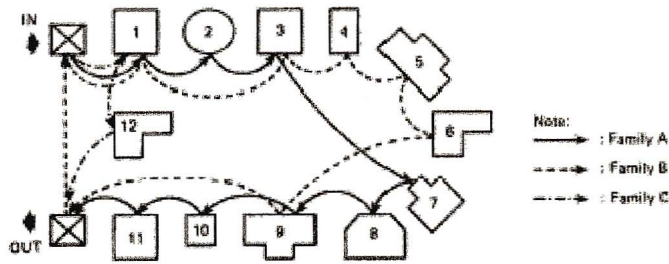
In traditional CMT operations, all fabric is cut on a long cutting table usually with a hand held band saw. Cut textiles are then sorted and stored in an inventory before passing onto the assembly line. Assembly lines can vary from 5 to 120 workers and operate on a progressive bundle system. '[This] means the panels are tied into bunches of 10-60 pieces each. The operator picks up each subsequent bundle, unties the panels, completes the required operation on each piece, re-ties these pieces into a bundle, and pushes the bundle forward to the next operator' (Altman: 1994: 58). From this point garments move into the cleaning and pressing division from where they are finally checked before delivery back to the main wholesaler or manufacturer. If new garment styles are introduced for manufacture, changeover of machines to suite new styles has to occur overnight.

The problems with this inflexible manufacturing system are similar to those found in other industries using the same system. In particular bottlenecks arise in production flow because production is pushed along the line. Also garment defects that arise early in the production line are not detected until right at the end of the production process and time is wasted in unpicking and resewing the garment. Lastly, any breakdown of machinery in the production process leads to long down times. Low skilled workers are generally not trained in preventative machinery maintenance. Altman speculates that garments in the process of being assembled spend about half the time of the production cycle in WIP inventories. Workers in the production line spend nearly 80% of their time handling WIP and the rest on productive activity.

Altman (1994) recommends organisational changes that could be made at the cutting and assembly phase of production to reduce WIP and operator handling time. These changes include firstly, the shortening of cutting table and perhaps the introduction of more cutting tables to deal with different styles of garments. Secondly the breaking down of long production lines into modular cells of related tasks either in a horseshoe shape or staggered shape (horseshoe shape presented in Figure 4). 'These systems allow small groups of employees to undertake most of the tasks associated with the assembly of garments in one 'group' and on the set of complementary machines under the direct control of the group. The system allowed in theory, for very quick changes of style or garment' (Winterton: 1998).

The principal benefit of the system is that each worker undertakes more of the production process, enhancing product consistency and quality. The ideal outcome of this modular system is for single items to pass from one stage in the production process to the next. If a problem occurs somewhere in the cell, all workers can quickly identify the bottleneck (since they all face one another) and jointly rectify the problem. Within the cellular layout model proposed by Altman (1994), staff loyalty is required for maintaining cellular efficiency and quality focus.

Figure 4: Cellular production layout in a factory manufacturing a variety of products



Source: Irani et al: 2001

#### 2.1.4.2 Horizontal Collaboration

Horizontal joint action ‘...refers to collaboration between/amongst competitors’ (McCormick: 1998: 13). Small firms can foster product, process and functional upgrading through horizontal joint action in three ways. Firstly, and most tangibly, firms can jointly buy inputs (machinery or textiles) and/or jointly fulfil large orders giving them access to new large volume markets. Secondly, firms can engage in technical and market knowledge sharing activities. Lastly small firms can develop institutions such as trade associations, sales consortia or benchmarking associations that would aid the first two forms of horizontal collaboration. The first two forms of collaboration mentioned here tend to be bi-lateral, while the latter is necessarily multi-lateral (Mytelka and Farinelli: 2000; Navdi: 1997; Kaplinsky and Morris: 2001; Albu: 1997).

There are some negative aspects to horizontal joint action. Navdi (1997) warns that there is a thin line between collaboration and competition and in some cases might result in price wars and other destructive action. Also, some horizontal joint action (in the areas of marketing, design or accessing export markets) might be directly opposed by buyers.

While clustering has definite impacts on the productivity and competitiveness of traditional sectors (as Mytelka and Farinelli [2000] show in their analysis of the spectacle and furniture clusters of Italy and Denmark respectively) the assumed benefits of clustering lie to a large extent out reach of CMT firms. While I have discussed methods to encourage vertical joint action, McCormick (1998) states that small CMT plants have little to gain from collaboration with buyers. There is however, some prospect for upgrading in CMT firms through horizontal joint action. The Garment Manufacturing Association (GMA) in Cape Town (an association of 40 CMT operators) is a case at hand. This association is active in industrial relations, screening imported inputs, small firm development and the dissemination of information into the CMT sector. The GMA is also a common source of information for buyers requiring the services of specialised CMT firms. This has led to the sharing of orders and passing on of work (McCormick: 1998).

### 2.1.4.3 *The Importance of Context*

While clustering has many intrinsic benefits for the firms involved and can in some way overcome the hindrances to upgrading imposed by buyers, the extent to which upgrading can flow from clustering is dependent on a number of factors. These include the nature and size of the product market (namely, is there a market for the product and is the market big enough); available economies of scale and scope (namely, do firms have the capacity to meet large or diversified product market demands); and institutions governing exchange relations (namely, do institutions promote trusting cluster relationships and enforce contracts) (McCormick: 1998). Mytelka and Farinelli (2001) also propose that the success of traditional clusters in Europe were to a large part reliant on government support.

European governments began to create science and industrial parks, incubators, export processing zones and technopoles in the 1970s. In Belluno, Italy, the government was instrumental in fostering collaboration in the spectacle cluster which ultimately led to the creation of a number of organizations including: a technical school, a certification institute, a local service and information centre, an observatory and an industrial museum and foundation (Mytelka and Farinelli: 2000: 23).

Whilst it would seem that an effective model for upgrading in small CMT clothing factories in the developing world has been formulated, one pivotal factor has been overlooked. Upgrading will not occur without the support and drive of employees. A move towards labour market flexibility is sweeping the third world and this could seriously effect employee motivation to assist the upgrading process. With this in mind we undertake a deeper analysis of global labour market flexibility.

## **2.2 Labour Market Flexibility**

In the early stages of the industrial revolution in Europe manufacturing processes tended to be craft orientated and fairly flexible. Simple home-based technologies were used to manufacture short runs of non-standard items (particularly textiles). Rigidities began to emerge as manufacturing moved into the gambit of the factory. These rigidities reached a pinnacle with the production of the first model T Ford in 1913. Drawing on the principles of Frederick Taylor's 'Scientific Management' (1911) and new technologies, Henry Ford devised a model of manufacturing based on the systematic division of labour and the standardization of tasks and operating procedures. He used these in the manufacture of the Model-T (Bessant: 1995).

The years after the production of the first Model-T were years of bloodshed (as a result of the world wars) and unemployment (The Great Depression of 1929 –1931). Fear of fascism was rife in Western Europe and the United States. The spread of Taylorist manufacturing principles however, made it plausible for politicians to conceive a long-term development plan based on the protection of the working man. The 'welfare state' arose as the dominant model in pursuit of these goals. This model was based on concepts developed by Keynes in his 'General Theory' (1936). Keynes (although not

anti-capitalist) believed that capitalism was unstable and that the rules of the game needed to be changed in order to strengthen the system and to ensure full-employment.

The 1938 Swedish welfare state model was a variant on Keynes' theory in that just under full-employment was the goal to keep a hold on inflationary pressure. In all variations of the welfare state model, '...the labour market was underpinned by the welfare state, based on social insurance and the premise that state transfers would be required primarily to cover temporary interruptions in earning power' (Standing: 1999: 54). Labour regulation in this era was neo-corporatist, namely, regulations were statutory and pro-collective, backed by voice regulation through unions and employer organisations. In developed and developing countries there was also the presumption that economic security could supplement labour security and so countries tended to protect themselves from excessive competition from imports.

By the 1970s the welfare state was beginning to show flaws. It was felt that welfare bred passivity and dependence and, '...rising social security contributions increased the cost of labour which in turn undermined the competitiveness of European economies in international markets' (Bax: 1996: 2). Keynesian economic principles were proving to be ineffective in the face of declining growth after the 1973 oil crisis and so by the 1980s and 90s there was a growing neo-liberal consensus that monetarist and supply-side economics were the way forward. This neo-liberal revolution was fuelled in part by the work of Milton Friedman (1982 cited in Bax: 1996) who speculated that rising unemployment was the result of inflexible labour markets and called for a reduction in social security, the neutralisation of labour law and the restraint of labour unions. The policy prescriptions emanating from this revolution have included the deregulation of labour markets and the retreat of the welfare state (Bax: 1996; Lee: 1997).

Despite there being some scepticism about the correlation between labour market regulation (or lack thereof), economic growth trends, unemployment and productivity neo-liberal anti protectionist ideas were transplanted from the industrialised countries to developing countries in the 1980s and 1990s through structural adjustment programmes (SAPs). In Latin America many of these programmes were implemented by the international financing institutions as conditionalities for loans rendered after the 1973 oil crises. These programmes tended to undermine unions in the public sector, because state assets were privatised, and in the private sector, because many enterprises could not survive without state protection from imports. Surviving private corporations sought to maintain their competitive edge by hiring employees who were less likely to join unions and who could be hired using flexible contracts. Despite pressure to introduce pro-social protectionist measures, most Latin American states generally introduced flexible labour regulation reforms in the 1980s and 1990s (Bronstein: 1997).



The preceding account of global labour market trends, tends to be in keeping with Standing's (1999) theory that, '[historically] all labour systems have evolved through flexible and more 'rigid' (or stable) phases, the rigid collapsing into more flexible forms, and flexible practices stabilising through the establishment and legitimation of norms and regulations, until these have fettered the development of production' (Standing: 1999: 49).

### **2.2.1 Organisational and Employment Flexibility**

While growing labour market flexibility over the past 30 years has largely been influenced by flagging global growth rates, large organizations have also forcefully promoted flexible labour practices through increasing organisational flexibility. In an effort to reduce co-ordination and labour costs (by side-stepping national social protection systems) and increase market flexibility many large and medium sized firms are tending to contract out their employment function to internationally dispersed smaller firms. These firms have in turn increased their flexibility by outsourcing to subcontractors or home-workers. The trend towards organisational flexibility has led to the web like extension of global value chains more widely discussed in the section 2.1 of this dissertation.

An inevitable offshoot of organisational flexibility (aided by weakening labour protection) has been that employment arrangements have become increasingly contingent, atypical or flexible ([www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm](http://www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm)). Carnoy et al (1997) describe employment flexibility as, '...the idea of labour employed under a contract that no longer provides full time, long term security and that seeks, instead, greater flexibility to move in and out of the employment relationship' (Carnoy et al: 1997: 32). Standing (1999) adds that '...Employment flexibility reflects the ability of firms to hire and dismiss workers easily and at low cost...' (Standing: 1999: 101). Standing's definition draws attention to the fact that employment flexibility is a conscious strategic action used by employers to transfer the fluctuations and risks associated with production to the level of the worker (Bax: 1996).

Although it is not true for all firms there is a tendency for manufacturing and other firms to distance themselves from long-term commitments to workers. It is difficult to model the plethora of flexible employment arrangements that firms have developed but Table 5 below gives some idea of the most prominent emergent arrangements.

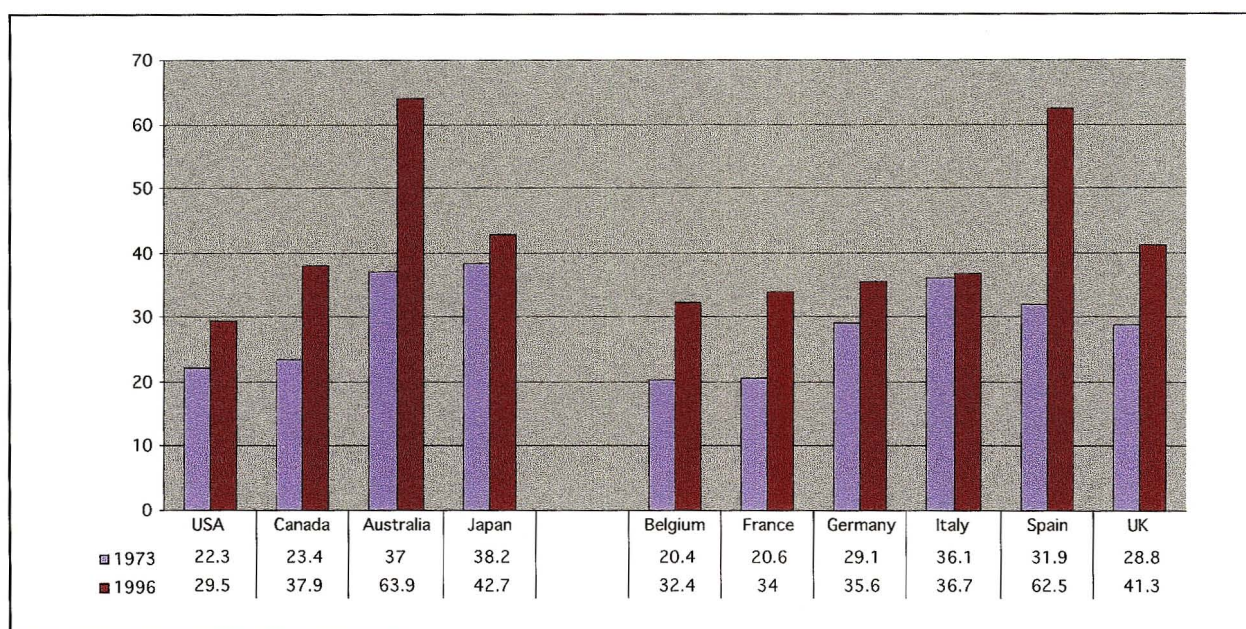
**Table 5: Recorded flexible employment arrangements**

| Flexible Employment Arrangements | Definitions   |
|----------------------------------|---|
| Casual and Temporary Workers     | Casual labourers are hired without an employment contract and are typically paid on a piece rate. Temporary workers have a fixed term contract or are rehired on a rolling basis. Recently permanent temporaries have emerged, who are, '...expected to stay with a firm for many years but who lack the benefits and entitlements of regular or 'permanent' employees' (Standing: 1999). Temporary employment is generally only used by employers to protect themselves from risk and is bad for employees in that they are exposed to the insecurity once borne by firms (De Grip: 1997). |
| Consultants                      | 'This is a relatively small but significant form of flexible employment. They include self-employed individuals with a niche skill, including management consulting, and in general deserve to be identified as a distinct group because they are not like most other forms of 'self-employment" (Standing: 1999).  |
| Sub-Contractors                  | 'Large corporations have 'out-sourced' more activities to small-scale, semi-independent businesses. These may be family firms or even individuals, who do not work for the enterprises directly for a wage but who are in a dependent relation to one or several large enterprises, typically paid on a piece-rate or job-work basis' (Standing: 1999).   |
| Agency Workers                   | 'These may become the major form of employment for a wide array of jobs. Increasingly, firms are contracting out the employment function by turning to private employment agencies' (Standing: 1999).   |
| Home workers                     | 'Home workers should not be confused with self-employed workers. Home workers are typically subject to high rates of exploitation and are dependent on work contracted out to them. They are often missed by labour regulations, have no union protection and are easily pushed into 'economic inactivity" (Standing: 1999).  |
| Teleworkers                      | Teleworkers, '...work primarily through the use of computers and other advanced information technology. Although they work from home, and therefore could be said to belong to the category of home workers, it is useful to keep them as a distinct category because they have greater control over their skills, means of production and labour' (Standing: 1999).  |
| Part-time workers                | 'The general definition of a part time worker is someone who works below 30 hours a week. This time period varies and the distinction is often quite dubious between part-time and full time work. Part-time work can be voluntary (for instance when a parent prefers to work half day) or involuntary (for instance when a worker is forced to work 'short-time')' (Standing: 1999).  |
| Concealed workers                | 'These comprise a rapidly growing form of flexible labour. These are employed informally in the 'grey' or 'black' economy, often illegally. Reasons include tax evasion and avoidance, and a desire to avoid bureaucratic paperwork.' (Standing: 1999).   |

Derived from Standing: 1999: 101-112 and De Grip et al: 1997.

The use of flexible employment practices (especially the use of temporary or casual labour) is most pervasive in developing countries and forms much of the comparative advantage of manufacturing firms in these regions. Data collected by Standing (1999) shows that atypical employment arrangements (especially casualisation) are increasing rapidly in many emerging economies (Albania, Bulgaria, Russia, Ukraine, Chile, India, Malaysia, Philippines and South Africa). The use of temporary and casual labour is however not confined to firms in developing countries and over the past three decades non-regular forms of employment have soared throughout the developed world (Figure 5).

**Figure 5: Percentage non-regular employment, selected countries, 1973-96**



Source: Derived from Standing: 1999: 172

Much of the increase in temporary or casual work in the developed world is as a result of the shift to service industries away from manufacturing in these economies. Many who formerly had full-time employment in the manufacturing sector must accept less secure employment or none at all.

### 2.2.2 Employment Flexibility as a Development Issue

The nature of flexible employment arrangements has important outcomes for the security of workers and national economies. The outcomes of employment flexibility rely specifically on whether they are demand (employer) or supply (employee) driven (Fryer and Newham: 2000). Where skills are scarce and demand for skills is high, outcomes of flexible employment arrangements will generally be advantageous. This is definitely the case in Silicon Valley, Orange County, USA where highly skilled engineers and programmers move between firms gaining experience and in the process diffusing technological information in the region. In some cases employers consider labour market flexibility to be too volatile for management, however it is questionable whether the sector would survive or thrive without this high volatility (Carnoy: 1999)

Conversely, in sectors where skills are plentiful or low skilled workers are required, outcomes of flexible employment arrangements will tend to be detrimental. Wages will be low, there will be a lack of social protection and few career opportunities. Staff turnover will tend to be high (De Grip et al: 1997). If countries base their competitive advantage on a plentiful supply of flexible or low skilled labour (as many developing countries do) they run the risk of achieving little more than immiserising growth (as discussed in section 2.1.2).

Trade liberalisation has increased global competition in the sectors where flexible employment is most valued and indeed necessary if firms are to remain competitive (for example the clothing industry). The result is that flexible practices have multiplied exponentially in recent times, especially in the developing world. This has proved detrimental to labour security and to national economic outcomes. Due to these negative factors questions have emerged regarding the assumed positive correlation between labour market deregulation (and ensuing loss of labour protection) and global competitiveness especially since equity is ignored in this correlation (Standing: 1999; Lee: 1997, De Grip et al: 1997). In response to this, some discussion has emerged in the ILO regarding placing a social clause on all global trade (Lee: 1997).

### **2.2.3 Employment Flexibility in the Clothing Industry**

ILO reports published over the last few years point to the fact that employment flexibility is particularly prevalent in the clothing, footwear and textile sectors because of rapid fashion changes and low skill and technological requirements. While employment has remained fairly stable in formal sectors since the 1980s, ‘...the informal sector promotes a growing volume of employment in developing countries, especially in clothing and footwear’ ([www.ilo.org/public/english/bureau/inf/pr/96-33.htm](http://www.ilo.org/public/english/bureau/inf/pr/96-33.htm)). In 1996 the Deputy Director General of the ILO estimated that while there were 23.6 million formal workers in the global clothing, footwear and textiles industries. The informal workforce accounted for five to 10 times that number. Without the protection of labour law and collective bargaining, informal enterprises are little more than sweatshops employing predominantly female workers at low wages ([www.ilo.org/public/english/bureau/inf/pr/96-33.htm](http://www.ilo.org/public/english/bureau/inf/pr/96-33.htm); [www.ilo.org/public/english/bureau/inf/pr/2000/38.htm](http://www.ilo.org/public/english/bureau/inf/pr/2000/38.htm)).

The nature of flexible employment practices and the reason they occur so prominently in the industries under discussion is outlined in the ILO’s report on ‘Labour Practices in the Footwear, Leather, Textiles and Clothing Industries’ (2000). This report outlines how, in the last few decades, garment production along with employment has shifted from the developed to developing countries. Asia has benefited particularly from this shift and in 1998 possessed 66.2 percent of global employment in the garment industry compared to 44,7 percent in 1995. There is, however fierce competition amongst developing countries to attract investors in the garment industry primarily through keeping labour

costs low. One method of doing this is through creating Export Processing Zones (EPZ), such as those in Sri Lanka, where special tax incentives are offered to investors and adherence to labour legislation is waived. New criteria for competitiveness (especially those of flexibility and quality) mean that many Asian countries are struggling to maintain their position as principal suppliers of the European and North American markets. Instead, countries in close proximity to these markets are attracting a greater market share. In response Asian manufacturers are trying to improve their flexibility by fragmenting the supply chain and devolving the responsibility for flexible supply to subcontractors. This has led to greater employment instability in the sector ([www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm](http://www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm)).

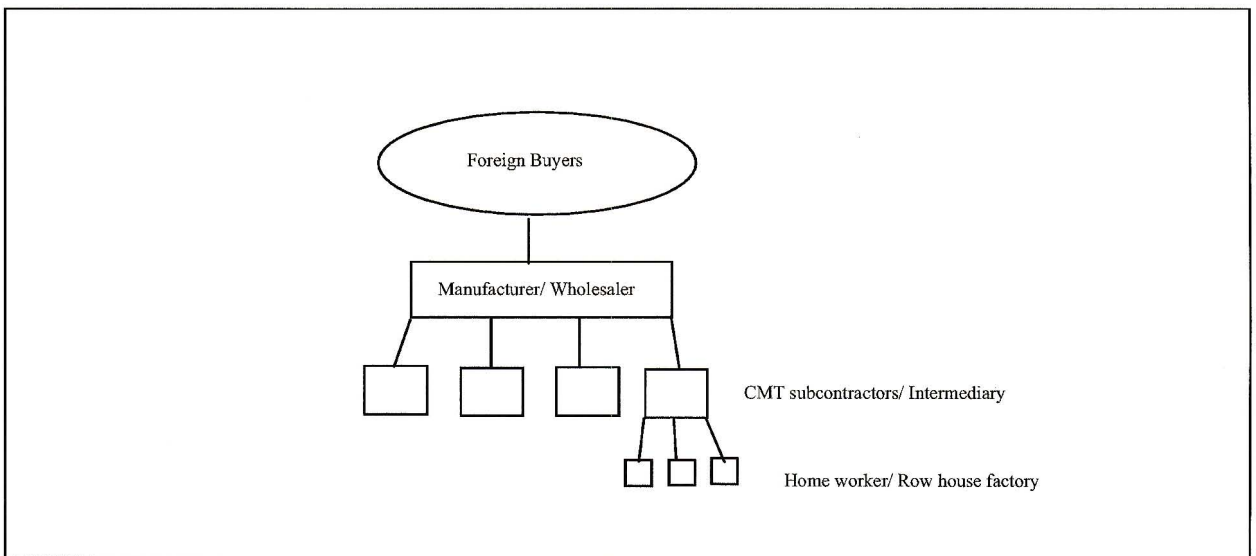
Recent unpublished studies conducted in Asia show that there are striking similarities in subcontracting and flexible employment arrangements used by garment firms in the Kurunegala district in Sri Lanka, the Philippines, the Ahmedabad region in India and Bangkok, Thailand in the face of global competition (Jayaweera et al: 1999; Ofreneo et al: 1999; Boonmathya et al: 1999; Unni et al: 1999). All these economies (except India) underwent a transition from Import Substitution to Export Orientation in the 1970s and 1980s. In Sri Lanka the features of this transition included: liberalization of imports and foreign exchange; liberalization of the price mechanism; reduction or elimination of consumer subsidies; withdrawal of the government from direct commercial and production activity; promotion of direct foreign investment; and active encouragement of labour migration (Jayaweera et al: 1999). Further liberalization of these economies came in the 1980s and 1990s with the implementation of SAPs by the International Monetary Fund (IMF) as a conditionality for loans rendered.

Liberalisation of Asian economies 'resulted in an increase in cross country production linkages and subcontracting relationships...These production strategies have led to a set of secondary contradictory linkages with the hinterland, for provision of requisite material and service inputs or for finishing, labelling and packaging. A further spin-off is the evolution of a second tier of smaller subcontractors who are called in when there are excess orders' (Jayaweera: 1999: 7-8). These strategies are used predominantly to access cheap labour and to evade labour legislation. In Sri Lanka for example, the failure to register contract labour has led to enterprises '...capitalising on loopholes in law and administrative machinery' (Jayaweera: 1999: 7). In India state policies that restrict the growth of large industry have also encouraged sub-contracting relationships (Unni et al: 1999).

Subcontracting arrangements in these four Asian countries vary slightly (Figure 6). Generally however, large enterprises in all four areas manufacture for foreign retailers. These enterprises may undertake all production themselves or may farm production out to smaller factories. In some cases large enterprises do not undertake any production themselves but provide textiles and other components to subcontractors who assemble the garments. In this case the large enterprises are

referred to as wholesalers and the subcontractors as CMT firms. Often CMT firms will further subcontract work to home workers or row house workers. This is done during peak production times or to minimize the risk faced by subcontracted firms threatened by fluctuating demand and low prices. In India large enterprises subcontract work directly to home-workers or row house shops of 10 to 20 people. Alternatively subcontractors, who have no production facilities, act as intermediaries between small factories and large enterprises. Smaller factories are preferred because, ‘factories employing 10 workers with power or 20 workers without power must register under the Indian Factory Act of 1948’ (Unni: 1999: 6). Smaller, unregistered firms can get by without adherence to labour legislation and collective bargaining agreements. (Jayaweera et al: 1999; Ofreneo et al: 1999; Boonmathya et al: 1999; Unni et al: 1999).

**Figure 6: Stylised diagram of the clothing manufacture value chain in Sri Lanka, the Philippines, India and Thailand**



Employment throughout subcontracting chains is precarious especially at the lower end of these chains. In India the majority of workers in the garment industry are casuals and earn a daily or piece rate wage<sup>9</sup>. The picture is similar in Sri Lanka where, although UK retailers insist on high minimum standards, labour exploitation is often hidden in subcontracted firms. ‘The field study [of Sri Lankan garment firms] provided evidence that minimum wages, statutory working hours, maternity leave and worker’s rights were not enforced with respect to these ...[subcontract]... workers’ (Jayaweera: 7: 1999). About 20% of embroidery workers in Sri Lanka were found to earn below 1500 rupees (2500 rupees being the minimum wage). Subcontractors in all regions discussed had little control over the price they charged for garment production and in turn how much they could pay workers (Jayaweera et al: 1999; Ofreneo et al: 1999; Boonmathya et al: 1999; Unni et al: 1999).

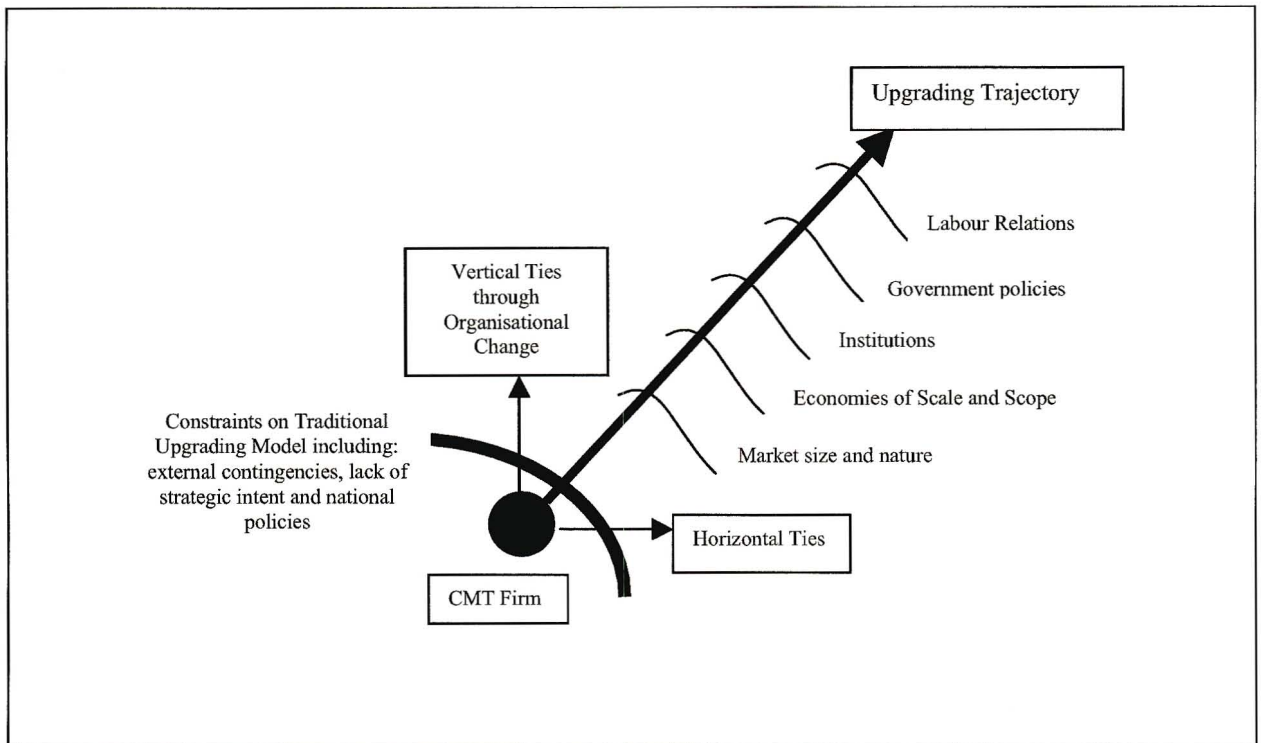
<sup>9</sup> The plight of home-workers in India is brought to life in the novel ‘A Fine Balance’ by Rohinton Mistry (1995) which records the lives of two fictitious home workers struggling to survive in the 1970s during the Indian ‘State of Emergency’.

Having discussed the dynamics of clothing industry employment flexibility in the developing world I ask the question - is upgrading possible in this context of atypical employment and poverty amongst clothing workers? Standing (1999) and Bax (1996) both propose that employees with precarious employment contracts will have less firm loyalty and might actively counter firm upgrading strategies by neglecting machinery or reducing effort. In such situations employers have to rely on '...a system of formal and explicit rules' to motivate staff contradicting many of the assumptions in the flexible specialisation model. Using the first five waves of the British Household Panel Survey (BHPS) conducted over the period 1991-1995 Arulampalam and Booth (1997) also show that '...workers on short-term employment contracts, or who are not covered by as union collective agreement, are significantly less likely to be involved in work-related training to improve or increase their skills.' What effect then, does employment flexibility have on the emerging upgrading model?

### **2.3 A Model for CMT Value Chain Upgrading in the Context of Employment Flexibility**

In section 2.1.3 of this paper it was concluded that product, process and functional upgrading in small CMT firms was hindered by a number of factors, most notably oppressive governance relationships. It was however proposed that that lead-firm opposition to upgrading could be overcome by creating horizontal ties between firms and encouraging vertical ties through the implementation of certain intra-firm organizational changes (most specifically, implementation of the cellular factory layout which would necessitate staff training). In this instance upgrading would depend on the nature and size of the product market (is there a market for the product and is the market big enough); available economies of scale and scope (do firms have the capacity to jointly meet large or diversified product market demands); institutions governing exchange relations (do institutions promote trusting cluster relationships and enforce contracts) and government policies that promote clustering in the industry. Even if all these criteria were met one would still need to understand that a sense of insecurity amongst staff could undermine any upgrading initiatives. Having explored all these considerations I present a model for value chain upgrading in CMT firms in the context of employment flexibility (Figure 7).

**Figure 7: Upgrading model for CMT firms using flexible employment contracts**



Before applying the upgrading model presented above to a sample of CMT manufacturing firms operating in Durban, South Africa (to ascertain what steps they and other actors could take to promote upgrading in the sector) we need to consider the context and historical background of the Durban CMT sector to inform analysis of data and the resulting policy prescriptions.

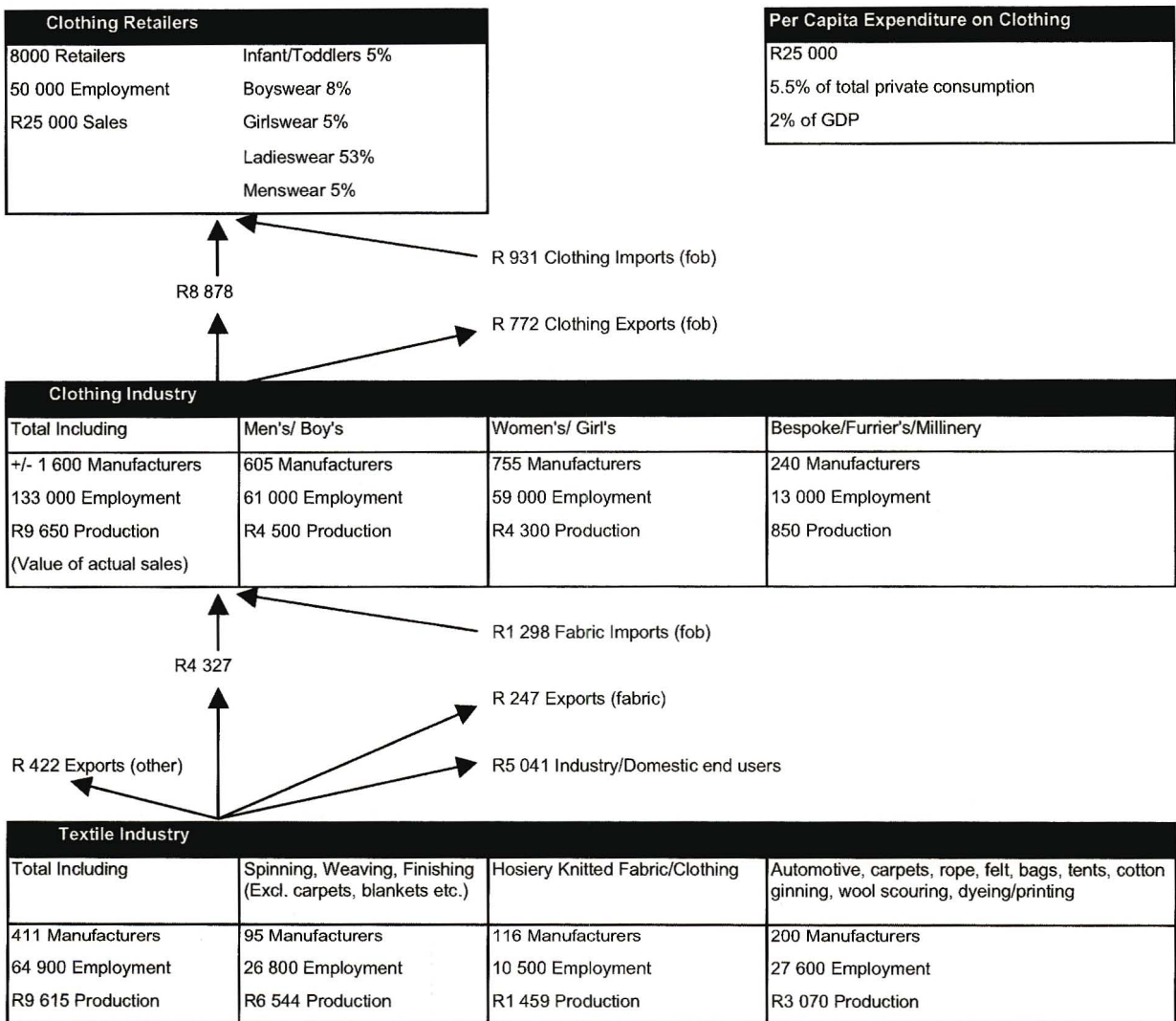


### 3 Context: The South African clothing manufacturing industry with specific reference to Durban CMT clothing manufacturers

A diagrammatic version of the South African clothing industry value chain as it appeared in 1998 is presented below (Figure 8). Included in this diagram are employer, employee, production output, export and import levels for all links in the clothing value chain.

**Figure 8: The SA clothing industry macro perspective (1998)**

1998: "R" Million



Source: Clofed Newsletter, No 65, December 1999: 61

Of particular note in this diagram is the fact that the South African clothing manufacturing sector functions primarily to service the domestic industry with 92% of turnover coming from the local retail sector. Five per cent of retailers account for 50% of this turnover. While imports of clothing only slightly exceed exports in monetary value, most imports come from countries that produce low end of the range goods (Malawi, China, India) meaning that the volume of imports is probably larger than the monetary value would indicate. This is of concern to South African CMT operators that function particularly to serve the middle and lower market segment.

The clothing industry is an integral component of the South African economy. 'As at 1998, formal output (actual value of sales) of the industry was estimated at +/- US\$ 2 billion. This constitutes some 2% of the GDP. If the informal sector contribution is included, this may increase to +/- US\$ 3 billion...According to statistics there are approximately 1 600 formal clothing manufacturers, employing some 133 000 people. Including the informal sector, however, there may be as many as 2000 manufacturers employing some 200 000 people' (Clofed Newsletter, No 65, December 1999: 62).

Having presented an overview of the South African clothing industry, we now shift attention to the background of the industry and the emergence of the CMT sub-sector within the industry.

### **3.1 Background to the Durban CMT Sector**

From early beginnings, competitiveness in the South African clothing industry (and more specifically the Durban clothing industry) was based on the exploitation of labour and protection from the international market place. While Britain supplied the majority of clothing to the South African market prior to 1925, import tariffs (as part of the import replacement programme) spurred the industry in the proceeding years (Netshitomboni: 1996).

As a result of import substitution and the lack of international competition the industry became increasingly uncompetitive. At the macro level, apparel pipeline competitiveness never developed and in 1982 the National Productivity Institute (commissioned to investigate the productivity of the apparel and textile industries) '...declared that heavy protection of the textile industry had weakened the competitiveness of the clothing industry' (Netshitomboni: 1996: 57). Some of the problems associated with the textile industry included long lead times, incorrect deliveries and the unavailability of certain fabrics (Netshitomboni: 1996). As a result of textile supply inefficiencies clothing firms struggled to meet the stringent price and delivery time demands of a small group of dominant retailers (which now include Edgars Group, Pepkor, Foshinis, Speciality Stores and Wooltru). (Harrison: 1996: 36)

One cannot blame pipeline inefficiencies completely for the uncompetitiveness of the South African clothing industry. Individual firms also failed to set the industry on an early upgrading trajectory. Scientific production systems (Fordist) only began to be implemented in the industry in the early 1940s and most firms made little attempt to engage in any form of product upgrading from their establishment. This was particularly the case in Durban where firms tended to manufacture for the middle to lower market prior to the Second World War. During this era, the striped Japanese shirt was the dominant product and after the 1950s Durban firms concentrated specifically on manufacturing

low design content garments such as pyjamas. Cape Town firms on the other hand were manufacturing high quality shirts and pyjamas from the 1930s. (Netshitomboni: 1996)

Despite its uncompetitiveness the clothing industry had become the third most important industry in South Africa in terms of employment by the 1950s. Without the threat of international competition employers increasingly based firm competitiveness on cheap labour, which according to Altman (1994), was a static response to competitive pressure. As early as the 1930s white labour had begun to leave the clothing industry as clerical jobs opened up to them. The African labour that replaced them were employed at lower wages.

Wage competition was encouraged by the government through a series of decentralisation policies which encouraged firms to move production to the borders of African homelands outside of the jurisdiction of industrial council areas (where minimum wages were enforced) and where the supply of cheap labour was plentiful (Netshitomboni: 1996)<sup>10</sup>.

Decentralisation began in earnest in 1953 with the Tomlinson Commission, which hoped to curb the flow of African labour into cities in keeping with racist Apartheid Policies of the ruling National Party. In the first decentralisation policy of the early 1960s incentives were offered to industrialists to relocate their operation to areas adjacent to Bantustans. Initial decentralisation policies failed to meet their original objectives and so in 1967, the Physical Planning Act sought to restrict the growth of labour intensive industries, in urban centres, by requiring urban-based manufacturers to seek permission if they wished to employ more African staff. Rather than shifting firms to the Bantustans, employment declined dramatically in the Transvaal but rose in Durban and to a lesser extent in Cape Town because these cities were exempt from expansion restrictions due to their close proximity to the Bantustans. In 1982, having seen the failure of forced relocation, the government once again tried to encourage relocation to decentralised areas through offering generous incentives. These incentives did encourage relocation of both nationally and foreign based capital. Taiwanese clothing firms in particular took advantage of relocation incentives. By the late 1980s abuse of incentives was widespread and recommendations were made by a panel of experts to allow market forces to determine firm location. These recommendations were implemented in the form of the Regional Industrial Development Programme (RIDP) of 1987 (Netshitomboni: 1996).

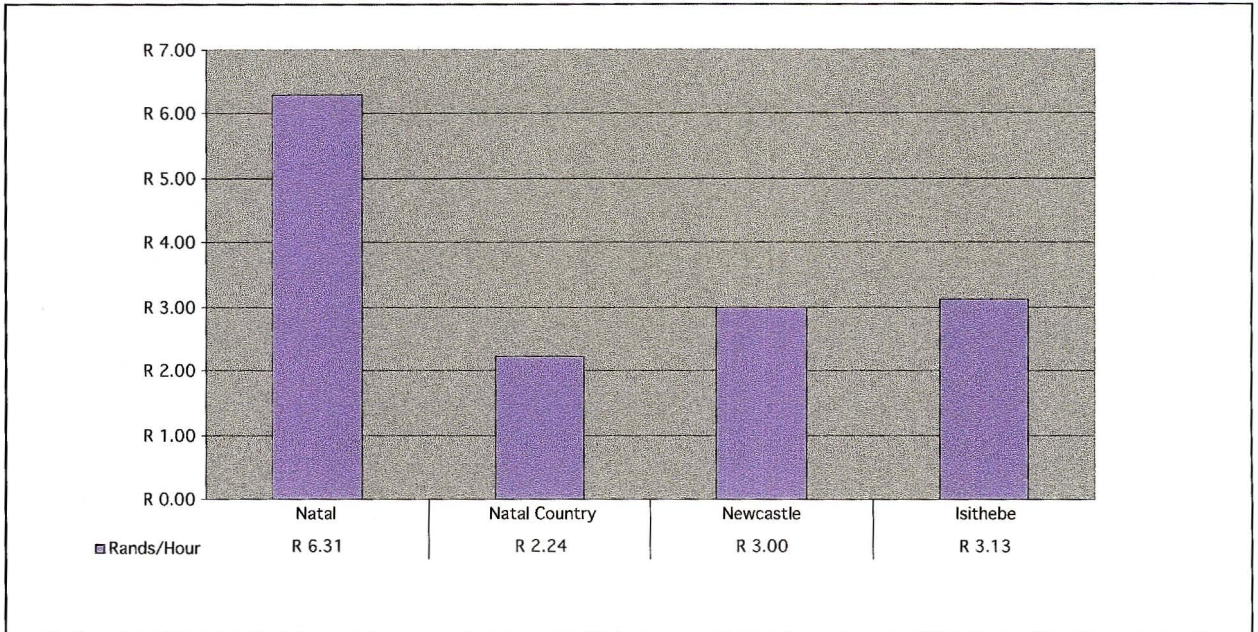
The proportion of firms operating in decentralised areas was particularly marked in the kwaZulu-Natal (KZN) region. The reason for this trend was that price factors were central to the survival of Durban firms and wage levels were considerably lower in decentralised areas (Figure 9). Hammarsdale was

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<sup>10</sup> From the 1930s merchants had already begun to buy fabric and other inputs and outsource the manufacturing component to small, unregistered, Indian owned firms outside of wage determination areas to lower their wage bill (Netshitomboni: 1996).

one of the first decentralised areas to flourish under decentralisation policies. After the introduction of the 1982 incentives package, Isithebe, Madadeni and Ezakheni rose in prominence (Harrison: 1996).

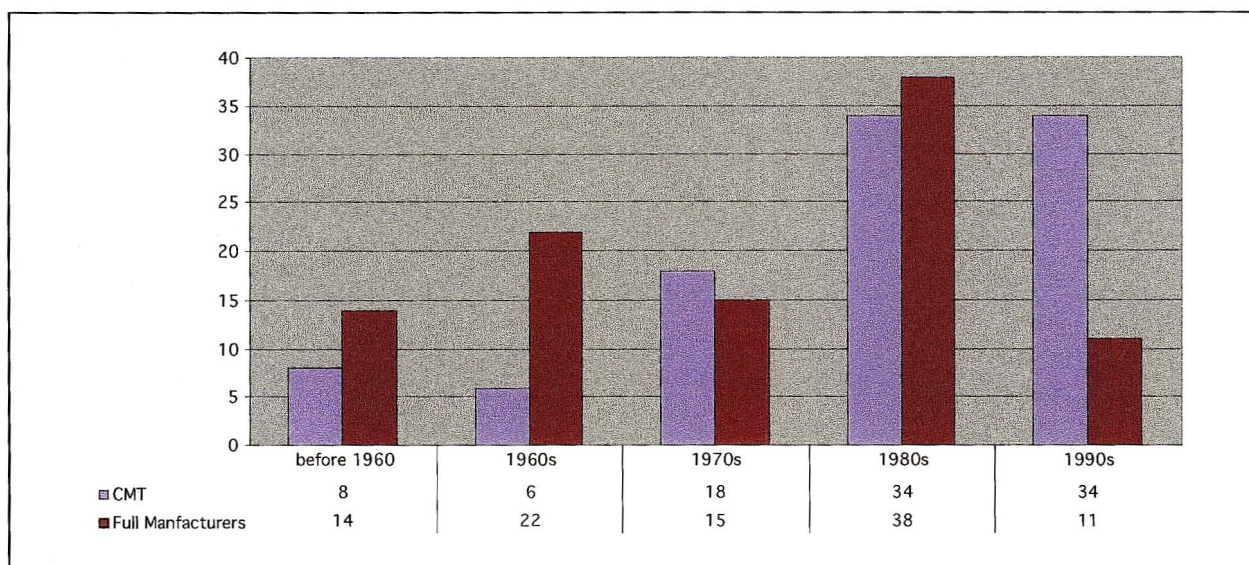
**Figure 9: 1992 wage levels in kwaZulu-Natal and kwaZulu-Natal Regions**



Source: Derived from Harrison: 1996: 37

While many clothing firms relocated to decentralised areas in an attempt to lower their wage bill, others began outsourcing work to CMT clothing firms in the greater Durban area. CMT firms did not engage in any design or sourcing of material but could assemble garments at highly competitive prices. Whilst full manufacturers had dominated the industry up till the 1960s, retailers began to buy their own textiles and subcontract the manufacture of their designs to CMT firms hence eroding the power of full manufacturers (Harrison and Dunne: 1998). It was recorded in Harrison's (1996) study that 300 out of 420 clothing manufacturers in Durban central were CMTs employing roughly 20 000 of the 27 000 strong workforce. The market succession of CMT plants in KZN is captured in the following graph (Figure 10), which shows that while more full manufacturers were established up till the 1980s, the establishment of CMT firms became the norm in the 1990s.

**Figure 10: Date of establishment of a group of 93 clothing manufacturing firms in KZN**



Source: Harrison and Dunne: 1998: 8

Whilst most CMT firms are located in Durban, some have relocated to decentralised areas, especially on the South Coast of KZN, where wages are 40% of those in the Bargaining Council Areas (Harrison and Dunne: 1998). CMT firms located in the greater Durban area are the focus of this dissertation.

Dunlop (1993, cited in Moorhead: 2000) points out that ‘the major characteristics of a national industrial relations system appear to be established at a relatively early stage in the development of a country.’ This has indeed been the case in South Africa where an early focus on wage flexibility as a major component of competitiveness drove firm level, institutional and governmental actions to the end of the 1980s. This was detrimental to the Durban clothing industry and particularly small CMT operators, as we shall see in the remainder of this chapter.

## **3.2 Government Policy with Regard to Durban CMT Sector**

### **3.2.1 Trade and Industrial Policy: National and International**

Prior to political reform in South Africa in the early 1990s industrial policy was demand orientated (protectionist) and based on the protection of local industry through import substitution. In this era, Chang (1998) describes industrial policy as politically unacceptable and economically unsustainable and goes on to argue that it was ‘...burdened with many objectives that ultimately undermined it in the long run’ (Chang: 1998: 51). Powerful business partners only had to display that they could not compete against ordinarily priced imports for tariff levels to be altered (Valodia: 1999; Chang: 1998)

In dramatic contrast to previous decades the general policy with regard to South African trade in the 1990s has been that of liberalisation in accordance with the countries commitment to GATT. The assumption is that cutting protection and reducing tariff levels encourages a country to export

according to its comparative advantage (Feenstra: 1998). In South Africa, liberalisation has been supplemented with 'limited generic supply side support for industry' (Hirschsohn: 2000) as promoted in the two industrial policy framework documents for South Africa published in the first half of the 1990s. The first of these documents was the Congress of South African Trade Union's (COSATU) 'Industrial Strategy Project Document - Improving Manufacturing Performance in South Africa'. This document influenced the 1995 'Support Measures for the Enhancement of the International Competitiveness of South Africa's Industrial Sector'. In these documents the flexible specialisation model was proposed as the basis for the development of supply-side industrial support measures with the ultimate goal being to raise productivity. (Chang: 1998; Padayachee: 1997). The documents also supported a restructured generalised export incentive scheme (GEIS) in the short term (to be phased out by 1997) followed by a longer term '...free trade regime for exporters (through a general system of rebates and duty drawbacks)' (Paydayachee: 1997: 12).

Liberalisation in the clothing sector began in part during the 1980s when the apartheid government introduced a SAP as a response to the intensification of international competition. This SAP included the phasing down of tariffs and the provision of marketable 'duty-free import permits based on the achievement of very modest exports.' The SAP was an abysmal failure in terms of the negative effect it had on employment and it is reported that only '...28% of SAP duty free permits issued to clothing exporters were used to import fabric...Instead of importing raw materials, exporters settled for a more lucrative option of importing low end of the market made up garments duty free' (Netshitomboni: 1996: 53). Attempts to develop a more comprehensive industrial policy began unsuccessfully in the 1990s with the Hatty Commission. In 1992 however the minister of Trade and Industry (minister Keys) established the Panel and Task Group for the Textile and Clothing Industries (the Swart Commission), which was to have more lasting influence.

'The [Swart] Commission included representatives from SACTWU, the textile and clothing sectors, raw material suppliers, retailers, the Department of Trade and Industry (DTI), the Board of Trade and Tariffs (BTT) and the Industrial Development Corporation (IDC)...The Swart Commission's final recommendations intended that the negative impact of tariff reductions would be counteracted by the positive impact of various supply-side measures to support restructuring and enable the two sectors to compete internationally' (Hirschsohn et al: 2000: 70). The proposed sector-specific supply side measures were deemed unaffordable and the clothing industry only qualified for general supply side measures in the final plan for the sector produced in 1995. According to Hirschsohn et al (2000), the implementation of measures proposed in this plan has lagged behind the phase down of tariffs (which has occurred at a quicker rate and to levels below those required in terms of GATT). The independent authority (Textile and Clothing Authority [TCA]) charged with implementing supply side measures and evaluating their impact had also been sidelined. Instead, the collection and handling of data from the textile and clothing industries has become the responsibility of an independent consultant.

The most lasting spin-off of the Swart Commission has been the Duty Credit Certificate (DCC) Scheme. 'A [DCC] is awarded by [the Department of] Trade and Industry to exporting companies. For each rand a company exports, a 30-cent rebate is given in the form of a DCC permit. When importing, the accumulated amount during that year is set off as credit against the import duties' ([www.dispatch.co.za/2000/06/05/easterncape/BWAVERLY.HTM](http://www.dispatch.co.za/2000/06/05/easterncape/BWAVERLY.HTM)). For many exporters, profit making is now absolutely reliant on DCCs (personal interviews with large clothing manufacturers).

Whilst trade liberalisation has in many ways invigorated the clothing manufacturing sector<sup>11</sup>, Padayachee (1997) questions whether a commitment to free trade supplemented with limited industrial support even constitutes an industrial policy. Feenstra (1998) criticises South African industrial policy by saying that the supposed benefits of trade liberalisation are based on the existence of perfect market conditions. When import tariffs on goods penetrating the South African market were reduced the customs and excise system, which once controlled imports into the country, collapsed. The market was left open to import dumping, particularly from countries manufacturing cheap products. Employees once involved in the local production of these goods were, in many cases, retrenched. The demand for higher value added goods was hence undercut and the reliance on cheap, imported goods was reinforced (interview with CLOFED representative).

In the clothing industry trade liberalisation had the effect of reducing the competitiveness of large full manufacturers (particularly those producing for the low market range). Many of these firms became importers of garments or outsourcers of production (rather than manufacturers) to cope with waning profits and uncertain demand. They outsourced work to CMT firms that have to compete directly against cheap imports from China, Malawi, India and Hong Kong (the four major importers into the South African market) without the benefits of technological investment, training, market knowledge, sufficient managerial skills, a stable policy environment or the effective implementation of policy by competent individuals. CMT manufacturers have sought to become more competitive through lowering labour costs. They have done this through shedding formal employees (formal employment in the Natal clothing industry dropped from about 38 000 to 20 000 between 1996 and 2000) and thereafter engaging in atypical employment practices in order to reduce social insurance expenditure. (interview with CLOFED and NCMA representatives, [www.clofed.co.za/stats.htm](http://www.clofed.co.za/stats.htm); Theron and Godfrey: 2000)

Despite the negative outlook for clothing manufacturers under the new trade and industrial regime, some hope does exist in the form of the 2000 US Africa Growth and Opportunities Act (AGOA) as well as the SA-EU free trade agreement (FTA). AGOA and the FTA provide South African clothing

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<sup>11</sup> Clothing exports increased from R 400million to R 1,8billion between 1995 and 2001 (interview with CLOFED representative).

exporters with duty-free, quota-free access to the US/EU markets provided that African inputs are used. It is hoped that if South African clothing exporters take advantage of the FTA and AGOA, vertical integration and learning by doing will be encouraged (Gibbon: 2001b). Speakers at an intra-African trade promotion programme organised by the International Trade Centre warned that if African clothing manufacturers did not take advantage of AGOA soon, the industry would lose one of its biggest advantages, '...because the quotas on Chinese imports to the US would ... fall away at the end of 2004, leaving duty-free imports the only advantage for Africa under the act until it expires in 2008' (www.bharattextiles.com/newsitems/1978244).

### **3.2.2 Labour policy**

Labour market policy and legislation has undergone widespread reform since the democratic transition in South Africa. In this new era all legislation pertaining to labour must be approved by NEDLAC (a corporatist body involving government, business, labour and community). The two main instruments of labour legislation that have emerged from NEDLAC are the Labour Relations Act (LRA) of 1995 and the Basic Conditions of Employment Act (BCEA) of 1997 (House and Williams: 2000).

The objective of the LRA is to govern the relationships between employers and employees and their representative organisations (namely, trade unions and employer organisations) through the system of collective bargaining. According to the Act, collective bargaining occurs at industry specific Bargaining Councils between the majority of employers and employees. Once agreements are reached at the bargaining council (such as the minimum wage in a given industry) they are binding for all parties in an industry, regardless of participation in the bargaining process (Valodia: 2000 and Fryer and Newham: 2000). The second arm of labour legislation, the BCEA, '...provides for ... minimum standards for those who are not subject to collective bargaining...' (Valodia: 2000: 11).

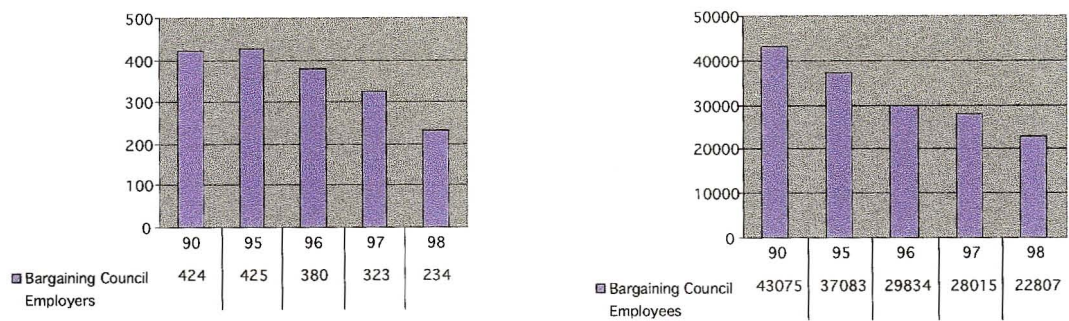
Criticism of labour legislation and its implementation in South Africa is widespread. Of particular importance in this dissertation is the non-representativeness of bargaining agreements as laid out in the LRA of 1995. South African bargaining councils tend to be dominated by big businesses that set minimum wage levels for specific industries through discussion with unions and government. Small businesses cannot afford wages set by larger firms because they do not possess the economies of scale and as a result seek to avoid bargaining agreements<sup>12</sup>. Figure 11 illustrates the decline in employee and employer membership of the BCCI (Natal) in the 1990s.

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12 The BCCI (Natal) attempted to increase the flexibility of wage structures during 2001 by implementing a dual wage band to encourage reintegration of CMT firms into bargaining agreements. In the Durban clothing industry the minimum wage as set by the bargaining council was between R341 and R441 per week at the time that research for this dissertation was conducted. It has since risen to between R390 and R465.25 (Interview with BCCI representative).



**Figure 11: Employer and employee BCCI (Natal) membership trends (1990 - 1998)**



Source: The Clothing Federation of South Africa Handbook: 1998

Small firms avoid bargaining council agreements either through relocation outside of bargaining council agreements or through redefining the status of their employees so that they do not have to comply with agreements reached at the bargaining council<sup>13</sup>. Employment status can be redefined because of confusion over the definition of an ‘employee’ in the LRA. An employee is defined as anyone who works for another person or is entitled to receive remuneration except for independent contractors. From this, the conclusion can be made that if employer and employee agree upon it, the employee can become an independent contractor. The employer is therefore exempt from adhering to collective bargaining agreements, contributing to the Unemployment Insurance Fund (UIF) or from providing adequate pension and medical aid for the labourer (Valodia: 2000, Fryer and Newham: 2000, Theron and Godfrey: 2000, Fakude: 2000).

Despite wide exploitation of the definitional problems with the term ‘employee’ in the LRA (particularly by COFESA as will be discussed in section 3.3.4) amendments to the LRA and BCEA released in July 2000 (and gazetted on the 1<sup>st</sup> of August 2002) are aimed, amongst other things, at curbing exploitation of traditional employment contracts. In the amendments a list of criteria has been developed to ascertain whether an employment relationship exists. ‘Independent contractors will be regarded as employees and ‘clients’ will be regarded as their employers, in any of the following instances: if their hours of work or manner of work are controlled by their clients, if they are economically dependent on their clients, if they form part of the clients organisation, if they have worked for the client for more than 40 hours during the last three months, if their tools or equipment are provided by the client or if they render services to one client only’ (www.cofesa.co.za).

<sup>13</sup> ‘According to a study of South Africa’s labour market conducted by the international Labour Organisation in 1995, covering some 344 firms, ‘external labour flexibility has been growing, in that many firms (in South Africa) were resorting to temporary labour or casual labour and were tending more to make use of contract labour, or subcontracting employment. In over a third of the firms, temporary workers were paid lower wages than regular workers, and in most cases they were entitled to few or no benefits. Over 82% of firms used temporary workers, and over 45% used contract labour’ (www.sairr.org.za/publications/pub/ff/199806/entre.htm).

([www.cofesa.co.za](http://www.cofesa.co.za); [www.labour.gov.za/docs/legislation/llreview.htm](http://www.labour.gov.za/docs/legislation/llreview.htm);  
[www.workinfo.com/free/Downloads/15.htm](http://www.workinfo.com/free/Downloads/15.htm))

### **3.3 Institutions Operating in Durban CMT Sector**

The institutional stakeholders currently operating in the clothing industry and impacting on the functioning of CMTs include SACTWU, BCCI (Natal), the Natal Clothing Manufacturers Association (NCMA) and COFESA.

#### **3.3.1 NCMA**

International experience has shown that employers' organisations can have a pivotal role in the enskilling of smaller firms. This institution was seen by 37% of CMT operators interviewed by Harrison and Dunne (1998) as being non-representative. The organisation was in fact founded in 1936 with the intent of curbing the growth of small firms and is currently in danger of closure.

#### **3.3.2 SACTWU**

SACTWU was born in 1989 through the joining of the Amalgamated Clothing and Textile Workers Union and The Garments and Allied Workers Union of South Africa (<http://students1.humsci.und.ac.za>). SACTWU is affiliated to COSATU and as with other South African unions its purpose is "...to assist in the implementation and enforcement of relevant laws [including] contravention of the Employment Equity Act (1998) and complaints under The BCEA" ([www.ilo.org](http://www.ilo.org)). Members of the union have the right to enter a business premises, represent employees at disciplinary hearings and report alleged contraventions of the law to the employer or trade union. SACTWU also runs a number of social benefit schemes such as a retirement and death benefit scheme.

Despite the necessity of SACTWU, Harrison and Dunne's (1998) study showed that most CMTs viewed SACTWU as an irrelevant institution. Only 36% of CMTs in their study considered SACTWU to have a constructive function. As many as 20% of members saw SACTWU as a destructive institution and almost half of CMTs interviewed had no relationship with SACTWU.

#### **3.3.3 BCCI**

The BCCI works in close conjunction with SACTWU. As discussed in section 3.2.2 the BCCI coordinates collective agreements under the LRA (especially with regard to agreements on minimum wages in Bargaining Council areas) and also runs the provident and sick fund. ([www.ilo.org](http://www.ilo.org))

In a report released by the BCCI (Natal) in June 2001 entitled "the challenges facing the Natal Bargaining Council as it attempts to regain lost relevance, legitimacy and authority" it is recorded that

the BCCI has tried to force compliance to bargaining agreements by spending an excess of R1,5 million on lawsuits against non-compliers. The labour court is overloaded and in one documented case the BCCI waited for over 7 months for a decision on a case against COFESA (due to a technicality). The BCCI is an irrelevant institution for most CMT operators especially since they cannot afford the minimum wages agreed to by large full manufacturers. Bargaining council membership is declining (Figure 11) and small, CMT firms are the principal non-compliers.

### **3.3.4 COFESA**

The official mission statement of COFESA is ‘...to protect employers’ rights, through expert information, assistance and benefits regarding all labour related issues’. Essentially however COFESA advises employers on introducing a contract whereby employees are retrenched and become independent contractors<sup>14</sup> (a process referred to as ‘capitalist exploitation’ by a SACTWU representative). Since labourers voluntarily make the shift from employee to independent contractor there is no grounds to disregard the terms of the COFESA contract.

The COFESA contract exploits the ambiguous traditional definition of an employee, which distinguishes between an employee and an independent contractor. According to Theron and Godfrey (2000), ‘...one of the factors that differentiate an employee from an independent contractor is subordination. The independent contractor as distinct from an employee is notionally on a footing of equality with the employer and bound to produce in terms of his contract of work, not by orders of the employer. An employee, on the other hand, is required to be subordinate to the employer’ (Theron and Godfrey: 2000: 43). This is not the case with COFESA independent contractors. These contractors do not have the ability to choose their own rate of pay, choose their working hours and/or work from home but cease to be protected by collective bargaining agreements and minimum standards legislation upon becoming independent contractors. They are ostensibly employees without any benefits or protection (Valodia: 2000, Theron and Godfrey: 2000 and Fakude: 2000). COFESA does offer a benefit scheme for independent contractors however the benefits are unsatisfactory (for example, only one years pay is offered as compensation for permanent disability) and contractors rarely contribute to benefit schemes as their wages often only cover living expenses.

COFESA members must pay an annual levy of R1740. This levy covers (1) initial advise that firms receive on implementing the COFESA independent contractor system, (2) a handbook named the ‘Code for Fairness and Productivity’ which summarises labour legislation and offers advice on a variety of labour issues, (3) access to a 24 hour hotline, (4) representation at the Commission for

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<sup>14</sup> COFESA facilitates this process under the guise of creating ‘small business.’ An objective which they say is encouraged in GEAR, the South African government’s macro-economic strategy (interview with a COFESA representative).

Conciliation, Mediation and Arbitration (CCMA)<sup>15</sup>, (5) a monthly newsletter and (6) access to the COFESA website. The annual levy does not cover private consultation with COFESA representatives nor does it cover representation at labour court. Firms can however contribute to an insurance scheme, which covers their legal expenses up to R10 000 per year ([www.cofesa.co.za](http://www.cofesa.co.za)).

Statistics on subscription to COFESA are difficult to find. The COFESA website does however claim to have '120 000 small and large employers' as members employing some 2,4 million people. Fakude (2000) also records that '...80 of the 120 clients of the Durban Manufacturing Advisory Centre (DUMAC), made up of small and medium sized clothing firms in the Durban area, are involved in the practice that turns formal employees into so-called 'voluntary contractors' (Fakude: 2000: 21). According to DUMAC statistics 135 small Durban clothing firms belonged to COFESA in 1998 (House and Williams: 2000: 9). These tend to be CMT firms manufacturing for the middle to lower market and utilising a low skilled workforce, (interview with BCCI representative).

For many small CMT firms the independent contractor system is an immediate solution to their seemingly inevitable downfall. Legal action has in cases been brought against individual firms using the COFESA independent contract model (see text box 1) but due to inadequacies in labour legislation (particularly with regard to the definition of an employee) the whole independent contractor system could not, until recently, be challenged.

**Text Box 1: Case history of Building Bargaining Council v Melmons Cabinet cc**

The...case, Building Bargaining Council (Southern and Eastern Cape) v Melmons Cabinet cc and another (2001) 22 ILJ 120 (LC), concerned a dispute between the bargaining council and Melons, a manufacturer and installer of cupboards.

Melmons had persuaded the majority of its hourly paid employees to resign and to enter into a standard form of contract supplied by COFESA in terms of which they purportedly became contractors, who provided services to Melmons for an indefinite period. The bargaining council alleged that the so-called contractors were employees, and subject to the bargaining council agreement. The Labour Court in the course of reviewing proceedings, had to decide on the nature of the relationship between Melmons and the 'contractors'

...[using the case study of one contractor, Mr Mawa, the] court noted that while the agreement recorded that Melmon was a client of the contractor this was nothing less than 'a cruel hoax' perpetuated on Mr Mawa. This had been done with the assistance of COFESA. While Mr Mawa believed that he was a self-employed entrepreneur earning more than he did as an employee, he was blissfully ignorant of his newly acquired obligations and the loss of his rights and privileges as an employee. The court concluded that the agreement that purported to be an independent contract/ principal relationship 'is a sham and it remains a sham even though Mr Mawa has consented to it'. In truth, Mr Mawa is an employee and Melmons is his employer. The court

<sup>15</sup> The 1995 LRA replaced ineffective conciliation boards and the Industrial Court with the CCMA and the Labour Court (which has the same status as the High Court) ([www.labour.gov.za/docs/legislation/llreview.htm](http://www.labour.gov.za/docs/legislation/llreview.htm)). The CCMA is the statutory dispute resolution body in South Africa in terms of the LRA. If conciliation is not achieved by the CCMA they can refer a case to the Labour Court or make Employment Equity Act (1998) awards in an unfair discrimination case ([www.ilo.org/public/english/employment/gems/eo/law/south/c\\_ccma.htm](http://www.ilo.org/public/english/employment/gems/eo/law/south/c_ccma.htm)).

concluded that Melmons was required to comply with the bargaining council's collective agreement and ordered Melmons to pay the cost of the proceedings.

Source: [www.workinfo.com/free/Downloads/15.htm](http://www.workinfo.com/free/Downloads/15.htm)

It is not clear what the impact of amended labour legislation will have on subscription to COFESA but in the words of a COFESA representative, '...the government will put a fence up and we will climb it a different way' (interview with COFESA representative).

### **3.4 Competitiveness and Clustering in the Durban CMT Sector**

Since both full and CMT manufacturers in South Africa manufacture predominantly for the domestic market their competitiveness can be gauged by the demand of local customers. In the 1990s there was a definite shift away from a clearly polarized black and white market towards an amalgamated market of buyers purchasing middle to lower range garments but demanding more in terms of quality, price and style variation (Interview with CLOFED representative). It is on the basis of these demands that one must gauge the competitiveness of CMT firms.

Two studies in the last decade provide some idea of the state of competitiveness of CMT firms operating in KZN. The first is Harrison and Dunne's (1998) 'KwaZulu-Natal's clothing industry: the importance of firm level and pipeline competitiveness issues' and the second is Salinger et al's (1999) 'Promoting competitiveness of textiles and clothing manufacture in South Africa'. In Harrison and Dunne's (1998) study, 65 CMTs and 28 full manufacturers were interviewed. In Salinger et al (1999) 14 out of 37 firms interviewed were involved in CMT production. Neither study focuses specifically on COFESA CMT firms operating in the Durban area but a BCCI (Natal) representative noted that these firms tended to manufacture for the middle to lower market and employed low skilled workers (skilled workers tended to be employed in firms higher up the value chain manufacturing high quality garments).

#### **3.4.1 Process Competitiveness**

From the period 1994 to 1996 Harrison and Dunne (1998) discovered that 63% of CMT manufacturers had done little to change their organisation of production in accordance with new market demands. While CMT operators had decreasing order sizes they tended not to change styles frequently. Change in order size was therefore not an indication of greater flexibility but rather of declining orders due to imports. Despite the pressure on CMT firms, they have done little to improve their quality focus or flexibility. Harrison and Dunne (1998) found that defect rates, bundle sizes and throughput times increased over their research period.

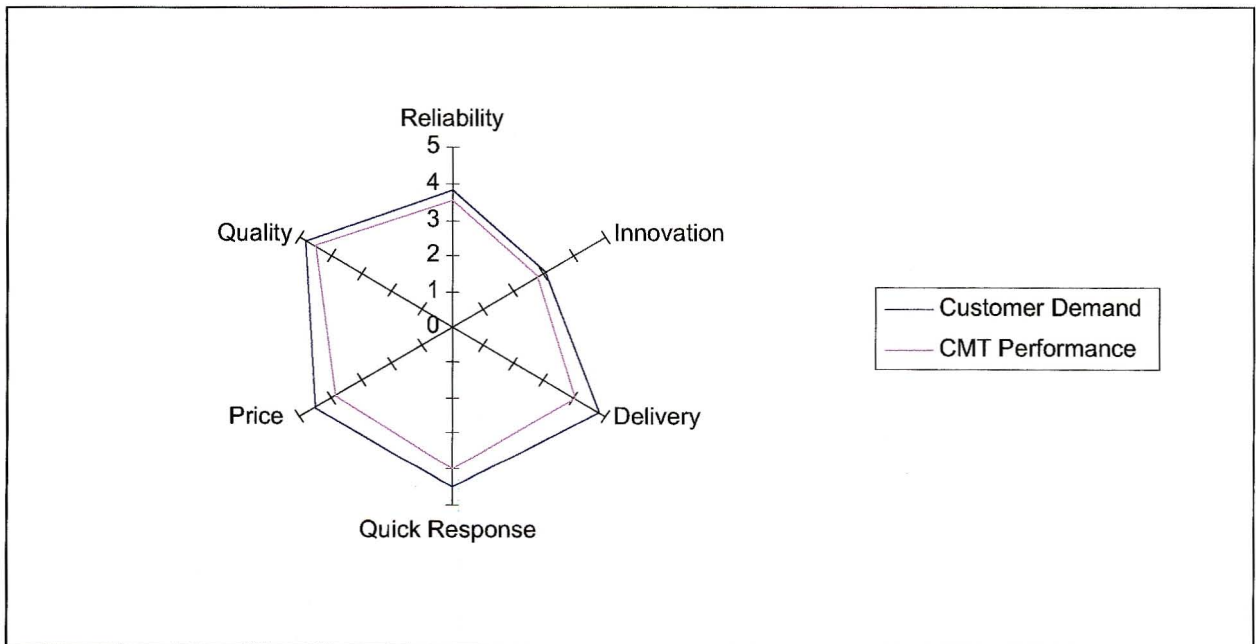
Firms appear to be doing little to enhance the skill levels of their staff with 88% of CMT firms reporting that there was no change in their training focus from 1994 to 1996 (Harrison and Dunne:

1998). Only exporting full manufactures wanting to qualify for DCCs tended to train staff. Small CMTs operating in the 1990s had high retrenchment levels and often kept workers on short time. In this context training was a non-viable investment. Staff had very little incentive to increase productivity, as bonuses were rare and promotion unlikely even after working for a firm for 30 years (Salinger: 1998).

### 3.4.2 Supply Chain Competitiveness

The chairman of CLOFED commented that high labour costs were a minor impediment to the competitiveness of CMT firms. Rather, supply chain management deficiencies undermined sector wide efficiency. These deficiencies have been perpetuated by full manufactures, wholesalers and retailers who, over the last 10 years, have promoted arms length relationships with their suppliers by decreasing order sizes and encouraging suppliers to diversify their customer base. CMT operators have not been able to attract new customers and in Harrison and Dunne's (1998) study 26.2% of CMT firms have not experienced a change in their customer bases even though orders from current customers are decreasing. Despite waning demand CMT manufacturers are (by their own admission) failing to meet the demands of their existing clientele and are therefore unlikely to attract new customers (Figure 12).

**Figure 12: CMT perceptions of the gap between customer demand and own performance**



Source: Harrison and Dunne: 1998: 40

CMT manufactures have little control over their supply base as customers supply most inputs. Where CMT manufactures do have a direct relationship with suppliers (for example, for package and trimming inputs), they tended to under perform in terms of quality, price, quick response, delivery, innovation, reliability and financing options. Only five per cent of CMT firms subcontracted work to

other firms and in 43% of these cases customers dictated subcontract relationships (Harrison and Dunne: 1998).

## **4 Analysis and Description – Applying the upgrading model to a sample of ten COFESA affiliated firms**

Having surveyed the South African clothing manufacturing sector with specific reference to CMT manufacturers in Durban, their competitiveness and the government policies and institutions that effect them we can apply the upgrading model developed in chapter two (presented pictorially in Figure 7) to a sample of ten firms to ascertain:

- 1) the upgrading trajectory of CMT firms using the COFESA model,
- 2) the hindrances to upgrading in these firms,
- 3) and the upgrading opportunities available to these firms?

### **4.1 General Review of Firms**

In total eleven garment manufacturing firm owners were interviewed all operating their firms in the greater Durban area (including Clairwood Industria, Phoenix Industria, Durban Central and Umbilo). Eight of the eleven owners specified themselves as CMT manufacturers (CA to CH), one as a manufacturers of uniforms for hospitals and hotels (MA), one as a manufacturer of corporate advertising wear (AA) and the last a pleater of women's skirts (PA). I have assumed PA and AA to be CMT manufacturers because they are both subcontracted firms. MA, on the other hand, is a full manufacturer dealing directly with end consumers and is therefore not included in the general analysis of data that proceeds. This is because the focus of this dissertation is on subcontracted or CMT manufacturers. MA will however be discussed at a later stage for reasons that will become evident.

The full functions of the sample firms, their market focus and type of clothes they manufacture are outlined in Table 6.

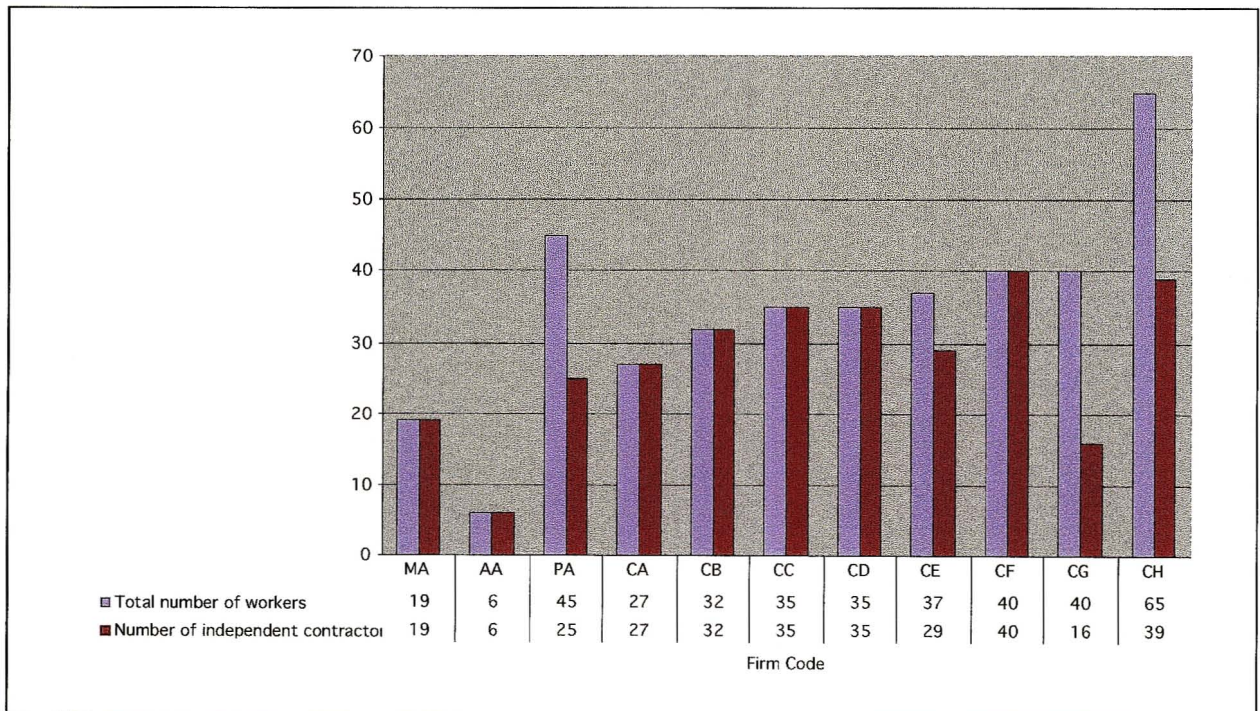


**Table 6: General characteristics of interviewed sample**

| Firm Code | Age of Firm | Years of COFESA Affiliation | Firm Functions                            | Type of Garments                             | Market       |
|-----------|-------------|-----------------------------|---|--|--------------|
| MA        | 11          | 3                           | Manufacture, Distribution & Sales         | Uniforms for Hospitals, Hotels and Corporate | Upper        |
| AA        | 10          | 3                           | Design, Manufacture, Distribution & Sales | Corporate Advertising                        | Middle       |
| PA        | 19          | 3                           | Pleating                                  | Ladies' Skirts                               | Upper-Lower  |
| CA        | 7           | 3                           | CMT                                       | Ladies' and Girls'                           | Upper        |
| CB        | 30          | 4                           | CMT                                       | Men's and Boy's Shorts and Ladies' Outerwear | Middle-Lower |
| CC        | 21          | 3                           | CMT                                       | Children's wear and Ladies' Outerwear        | Upper        |
| CD        | 21          | 3                           | CMT                                       | Children's Clothing                          | Upper        |
| CE        | 25          | 3                           | CMT                                       | Ladies' Wear                                 | Upper-Middle |
| CF        | 5           | 5                           | CMT                                       | -  | Lower        |
| CG        | 3           | 3                           | CMT                                       | Girls' Wear                                  | Upper        |
| CH        | 3.5         | 3.5                         | CMT                                       | Ladies' Blouses                              | Upper        |

While the age of the firms varied considerably, the majority of firms had only been affiliated with COFESA for three to five years (the mode being three years). 55% of interviewed firms used the COFESA contract for all their staff with the remainder being casual workers (Figure 13).

**Figure 13: Total number of workers compared to independent contractors in the interviewed firms**

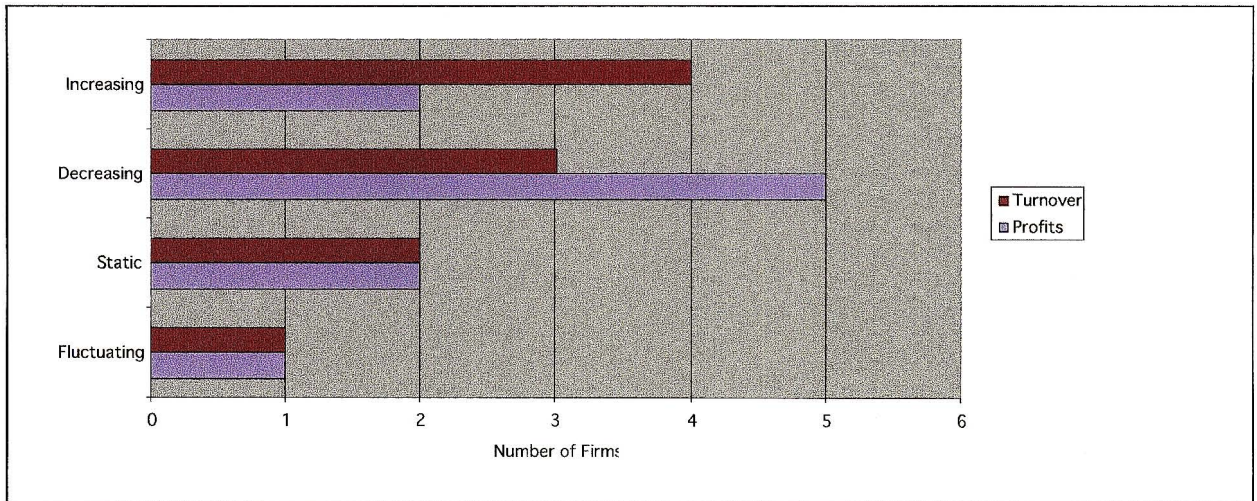


## 4.2 Competitiveness of Firms

The ideal profile for a competitive firm is one in which both profits and turnover are increasing but in which profits increase at a faster rate than turnover. Hypothetically, this is because as a firm upgrades

to the production of higher value added items they will have to produce smaller volumes for greater profit (Harrison and Dunne: 1998). In the sample of CMT firms, used for this study, quite the opposite trend is evident. *In most firms profits are tending to decrease despite increasing turnover.* This would indicate that firms are accepting more and more orders at lower prices, a trend indicative of the race to the bottom and the eventual demise of these firms as outlined in Figure 14.

**Figure 14: Profit and turnover trends in sample of COFESA firms**



### 4.3 Horizontal Collaboration Amongst Firms

*Interviewed owners did not tend to encourage horizontal collaboration.* Owner CF explained that there was not enough work to warrant any horizontal joint action and whilst owner CD did collaborate on jobs during busy times, he did not overtly pursue it. He would only do so with people whom he trusted and who had sound business sense. Owner CA had attempted to collaborate with competitors in the past but delivery problems thwarted his efforts. Interestingly, owner PA pointed out that the COFESA model intensified competition and not collaboration. Presumably, this is because the COFESA system, which aims to improve the price competitiveness of firms, also initiates price wars between firms.

### 4.4 Forging of Vertical Ties through Organisational Change

#### 4.4.1 Current Customer Relations

Despite the poor state of competitiveness of most of the interviewed firms, Table 7 shows that *eight of 10 firms professed to having excellent, good or very good relationships with their customers.* Only four felt pressurised by, or dependent on their customers. In these instances pressure was the result of competition from cheap imports or competition from manufacturers in decentralised areas. Owner CF noted that CMTs had to fall into line if they were to stay in business. He also remarked that the pressure he felt as a CMT owner was the result of a ‘chain’ reaction as merchants (wholesalers) were also under intense pressure to drop prices. In his opinion, the COFESA model was the only answer to this negative chain reaction.

**Table 7: CMT-Customer relationships in interviewed firms**

| Firm Code | Number of Customers | Principal Customer Type                   | Relationship with Customer |
|-----------|---------------------|---|----------------------------|
| AA        | Numerous            | Direct to corporate advertisers           | Very Good                  |
| PA        | Numerous            | CMT, wholesalers and domestic dressmakers | Very Good                  |
| CA        | 3                   | Retailers and wholesalers                 | Good                       |
| CB        | 6                   | Wholesalers                               | Very Good except for one   |
| CC        | 4                   | Wholesalers                               | Pressurised                |
| CD        | 1                   | Design House                              | Very good but pressurized  |
| CE        | 1                   | Design House                              | Good but very dependent    |
| CF        | 1                   | Wholesalers                               | Pressurised                |
| CG        | 1                   | Full Manufacturer                         | Excellent                  |
| CH        | 1                   | Wholesaler                                | Good                       |

The type of customer that firms supplied appeared to have some bearing on the nature of customer-CMT relationship. As is evident from Table 7, the majority of sample firms (*six of 10*) **manufactured for wholesalers with whom they had good, very good or pressurised relationships**. Only one CMT did some work for a retail store and whilst two others had once subcontracted for retailers, they found that cheap imports had undercut their competitiveness in this market. The best CMT-customer relationship reportedly occurred between firm CG and a full manufacturer. Design houses were also reported to be good or very good customers (by two firms in the sample) but they pressurised their suppliers particularly in the areas of price and delivery time.

Despite the generally positive nature of customer-CMT relationships, **none of the interviewed firm owners had any direct or contractual ties with their customers**. It seemed that besides one customer, who engaged in quality control, most customers tried to distance themselves from their CMT suppliers, contractually and physically. In the case of firm CD, the owner's wife was required to pick up fabric from the customer and deliver garments back on the required day, meaning that customers never visited the CMT factory.

The **CMT firms interviewed had little interaction with upstream aspects of the value chain**. Textiles and other inputs (trimmings) were generally supplied by wholesalers. Two firms sourced some of their non-textile inputs from local suppliers but only owner AA had full experience in dealing with textile and other input suppliers. She complained that local textiles were not colour consistent leading her to keep massive inventory stores.

#### **4.4.2 Intra-Firm Efficiency**

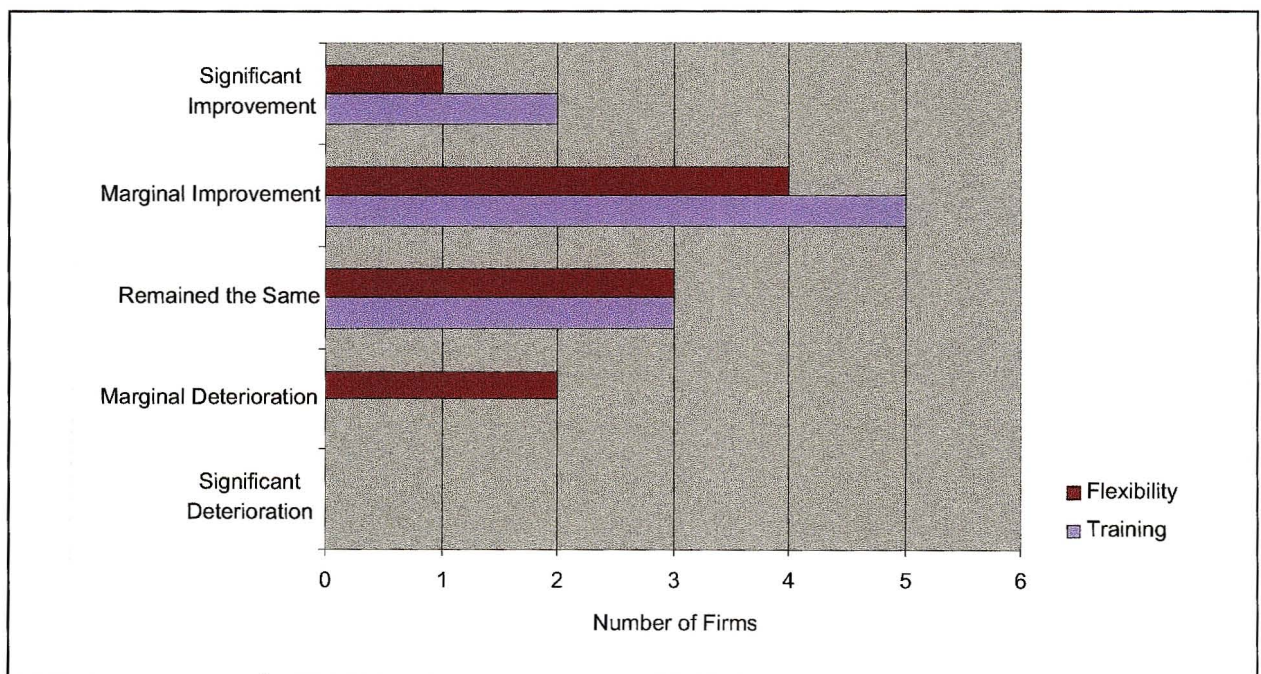
The supposed principal benefit of the COFESA model is that it enhances productivity. With this in mind, firm owners were asked to rate the productivity of their staff on a scale of one to five (one being exceptionally poor and five being excellent). They were also asked to specify if worker productivity had improved since the implementation of the COFESA system. **Five of 10 firms rated their staff as**

*being good producers.* Four said staff productivity was average. Owner CF (whose reign over staff was almost dictatorial) told me his staff were poor producers because his best workers had moved to better, higher paying jobs. *Five of 10 firm owners estimated that staff productivity had improved since the implementation of the COFESA system.* Of these five however, three gave other reasons for the increase in productivity (namely, more skilled staff, greater staff versatility and better working conditions). Two firms had seen no increase in productivity since the implementation of the system and three said that it was impossible for worker productivity to improve because there was so little work. So little in fact that workers sat around playing cards or deliberately slowed down production so that they could retain their employment until the next order came in.

It is interesting to note that while COFESA’s only suggestion for increasing worker productivity is to pay on a piece work rate, only three firms used this method of remuneration. Of these three only one firm had experienced an increase in productivity since implementing the piece rate system. Productivity had remained the same and worsened in the other two firms respectively.

Productivity being a vague measure of upgrading, all firms were asked to rate themselves in terms of change in production flexibility (including lead times, throughput times and bundle size) and training focus since the implementation of the COFESA system as highlighted in Figure 15. *Most firms had experienced a marginal improvement in training focus and production flexibility.*

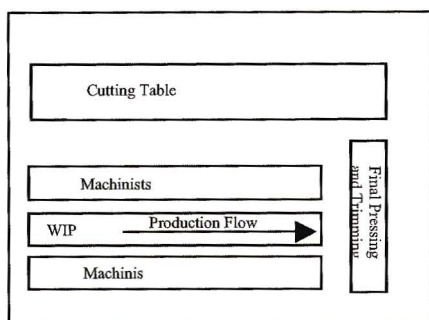
**Figure 15: Change in firm flexibility and training focus since implementing the COFESA system (n=10)**



I specifically asked owners if they had ever changed their production line layout to enhance productivity and flexibility. *Eight of 10 had never implemented any intra-firm organisational changes.* Of these eight, three said that they changed the items that they produced regularly, but not the production line. Inflexibility and inefficiency in production was a major concern for owner CG

who commented that even though prices went down every year his production levels remained the same ‘...because you cannot push a person to do more than what they can do’. Owner CD employed a mechanic to visit the factory every day because breakdowns at one stage of the production line caused ‘major hold ups’. In the case of the pleating factory (PA) flexibility in production was nearly impossible because the owner could only afford one steamer. WIP was piled high behind the steamer and presumably the steamer operator had to work extended hours to compensate for this bottleneck. A factory layout common in the visited firms is represented in the diagram below (Figure 16).

**Figure 16: General layout of factory floor in COFESA firm**



Where owners had not changed the layout of their factories, improvements in intra-firm efficiency were assigned to ‘a squeeze from the top’, the implementation of the COFESA system, allowing staff to own work and the multi-skilling of labour. Owner PA regularly stopped pleating on the production floor for five minutes so that all workers could engage in pattern making. When no pleating work was available, the factory doubled as a belt factory.

**Only two of 10 firms professed to having implemented cellular production techniques.** In firm CB this was undertaken with the help of a consultant sponsored by DUMAC who recommended that the owner place all similar operators together. The cellular layout was not evident in firm CC despite the owner’s argument to the contrary.

#### **4.5 Size and Nature of Market and Economies of Scale and Scope**

Whilst most CMT owners interviewed categorised themselves as manufacturing for the upper and middle-income groups (as can be seen in Table 6) **my personal observation is that all of them manufactured for middle and lower income groups** (confirmed by a BCCI [Natal] representative). My assumption is that since CMT owners indirectly served some of the larger retailers in South Africa they presumed that they produced for the upper market segment. While these retailers did once target upper market segments, they have in recent time realigned to serve the broader middle and lower income market, which are increasingly saturated by cheap imports.

It is not surprising that **nine of the CMT owners interviewed complained that the market size has shrunk** due to excessive importing as well as the expansion of unregulated home industry. Some firm

owners blamed the government for this phenomenon while one owner scorned retailers for rising imports and said that retailers were 'killing the industry'. Owner CD despaired that only 30% of factories had enough work to keep them going all year and at the time of the interview, firm CE only had enough business to run for two to three days a week. Two firms (CH and CA) noted that the first six months of the year were the most difficult. In these dire circumstances owner PA was forced to begin pleating higher volume, lower quality garments for hawkers (as opposed to chain stores) and hence her 'race to the bottom' was intensified.

In the conditions of a shrinking market, issues such as economies of scale or scope become irrelevant as firms barely have a enough business to keep their factories running and tend not to have access to large volume or high quality international buyers (such as Kmart in the US or Marks and Spencer in the UK).

#### **4.6 Impact of Institutions on Firms**

The institutions operating within the clothing industry are doing little to aid upgrading in CMT firms. The institutions with which the interviewed firms had the most interactions were COFESA, the BCCI (Natal) and SACTWU. Most firms saw little difference between the BCCI and SACTWU and used the terms 'Bargaining Council' and 'Union' interchangeably. Only one firm had prior interaction with DUMAC.

The BCCI (Natal) is seen as a defunct institution, out of touch with the daunting position in which the CMT industry finds itself. *Four of 10 CMT operators reported that their staff had also lost confidence in the BCCI and SACTWU* because they had failed to receive their provident fund payouts when they had been retrenched. Having said this, owner CD was sceptical about whether some firms had actually paid into the provident fund prior to joining COFESA.

Mostly, the *interviewed CMT owners had heard about COFESA via the industrial grapevine* (a COFESA representative estimated that the organisation operated on a 98% referral basis). In only two cases did an agent visit the firm and inform them of the system. The changeover to becoming a COFESA firm typically began with a presentation offered to the employer and employees of the firm. This was conducted either with an interpreter or without (in which case, workers never fully understood the terms by which they were to be employed). In only one case was it reported that staff were given COFESA literature to take home and discuss with their families. *Seven firms had to retrench their staff before implementing the COFESA system* so that staff could receive severance benefits. Two firms employed only casual workers before the implementation of the system and one firm commenced business using the system.

After joining COFESA firms often failed to use the COFESA piece rate system of pay. *Seven out of 10 firms continued to pay their staff on a weekly basis and paid little attention to the COFESA contractual system.* A supervisor in CG told me that no workers had signed a COFESA contract even though the firm was a member of COFESA and owner PA admitted to being totally unaware of the terms of the COFESA contract. The three firms that did pay according to productivity used varying forms of the piece rate system. Firm CF for instance gave workers a productivity rating and paid them per hour accordingly. In firm CD workers kept track of how many garments they manufactured per week and invoiced the owner at the end of the week. Firm CC was unique in having implemented the COFESA system as per the specifications of the organisation.

*Support for the COFESA system was not unanimous amongst owners.* Owner CE spoke of how COFESA had an 'attitude problem'. This owner had refused to pay his full annual levies and COFESA threatened to report him to the bargaining council. Owner CB had little interaction with COFESA and called the Durban office 'incompetent'. She thought that this institution could do much more to aid the industry. Similarly, owner CH said that he hadn't heard from COFESA in three years but continued to pay levies in case labour problems emerged. In one instance (relayed by owner CA) COFESA demanded that a group of CMT firms pay for a lawyer to represent them at arbitration but the lawyer failed to show up.

Despite requiring members to pay an annual levy, *the majority of interviewed firms made little use of COFESA.* While firms CF and CA made regular use of COFESA consultants to deal with labour relations issues most firms had only used COFESA once to divert the legal onslaughts of the BCCI. The story told by almost all firms was of a threatening visit from the BCCI when they first switch allegiance to COFESA. When this occurred, most firms contacted COFESA and were not bothered again<sup>16</sup>. Three firms did not contact COFESA and were also left alone.

*For half the firms interviewed the greatest benefit of belonging to COFESA was 'peace of mind'* (namely, assurance that one would not be harassed by unions or the BCCI). Owner CE felt that he had 'breathing space' under the protection of COFESA and owner CG clarified that '...with COFESA you don't have any problems, you just pay [your] fees'. Having never been a bargaining council member, owner CF felt that the flexible pay structure was the greatest benefit of the COFESA system. Generally owners did not comment on the effect that the COFESA system had had on their productivity. Only owner CA listed a two per cent reduction in reject rates as one of the benefits of the COFESA system. A particularly positive (but unsubstantiated) comment regarding COFESA came from owners CF who stated that, 'COFESA is striving to make things better in this country'.

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<sup>16</sup> The BCCI (Natal) struggles to bring non-compliers of bargaining agreements to justice because non-compliance is no longer a criminal act warranting imprisonment (interview with BCCI representative).

## 4.7 Impact of Government Policy on Firms

Whilst rising imports were consistently blamed for limiting upgrading in the interviewed firms, *only two firms explicitly connected government trade policy with the rise in imports and the resulting negative effect on sales*. The owner of firm CB was emphatic that if the government did not do anything about cheap imports, the industry was "doomed" and owner CG called for the reintroduction of tariffs.

*Eight of the 10 CMT operators interviewed reported having no understanding of labour law*. Where owners did have some knowledge it was gained from the newspaper (this media appears to have significant influence on the strategic actions of owners). Only CF and PA understood that the government was "...trying to make labour laws more flexible", however PA commented that labour law should have been more flexible to begin with. CC postulated that there was no flexibility in labour laws specifically with laws pertaining to benefits. With regard to benefit schemes, owner CC commented that CMT operators worked to line the pockets of others (presumably the bargaining council and unions). Owner CB remarked that labour law makes no concessions for CMTs even though they provide so much employment. In her opinion, labour laws were targeted at CMTs and should be reworked to be more lenient towards these manufacturers. If this were not the case, owner CD speculated that the entire industry would fold. Whilst racist undercurrents are prolific in the industry, only owner CD specifically stated that he was unhappy with the number of Africans that he was required to employ under current legislation (he only had two Africans working for him out of a total of 35 workers).

*A common complaint amongst the interviewed owners was that government policy overlooked the industry outside of the main urban centres*. Firstly, the government failed to register home industries (home based firms reportedly exist primarily in the residential areas of Chatsworth and Phoenix and do not pay VAT) and secondly the government did not control the influx of Chinese owned factories into non-bargaining council areas such as Isithebe and Ladysmith. Wages in unregistered and decentralised firms were sometimes as low as R100 per week (interview with BCCI [Natal] representative), nearly one third of the lowest wage level recorded in an interviewed CMT factory.

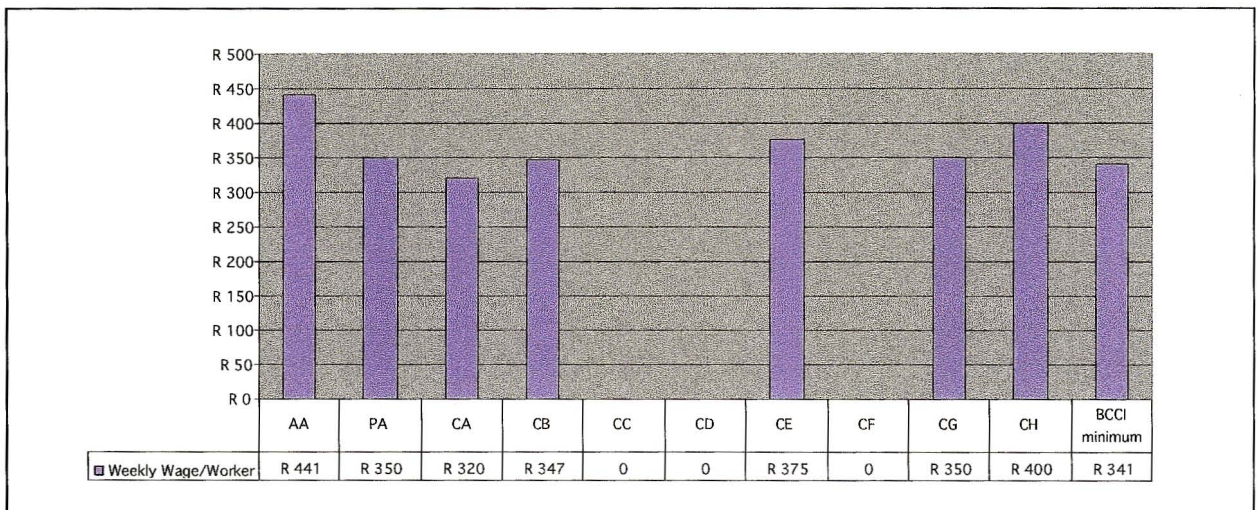
Only one firm owner (PA) scorned government for not curbing the rise in crime in industrial areas. She told a story of how a week prior to the interview she had been held up and robbed outside her factory. The police took three hours to come and register a case and upon arrival one of the officers was apparently drunk. Overall, not one positive comment was made regarding the government's actions in the CMT industry. Owner CB was particularly bitter that the situation of CMT operations had worsened since the democratic transition because the new government does "...nothing to support the industry".



## 4.8 Employee Working Conditions, Remuneration and Attitudes within Firms

*Pay in COFESA firms was generally in keeping with Bargaining Council standards.* On average machinists in the firms interviewed earned approximately R364, 42 per week with the lowest wage per week being R246.75 (this is an approximation because this firm used the piece rate wage system) and the highest being R 441 per week. Owner PA noted that her workers sometimes earned up to R700 a week if one included overtime pay. In this firm, overtime was paid at time and a half under COFESA as opposed to double time under the BCCI<sup>17</sup>. *Traditional benefits associated with formal employment had been dispensed with altogether in the interviewed firms.* Five of 10 owners said that they still contributed to UIF, although subsequent interviews with employees undermined these assertions. While two firms gave workers the option of contributing towards COFESA benefit schemes, few did.

Figure 17: Weekly remuneration in sample of COFESA firms



\*CC, CD and CF not included as remuneration varies according to piece rate output

Along with poor pay and minimal benefits, workers in the sample of CMT firms had very little job security. *Four of 10 firm owners retained their staff for long durations but the modal contracting period was 6 months* (the lowest being three months). Owner PA commented that the COFESA system allowed her to recycle workers in a week if they got ‘cocky’. She added that no workers were indispensable.

Staff representation committees within the firms interviewed were non-existent and therefore few employees had any real idea of staff attitudes towards the COFESA system. *Most employers felt their staff were happier under the system* (because they did not have to pay into benefit schemes) or simply thought it was fair under current conditions. Despite three firms having experienced staff resentment (especially from African workers) towards the system, only one firm owner acknowledged that the

<sup>17</sup> Overtime is not paid in many CMT firms and employees are simply threatened with job loss if they refuse to work long hours (interview with SACTWU representative).

system might be detrimental to staff because they no longer received benefits. Generally employers were ambivalent to perceptions of the COFESA system because they knew that almost all CMT firms used the system. Staff was so desperate for work that they would accept it under almost any conditions. Personal observation of factory environments testified to the quiet acceptance of appalling conditions in some factories. Two factories could be best described as sweatshops. The owner of factory CF, located in Grey Street Durban, had his factory floor under constant camera surveillance. Cameras were complimented with 'bouncer like' supervisors positioned around the factory. Staff worked in desperately cramped conditions in absolute silence and the owner blatantly disliked and badmouthed his African staff. When I was given permission to speak to a staff member in this factory she was visibly frightened and would not speak. As in factory CF, the pace of work in factory PA was manic. While the owner did pay overtime there was clearly no choice as to whether a staff member worked overtime or not. A worker entered the owner's office during the course of the interview to ask to attend his 21<sup>st</sup> birthday party but was refused. Worker safety and health were of little consequence in this factory and the pleating steamer was regularly opened before all the steam released from the escape valve. This placed the steam operator in incredible danger and left the factory hot and clammy.

Most employers did not allow me to conduct interviews with members of their staff with owner CH informing me that it would be pointless to interview a staff member as employees did not know the terms and conditions by which they were employed. Where interviews were granted they tended to be stilted, but two interviews proved to be fairly fruitful. An outline of these brief interviews follows.

Geetha, an employee of firm CD was unhappy that she had not been paid out from the provident fund when the firm left the BCCI but felt that this was probably as a result of joining COFESA. With COFESA, she felt she had no power or financial security. At the time of the interview she was not even a member of the UIF (even though her employer said that he did contribute) and she commented that as a union member she had received many benefits such as access to a union doctor. Now she had to pay for independent medical care.

Anna who had worked for firm CE for 16 years was similarly unimpressed with the COFESA system. She had been hurt by the forced transition to COFESA two years previously and complained that she was now not entitled to any benefits (once again her boss had stated that all staff received UIF). This would be particularly detrimental if she lost her job. While Anna was unhappy, she was impeded from finding other work because i) she had no financial protection to support herself if she chose to quit and find alternative employment, ii) her working hours were too long to search for alternative employment and iii) all small CMT firms appeared to be COFESA members.

The plight of workers will have serious implications of the future of COFESA affiliated CMT firms operating in Durban. What does the future hold for these firms, what undermines their

competitiveness and what options do they have for survival? These questions (the principal research questions of this dissertation) are considered in Chapter 5.

## **5 Answering the Research Questions - The upgrading trajectories of COFESA affiliated CMT firms and upgrading opportunities available to them**

### **5.1 Upgrading trajectory of CMT firms using the COFESA system**

While COFESA masquerades as an efficiency-improving institutional framework for member firms they are little more than a protection racket, curbing government interference - at a price. Very few firm owners implemented, or even knew about, the productivity enhancing piece-wage system that COFESA promotes. Despite experiencing marginal improvements in productivity, flexibility and training focus, no firms have implemented efficiency enhancing organisational changes since joining COFESA and their competitiveness has tended to wane. Increasingly CMT firms are being pushed out of positive supplier relationships (e.g. with retailers and full manufacturers) and have to meet the stringent demands of wholesalers at progressively lower prices. *The downgrading trajectory of these CMT firms is clear and most interviewed owners intended closing their operations in the near future.* As examples, owner CE foresaw the closure of his business in six months, whilst owner CH, who could not always cover his wage bill, did not know if his company would last more than 5 years. Disillusionment and stress pervaded many of the firms I entered, leading the owner of CC to say that he had no goals for his firm and owner PA to say that even though she enjoyed running her company, late hours and constant pressure were too great for her to bear. Owner CA felt that his company was worth selling but speculated that the clothing industry in South Africa would ultimately die, as the shoe industry had.

*Only four of the CMT owners interviewed saw any future for their firms.* Of these four, three believed that their future lay in numerical expansion. In one exceptional case however, owner CB commented that increased versatility and better quality were the answer to survival in the highly competitive CMT industry. Whilst this owner displayed excellent knowledge of issues of competitiveness, probably because of her interaction with DUMAC, her firm continued to register a loss and, as with the other CMT firms in this sample, her firm was on a downgrading trajectory with both profits and turnover decreasing. What can be said to be causing this trend and is it possible to reverse?

### **5.2 Hindrances to upgrading in COFESA affiliated CMT firms**

The hindrances to firm level upgrading amongst COFESA affiliated CMT firms are strikingly evident. Firstly, firm owners fear collaboration with competitors and encourage isolationist thinking. Secondly, despite being cordial, relations with customers tend to be arms-length. Wholesalers in particular shun contractual interaction with CMT firms and discourage upgrading beyond the functions of cutting, making and trimming. Thirdly, and with reference to the previous point, the customer base

of CMT manufacturers locks them into supplying the middle to lower market in which there is increasing competition. Fourthly, CMT factories are uniformly Fordist in nature. Their layout is structured to supply mass orders of cheap garments. The factories are too small to supply orders in the hundreds of thousands (as is the case with some international orders) but too inflexible to supply short runs of high quality garments. They are in a manufacturing 'no man's land'. Fifthly, the sample of CMT firms operate in a defective institutional environment. The BCCI has become little more than a policing organisation since its former roles were undermined<sup>18</sup> and the COFESA model reinforces downgrading patterns in CMT firms. In particular, the COFESA system cuts firms off from information that might filter through from government institutions<sup>19</sup> or the rest of the industry, it encourages firms to pay undue attention to price competitiveness, it destroys worker security and quells any affinity workers might have to work towards the upliftment of their firm. The penultimate hindrance to upgrading in the sample of CMT firms is an unstable policy environment. CMT owners have almost no knowledge of government policy relevant to the industry beyond that which has negatively affected them (for example, inflexible labour law and trade liberalisation). They certainly have no knowledge of any government support programmes or policy relevant to small businesses.

The overriding hindrance to upgrading amongst COFESA affiliated CMT firms is lack of access to knowledge. Firm owners have no sound knowledge of the market in which they operate or how their industry operates beyond the confines of their CMT factory. They do not understand government actions in their sector nor do they have a clear idea of why their firms are in ruin and what they can do to curb their demise. With this in mind it would appear that, while the COFESA system reinforces downgrading patterns within CMT firms, firm level upgrading is largely dependent on the owner's knowledge of the market and market requirements. An interview with firm MA, a manufacturer of uniforms for hospitals and hotel groups, confirms the point that firm level upgrading has little to do with COFESA affiliation and everything they do with owner competence.

Unlike other manufacturing firms in this sample, MA is not a CMT manufacturer but deals directly with 30 to 40 end-user customers at any time with whom the owner said that he had a good relationship<sup>20</sup>. MA opened 10 years ago and has been a member of COFESA for three years. Despite being the smallest factory visited (in terms of staff members and floor area) MA generates the highest profits and turnover of all interviewed firms (profit and turnover have continued to increase since the implementation of the COFESA system).

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<sup>18</sup> A representative of the BCCI commented that whilst the nature of the South African clothing industry has changed fundamentally, the BCCI has not.

<sup>19</sup> COFESA has an informative website but many CMT firm owners do not have access to the Internet and all information on the website pertains to labour issues.

<sup>20</sup> Ironically, one of MA's customers is the BCCI (Natal), the principal opponent of the COFESA system.

Owner MA has engaged in significant firm level upgrading since joining COFESA. In particular the owner reorganised production continually in accordance with market demands<sup>21</sup>. At the time of the interview individual workers manufacture entire garments (from cutting to adding trimmings) to cope with small and varied orders of high quality garments. In essence each worker formed a factory cell of one person but cell sizes were increased if larger, undifferentiated orders were received. As a result of the requirements of cell manufacture, the owner engaged in significant training. The owner reported that his ladies (workers) were 'highly qualified' and noted that lack of skilled workers was a major inhibitor of upgrading in his firm. Whilst workers in this factory were not completely happy with the terms by which they were employed (particularly the fact that they did not receive benefits) they still earned substantially more than CMT clothing workers (R 500 per week) and their working environment was both clean and cordial.

Owner MA was satisfied with the assistance that he was afforded by COFESA. He said that worker productivity had improved substantially since joining COFESA and that he and the workers earned more as a result of the piece rate compensation system. It appeared that COFESA paid a lot more attention to firm MA as opposed to the CMT manufacturers interviewed. In particular, a COFESA consultant had outlined a few systems that the firm could use to improve their productivity. It is not clear whether CMT firms were presented with anything more than a method to change the status of their employees to independent contractors. Also, owner MA was the only interviewed firm owner to present or even mention COFESA's 'Code of Fairness and Productivity' which a COFESA representative argued during the course of fieldwork was given to all members.

### **5.3 Facilitating upgrading in COFESA affiliated CMT firms: Policy prescriptions**

The apt focus of the DTI's 'Integrated Industrial Strategy for Sustainable Employment Growth' (2001) is to develop the knowledge endowments of firms and to marry these endowments with other competitive features. While this strategy is a step in the right direction (lack of knowledge being a major constraint to upgrading in the interviewed CMT firms), the agencies charged with small business in South Africa<sup>22</sup> and the generic supply-side measures offered by the government to support the clothing industry do little to aid CMT firms. Supply-side measures comprise almost exclusively of incentive schemes aimed at large, full manufacturers and are intended to encourage exporting in these firms. While exporting might be a long term goal for CMT firms (especially through collaboration) the short term crises these firms face include: a shrinking market, lack of functional flexibility (including multi-skilling and multi-tasking of labour and responding flexibly to a variety of orders), a

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21 Along with process upgrading (namely, reorganizing production) the owner was also considering value chain upgrading (i.e. moving to a completely new, higher value adding activity) by becoming a wholesaler of corporate gifts.

<sup>22</sup> Ntsika enterprise promotion agency, Khula Enterprise Finance, Business Partners, National Empowerment Fund and Business Referral and information Fund ([www.saafrica.info\\_business/economy/development/SMALL.htm](http://www.saafrica.info_business/economy/development/SMALL.htm)).

disgruntled workforce, isolationist thinking and a knowledge deficit. Government policy could be specifically aimed at curbing these crises by:

- i. Improving the capacity of DTI employees dealing with the clothing sector and SMEs,
- ii. Diverting incentives to encourage collaboration amongst geographically bound firms (both horizontally and vertically)<sup>23</sup>,
- iii. Facilitating clustering amongst firms by developing a database of firms and firm functions and distributing this information within the value chain,
- iv. Strategically promoting value chain upgrading in firms further up the value-chain that serve both the export and the local market (this would inevitably change the market orientation of CMT firms further down the chain),
- v. Increasing social protection of workers and devising new methods of protecting workers from risk (particularly the risks of illness, disability or unemployment),
- vi. Encouraging the establishment of training, learning and information disseminating institutions operating in close proximity to clusters of firms (Khula Enterprise Finance and the Business Referral and Information Network do attempt to fulfil these tasks but have had no impact on the interviewed firms),
- vii. Increasing regulation over institutions already operating in the cluster and empowering these institutions to promote upgrading in CMT firms
- viii. And lastly, promoting skills at the school level that would facilitate upgrading (particularly business and IT skills).

The effect of existing institutions on firm competitiveness is at best benign. The BCCI (Natal), although largely discredited amongst CMT firms, is the longest standing and most established institution operating within the sector. Their most recent task of attempting to enforce bargaining agreements has proved fruitless and while flexible amendments to labour law might increase adherence, the Bargaining Council must re-invigorate itself if it is to survive. This institution has the opportunity to become the government's principal arm in implementing policies proposed above. To do this it will have to regain firm and worker confidence by innovatively tackling the problem of worker insecurity and benefiting the industry through training, disseminating information (including information on market characteristics and industrial restructuring) and/or encouraging collaboration between smaller firms. New institutions, NGOs or organisations with more credibility in the sector (for example, DUMAC or COFESA) might however be more effective in bringing about these changes. COFESA, as it stands, appears to be facilitating its own decline through promoting

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<sup>23</sup> The chairman of CLOFED proposed that, '...the government should encourage large organizations to outsource to small guys and should give incentives to the big guys to improve productivity in smaller firms using professional assistance.' He went on to speculate that if CMT productivity could be improved, these firms could manufacture middle of the range garments at the same price as low cost garments. If these price reductions were passed onto the consumer, the mass clothing market would begin to demand higher quality garments and CMT firms could begin competing in a higher value adding segment.

unsustainable practices amongst its members. The intellectual and financial capacity of this organisation could be put to more fruitful use in bringing about change in the CMT sector, but this is unlikely.



## 6 Conclusion

Based on the research findings presented in Chapter 5, it is possible to create a profile of COFESA affiliated CMT firms operating in the greater Durban area. Having become accustomed to the protected trade environment of the 'old' South Africa many of these firms were not prepared for the onslaught of international and local competition in the middle to lower market. In desperation they joined COFESA, an organisation that did little more than inform them of a loophole in labour legislation. This loophole allowed firms to retrench staff, re-hire them as independent contractors and discontinue adherence to bargaining agreements (such as minimum wage rates and benefit schemes). Without the protection of the BCCI (Natal) workers in the COFESA firms surveyed had almost no job security or protection from risk (illness or job-loss). Despite the financial reprieve that the COFESA system offers, the closure of COFESA affiliated CMT firms is imminent. This is because firms failed to move out of the lethally competitive environment of the middle and lower income market (flooded with cheap imports) and are now, more than ever, involved in the race to the bottom of their value chain. There is in fact a tendency in the Durban clothing industry to '...react to changes in the environment and related crises rather than acting in line with a clear long-term strategy' (House and Williams: 2000: 9).

It was discovered in Chapter 2 of this dissertation that uni-linear value chain upgrading strategies (Kaplinsky and Morris: 2001) offer little insight to CMT firms wishing to disengage from the race to the bottom. CMT firms operating in the developing world are often constrained from moving beyond the level of garment assembly because local and foreign buyers fear encroachment on their core competencies (Gibbon: 2000a and Gereffi: 1999a). A number of researchers (Mytelka and Farinelli: 2000; Schmitz: 1999 and McCormick: 1998) have shown that clustering (see section 2.1.4) has helped small CMT firms overcome well-known upgrading constraints. In terms of clustering literature, horizontal collaboration between CMT firms and vertical supply-chain integration with customers (encouraged through the implementation of flexible specialisation techniques) is seen to boost the competitiveness of firms, but the success of this joint action is dependent on a number of prerequisites<sup>24</sup>. The sample of firms interviewed for this dissertation did not meet any of these prerequisites. They supplied the lower end of the market in which there was increasing competition. Factories were poorly organised along Fordist lines and had to operate in a weak policy and institutional environment. There is also a trend amongst Durban manufacturers to shy away from collaborative solution making (House and Williams: 2000)

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<sup>24</sup> These prerequisites include a large market, the capacity to jointly or individually meet large or diversified market demands and a strong policy and institutional environment (McCormick: 1998 and Mytelka and Farinelli: 2001).

Compounding the problems of the surveyed COFESA, CMT firms was that they had no knowledge of the upgrading possibilities available to them nor did they display the intent to upgrade. Section 2.1.3.3 of this dissertation clearly shows that upgrading will not occur unless a platform for learning is devised, 'to acquire product design and development knowledge from outsourcing firms (Humphrey and Schmitz: 2000: 13). With this in mind the main policy prescriptions of this paper were developed with the intent to broadening the knowledge base of firm owners particularly in the areas of the market as well as managerial and IT skills. Other policy prescriptions sought to encourage clustering amongst firms through incentivising lead firms to vertically integrate with their subcontractors and developing a database of firms and firm-functions within the value chain.

Considering the focus of this dissertation (CMT firms using precarious employment practices) a notable lack in the clustering and value chain literature is the link between employment flexibility and upgrading. Although Bax (1996) and Standing (1999) do propose that employees with precarious employment contracts tend to have low firm loyalty their hypothesis is not empirically verified. Further macro studies are required to test this correlation, particularly where employment flexibility is demand driven (namely, in low skill sectors). Data presented in this dissertation tends to show that the effect of employment flexibility on upgrading and competitiveness in Durban CMT firms is fairly benign except in the instance where skilled workers found more secure jobs when they ceased to be formally employed. In this instance firm productivity was clearly affected by the implementation of the COFESA independent contractor model but the tight job market means that this situation is uncommon.

Despite the minimal correlation between upgrading patterns and employment flexibility, ignoring the plight of 2,4 million COFESA independent contractors (some 35 thousand employed in the Durban CMT sector) would be unethical. Policy consideration has been given to these workers because their individual and family survival depends on some level of protection from risk and research conducted in this dissertation has highlighted the chronically poor conditions in which independent contractors work. As mentioned, there is also some rhetoric to show that increased worker insecurity could decrease the propensity or workers to aid productivity enhancing strategies. Locke et al (1995: 153-4 cited in Fryer and Newham: 2000: 9) for instance state that '...[c]ost-based strategies are likely to lead to a downward spiral of wages, working conditions and labour standards and to reinforce adversarial relations at the workplace'.

The large employment capacity of the Durban CMT sector along with its declining competitiveness necessitates that immediate action be taken to bolster the competitiveness of COFESA affiliated, CMT firms. While isolated policies could initiate upgrading within these firms, policies aimed at revitalising the value chain from lead firm to CMT worker are needed to ensure the continued employment of clothing workers, to resuscitate dying CMT firms and to establish an internationally

competitive South African clothing manufacturing industry. Ultimately this will require stronger vertical integration of the clothing value chain in order to effectively manage a competitive foreign and local clothing supply base (House and Williams: 2000).

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## Appendix 1: Firm level questionnaire

Masters Dissertation: Durban, COFESA, CMT Firms: Their Upgrading Opportunities.

### Firm Level Questionnaire

#### General Firm Information:

Firm Name-

Interviewee-

Age of Firm-

Number of years affiliated to COFESA-

#### Performance Information:

1. In your own words could you describe the functions performed in your company (i.e. design, marketing, production, distribution, wholesaling, retailing)?
2. For which income group do you manufacture?
3. How many people currently work on your factory floor and out of these how many are COFESA independent contractors?
4. Do you collaborate with any other CMT firms in fulfilling orders?
5. If so, what is your relationship with collaborators?
6. Do you source any of your own inputs?
7. Who are your principal customers and how many customers do you deal with?
8. Please describe the relationship you have with customers?
9. Could you describe the production process in your company from the arrival of raw materials to the delivery of finished goods? Do you have a manufacturing strategy?
10. Has your company ever implemented any significant production enhancing strategies? If so, when did you implement these and what changes were made?
11. How would you say the following indicators have changed in your company in the last x years (x being the number of years affiliated to COFESA)? 1=significant deterioration, 2=marginal deterioration, 3=remained the same, 4=marginal improvement, 5=significant improvement
  - Lead Times
  - Throughput Times
  - Average Bundle Size Passed between Machinists
  - Moves to Multi-Skilling and Multi-Tasking
  - Percentage of Wage Budget Spent on Training
12. In your view what would inhibit upgrading in the current global economic context?
13. Would you say that your company's profits and turnover have been increasing, decreasing,

static or fluctuating in the last x years (x being the number of years affiliated to COFESA)?

**COFESA information:**

1. How did you hear about COFESA?
2. Could you describe the terms of the COFESA contract?
3. How did you go about making the change to the new contract? What role has COFESA played in this change? How would you describe the role that COFESA currently lays in your company?
4. Have any people or organisations complained about you using the COFESA contract?
5. What would you say has been the major factor that contributed to you accepting the COFESA independent contractor model?
6. Are you aware of any other methods by which you could have improved your employment flexibility? If so why did you choose the COFESA model?
7. How has the COFESA model benefited your company?
8. What are the negative spin-offs from the specific labour policy adjustments that you have made?
9. Do contractors in your firm belong to a representative committee? If so, what feedback have you received from this committee or individuals regarding their employment status?
10. How are contractors paid (weekly wage or piece rate)? Could you give me exact figures? Has this changes since joining COFESA?
11. Are you contractors eligible for any firm specific or other benefits? If so, what are these benefits?
12. What is the average duration of stay for a contractor at this company? If it is a short stay, does it affect your efficiency in terms of training time?
13. How do you feel the change to the COFESA system has affected your staff?
14. How would you rate the productivity of your staff? One being exceptionally poor and five excellent.
15. Has this changed significantly in the past x years (x being the number of years affiliated to COFESA)?
16. What is your understanding of South African Labour Law and perception of the changes through which it is going? Will this affect the manner in which you deal with labour?
17. Do you have a goal for the direction you would like this company to take in the next five years and if so, what is it?

**Worker Questionnaire:**

1. Are you an employee or and independent contractor in this company?
2. Were you employed at this company when workers ceased to be employees and became independent contractors?

3. What do you feel about the terms by which you work here? Are you satisfied with these terms?
4. What would you say is the major difference between being employed and being an independent contractor?