A CRITICAL ANALYSIS OF SOUTH AFRICAN INDUSTRIAL POLICY AND ITS IMPACT ON THE DOMESTIC CLOTHING AND TEXTILE INDUSTRY FROM 1993 TO 2010

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Submitted in partial fulfillment of the requirements for the attainment of the degree of Masters in Development Studies in the Faculty of Humanities, Development and Social Science, University of KwaZulu-Natal, South Africa.

Durban, Howard College

2012

DECLARATION

This dissertation represents the original work by the author and has not been submitted in any other form to another university. Where use has been made of the work of others it has been duly acknowledged and referenced in the text. I confirm that an external editor was not used.

The research for this dissertation was performed in the School of Built Environment and Development Studies at the University of KwaZulu-Natal, Howard College. Research was undertaken under the supervision of Professor Justin Barnes during the period November 2011 to June 2012.

The financial assistance provided by the School of Built Environment and Development Studies, towards this research is hereby acknowledged. However, opinions expressed and conclusions arrived at, are those of the author and are not to be attributed to the School of Built Environment and Development Studies.

Student Signature :………………………

Date :……………………....

DEDICATION

This dissertation is dedicated to my late parents, Mirriam and Barnabas Ganyile and my late brother, Velile Ganyile. All of you, you are the architects of my personality. Since my childhood, you have always been sources of inspiration and pride for me. Even though you have passed on, your teachings about life; your firm belief on the need to work hard to succeed in life and your uncompromising love for education still linger and will always linger in my mind and inspire me to acknowledge and use productively the energy given to me by God.

ACKNOWLEDGEMENTS

I am grateful to a number of people who helped ensure that this dissertation was completed:

- **To Prof. Justin Barnes and the School of Built Environment and Development Studies, for providing me with financial assistance.**
- **To Prof. Justin Barnes, my supervisor, for his extremely helpful guidance.**
- **To the Benchmarking and Manufacturing Analysts (BMA), for furnishing me with the list of the KwaZulu-Natal Clothing and Textile Cluster (KZNCTC) members.**
- **To the fourteen industrialists who allowed me to interview them, despite their tight daily schedules.**
- **To my siblings, Thobeka; Bongile and Ntombomzi, for their moral and financial support during my years as a student.**
- **To my wife, Nokhanyo, for all her moral support, and for looking after my children when I had to stay away from them for an unusually long period.**
- **Finally, to my children, Sphumelele; Atha'nathi; Unako; Uyanda; Odwa and Gcina, for having to bear financial hardships in order for me to attain this degree. Your suffering was for a good cause and will never be in vain.**

ABSTRACT

As a developing country South Africa is faced with mammoth tasks of both creating employment/jobs that require less skill to be able to absorb millions of job-seekers who are less skilled, as well as putting its economy in proper footing, through investment in continuous labor skills and technological upgrading, so as to compete in the global market characterized by trade liberalization. Unfortunately the 20th century trade liberalization drive caught domestic industry off-guard. Domestic industry was found wanting and job losses tide was triggered. The labor-intensive clothing and textile industry was severely affected. The most vulnerable sections of the society (unskilled/semi-skilled and women laborers) were dealt a terrible blow. The government developed an industrial policy that contained sector-specific intervention measures to rescue the sector. Initially, the clothing and textile sector benefited from export promotion drive expedited through General Export Incentive Scheme and Duty Credit Certificate Scheme. Later on, the government introduced the Clothing and Textile Competitiveness Improvement Program which intended to build domestic production capacity of the sector and make the sector globally competitive. This research intended to conduct a critical analysis of the South African government industrial policy and its impact on the domestic clothing and textile sector from the period 1993 to 2010. On the one hand evidence on the ground indicates that General Export Incentive Scheme and Duty Credit Certificate Scheme failed to salvage the sector through building its competitiveness and strengthen its employment creation potential. On the other hand, while the Clothing and Textile Competitiveness Improvement Program's positive contribution towards addressing crucial challenges facing the clothing and textile sector is acknowledged, the evidence on the ground also demonstrated that some crucial pitfalls need to be addressed to enable the sector to become globally competitive and to realize its employment potential.

LIST OF ACRONYMS

AGOA	Africa Growth and Opportunity Act
ATC	Agreement on Textile and Clothing
BBBEE	Broad-Based Black Economic Empowerment
CTCIP	Clothing and Textile Competitiveness Improvement Program
DCCS	Duty Credit Certificate Scheme
DTI	Department of Trade and Industry
EOI	Export Oriented Industrialization
ESCOM	Electricity Supply Commission
EPZ	Export Processing Zones
EU	European Union
GATT	General Agreement on Trade and Tariffs
GEAR	Growth, Employment and Redistribution
GEIS	General Export Incentive Scheme
IDC	Industrial Development Corporation
IIP	Illegal Imports Program
ISCOR	Iron and Steel Corporation
ISI	Import Substitution Industrialization
KZNCTC	KwaZulu-Natal Clothing and Textile Cluster
MFA	Multi Fiber Agreement
NIPF	National Industrial Policy Framework
NPI	National Production Initiative (now Productivity South Africa)
SAP	Structural Adjustment Program
SADC	Southern African Development Community
SACU	Southern African Customs Union
SACTWU	South African Clothing and Textile Workers Union
SDI	Spatial Development Initiatives
SDP	Skills Development Program
SIP	Strategic Industrial Program
SPII	Support Program for Industrial Innovation
THRIP	Technology and Human Resource for Industrial Program
THS	Tax Holiday Scheme
TIPS	Trade and Industrial Policy Strategy

WCM	World Class Manufacturing
WTO	World Trade Organization

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Chapter One: Introduction, Research Objectives, Research Methodology and Study Limitations

1.1 Introduction

The industrial sector is considered pivotal to the development of the modern-day economy, an industry-based as opposed to ancient agriculture-based economy. Concurring with this point Lin (2009, 484) puts continuous industrial sector development through technological upgrading as a sine qua non for sustained economic growth. The facilitating-state approach, as articulated by Lin (2009, 484), puts the role of the government at the center of economic development, which the government facilitates through the deployment of a judicious and well targeted industrial policy. It is noted by these theorists that even the contemporary protagonists of market fundamentalism have had times when their governments intervened in their economies to allow them to amass a certain volume of assets first and once this was attained they could then be liberalized and this liberalization process was intended to create conditions for more wealth expansion.

Razjiva (2007, 105-106) and Leenders (2007, 3) state that the history of state intervention in the economy goes way back to Bismarck's era in Prussia, the Meiji era in Japan, the 19th century in America, during colonial era in Britain and more recently (1970s and 1980s) in East Asia. State intervention in the economy therefore is not a new phenomenon. These interventions were all based on the realization that the private sector alone could not be expected to steer the economy in the right direction, that some sectors with competitive advantage may lie dormant and therefore need government intervention to be active. Countries, like China, that have benefitted the most from recent trade liberalization have had their governments intervening judiciously and in a coordinated manner in their economies to resuscitate and grow them.

In South Africa the government has always maintained intervention in the economy, although its intervention strategies have taken distinct forms in different periods with various consequences. Before democracy the national government predominantly focused on demand-side measures through the use of tariffs (protectionism) that unfortunately created rent-seeking tendencies amongst business owners, which impacted negatively on industry efficiency. Dijk (2000, 3) argue that on the eve of democracy and after its introduction in 1994 the government focused on strengthening export capacity through the establishment of an incentive scheme to help domestic exporters overcome price disadvantages they had in the international markets. This coincided with the move to embark vigorously on the phasing out of protectionism in line with WTO regulations in 1994 (Ibid, 3).

Cross-cutting and sector specific intervention measures were deployed to try and create competitiveness in the manufacturing industry in general; and in the employment intensive clothing and textile industry in particular. The intention was to put the industry on a proper footing so as to compete with global clothing and textile producers both for the domestic and foreign markets. Unfortunately the government approach proved deficient in a number of crucial policy areas and weaknesses in the industry came to the fore with disastrous consequences.

This dissertation is divided into a number of chapters, each of which focuses on a specific area, with all the areas linked to one another in a particular logic sequence. Chapter One introduces the topic (Industrial Policy and the Development of the Clothing and Textile Sector), outlines research objectives and presents the research methodology employed, as well as the study's limitations. Chapter Two presents the theoretical framework guiding the interrogation of South African industrial policy as it relates to the clothing and textile sector; and also explores the development of the clothing and textile sector globally and in South Africa. Chapter Three interrogates the dissertation's primary research findings and outlines a detailed description of the findings to emerge from the interviews conducted. Chapter Four provides critical analysis of the findings and reflects on policy alternatives that could potentially be focused on. Finally, Chapter Five concludes the dissertation by considering the theoretical and industrial policy implications of the findings generated.

1.2 Research Objectives

This dissertation wants to attain, from the perspective of the industrialists, the following objectives:

1) to establish the impact of the Duty Credit Certificate Scheme (DCCS) on the clothing and textile sector;
2) to establish the impact of the Clothing and Textile Competitiveness Improvement Program (CTCIP) on the sector;
3) to get their perspective on the type of the industrial policy that would have better supported the clothing and textile sector;
4) to establish discrepancies between the current industrial policy and the type that the industrialists feel would have better supported the sector; and
5) on the basis of point 3 and 4 above, to make recommendations with the sole purpose of dealing with the identified discrepancies.

In a nutshell, the focus of the study was to establish the effectiveness of industrial policy from the perspective of beneficiaries.

1.3 Research Methodology

In carrying out this study it became necessary to use both the secondary and primary research processes.

The primary research process entailed interviewing firm owners/managers to elicit primary data. Ensuring the quality of data collected and therefore the credibility of the study necessarily required that relevant research tools be put into use. These ranged from the sampling methodology selected, the size and quality of the survey population from which the sample is drawn, the data collection strategy, and finally the data collection tool to ensure the confidentiality of primary data provided.

Regarding the sampling methodology selected, there are two main methods from which a researcher can choose. These are probability and non-probability sampling methods (May: 1993, 85). Each of these has both advantages and disadvantages. Because of the scope of the policy being investigated (national government implemented industrial policy) and the scope of the study (KwaZulu-Natal province) it became necessary to employ both methods to draw the sample. A non-probability approach saw not only Kwazulu-Natal based firms being selected but it further saw firms that are presently participating in the KwaZulu-Natal Clothing and Textile Cluster (KZNCTC) being made the population from which the sample was drawn. From this population and at this stage a simple random sampling method was carried out to secure the sample of fourteen firms. Blaikie (2003, 168) states that the advantage in using a simple random sampling method is that it gives every member of the population an equal opportunity of being selected into the sample. This strategy ensures the sample drawn is representative of the population.

Once a representative sample is drawn from the population the strategy to be used in collecting data is equally crucial. Punch (2003, 40) states "The data collection strategy – the way the data are collected – can strongly influence the quality of data". These data collection strategies range from self-administered questionnaires, often distributed by mail and other methods, to face-to-face interviews and telephone interview methods. Williamson et al (1977, 142) state that the difference in terms of how data are elicited from the respondents through either of these methods carries huge implications for the quantity and quality of data derived. "Each of these data collection techniques has its own advantages and disadvantages" (Ibid, 142). The data collection technique for this study was face-to-face formal interviews. Face-to-face interview technique is generally the best data gathering technique since it promotes high response rate and the acquisition of good quality data (Ibid, 143). As such, the above technique was used in this research to attain the above-stated goals (high response rate and the acquisition of good quality data). However, it is worth mentioning that this strategy worked only in thirteen of the fourteen firms. One firm preferred a mailed questionnaire instead of a face-to-face interview. Nevertheless, the respondent was available for numerous follow-up questions to the returned questionnaire, which was comprehensively completed.

The data collection tool employed was a semi-structured interview schedule wherein open-ended questions were administered to elicit qualitative data. Williamson et al (1977, 145) states that "Such open-ended questions have the advantage of allowing for the expression of the depth and complexity of the respondents' feelings and attitudes about a particular topic". While formal questions were drafted in advance of each interview, a number of impromptu follow-up questions were also asked at each interview, enabling a wealth of information to be drawn during the interview process.

The positions of the interviewees in their respective firms (positions of high authority) enabled the acquisition of good quality information. Punch (2003, 40) states that "The quality of data is the major determinant of the credibility of the research findings". The following table provides the profile of the firms that participated in the research, the position of the interviewees, the dates during which interviews were conducted and the duration of the interviews.

Table One: Profile of surveyed firms

Firm type	Position of Interviewee	Date of interview	Duration
Clothing 1	Project Manager	28th/02/2012	2H00
Clothing 2	Senior Executive	21st/02/2012	1H45
Clothing 3	Divisional HR Executive	24th/02/2012	2H10
Clothing 4	General Manager	Mailed Questionnaire	N/A
Clothing 5	Chief Executive Officer	15th/02/2012	2H05
Clothing 6	General Manager	24th/02/2012	2H00
Clothing 7	Managing Member	29th/02/2012	1H40
Clothing 8	Owner and Manager	27th/02/2012	1H50
Clothing 9	Manager	27th/02/2012	1H30
Clothing and Textile 1	Managing Director	09th/02/2012	1H35
Textile 1	Managing Director	15th/02/2012	1H40
Textile 2	Managing Director	28th/02/2012	2H00
Textile 3	General Manager	17th/02/2012	1H45
Textile 4	Managing Director	07th/02/2012	1H25

Confidentiality of all firm-specific information supplied was guaranteed at the start of each interview, with this commitment adhered to in this dissertation by not referencing individual names, but rather using research code names for all responses (e.g. clothing firm 1, 2 or 3 etc., as well as Key Informant A, B or C etc.).

The secondary data for the study was obtained from a variety of sources (books, journal articles, papers, newspaper articles) focusing on industrial policy and the South African and global clothing and textile sector. This helped develop an appropriate theoretical framework to give the study proper direction and it also helped in the development of relevant questions with which to elicit data from respondents.

1.4 Limitations of the Study

A number of limitations and biases for this study need to be acknowledged. The study investigates the impact of industrial policy as implemented by national government. As such an ideal sample would necessarily need to be national in scope. The provincial scope of this research is therefore a limitation. As indicated above all the firms that were visited are based in KwaZulu-Natal and all of them are members of the KwaZulu-Natal Clothing and Textile Cluster (KZN CTC) which is a not-for-profit public/private sector partnership of clothing, textile, footwear and retail firms in KZN. The KZN CTC was established in August 2005 to boost the competitiveness of the local industry to ensure that it can compete in the global market.

The inclusion of only KZN CTC member firms shows a limitation and a bias to the study insofar as the policies, whose impacts are being investigated, were and are applicable even to firms that are not members of the KZN CTC and are also based in other provinces of the country. Blaikie (2003, 161) states that “To be able to use the results obtained from a sample to draw conclusions about a population/universe (firms throughout the country), the sample must be selected using probability techniques”. The possibility of inclusion into the sample was nil for firms in other provinces and for firms that are not part of the KZN CTC. It would therefore be wrong to draw general conclusions about the entire country from data elicited from this sample. However, the fact that probability sampling method was also used to draw the sample from within the KZN CTC weakens the above pitfall.

Furthermore, the KZN CTC works with Prof. Justin Barnes who was also the supervisor of this dissertation. Prof. Barnes helps the members of the KZN CTC to adopt world class manufacturing practices to improve their competitiveness. However, this is unlikely to have resulted in any negative impact on the study other than securing the cooperation of the industrialists and the provision of good quality data. Hence only one firm declined a request to participate.

Lastly, this research work is based entirely on the views of the industrialists and it leaves out the views of other crucial role-players in the industrial policy landscape e.g. government officials entrusted with the implementation of the industrial policy. This is a limitation with regard to acquiring a multi-stakeholder perspective in as far as the impact of the industrial policy is concerned.

Chapter Two: Theoretical Framework and Literature Review

2.1 Introduction

The industrial sector is a basic and major component of any modern-day economy. The upgrading of the industrial sector is therefore considered necessary for the economic development of any country. According to the "facilitating-state approach" its establishment and upgrading cannot happen through market forces alone. Judicious government intervention is also needed (Lin: 2009, 484-485). Dijk (2000, 2) argues that in South Africa industrial development initially took place within a protectionist environment through the promulgation of protectionist measures like Customs Tariff Act No. 36, was focused on the domestic market and was pursued to fulfill import substitution industrialization (ISI) aims and objectives like economic independence. Government intervened in the economy to stimulate the demand side of the economy by putting in place trade barriers to imports. Because of inward orientation and ISI strategy there was limited competition amongst manufacturers. Consequently, supply-side support measures to build competitiveness were not given proper and full attention both by the industrialists themselves and the government. Vlok (2006, 227) argues that protectionism and exclusive focus on domestic market allowed inefficiencies to go unchecked, and resulted in a failure to become internationally competitive (and, therefore, a failure to develop significant export capacity) and a concentration of production in low value-added products. Edwards and Schoer (2001, 2) argue that since the 1980s the South African economic development trajectory and trade policy in particular shifted away from ISI to an export oriented industrialization (EOI) strategy. To this end protectionism was gradually phased out. As noted by Edwards and Schoer (2001, 2) and Kaplan (2003, 15) the General Export Incentive Scheme (GEIS) and the Duty Credit Certificate Scheme (DCCS) were established in 1990 and 1993 respectively to expedite exports to foreign markets.

South Africa's re-integration into the global economy, the attainment of World Trade Organization membership and its accompanying trade policy prescriptions regarding protectionism, and the neo-liberal policies of the 1990s democratic government brought to the surface many deficiencies in the country's industrial sector. With regard to the clothing and textile industry these deficiencies manifested themselves in the shrinking of exports, increased import inroads into the domestic market and huge labor lay-offs as a result of domestic industries' failure to compete with foreign companies both in domestic and foreign markets. The following table shows the extent of employment losses in the South African clothing and textile industry between 1996 and 2010.

Table Two: Clothing and textile formal sector employment trend (1996-2010)

1996	2005	2006	2007	2008	2009	2010
228 053	142 863	126 713	121 177	111 012	97 218	94 452

Source: Quantec Easydata (2011)

The above table shows a reduction of more than 50% in employment in the clothing and textile industry for the period 1996 and 2010. While deploying the demand-stimulating measures remained feasible within WTO acceptable parameters, it also became imperative that measures were taken to strengthen the supply-side of the economy. In this context the government deployed both cross-cutting and sector-specific intervention measures to build competitiveness in the economy in general and in the clothing and textile industry in particular.

The clothing and textile sector was one of two sectors that received targeted support from the new democratic government (the other being the automotive industry). It was focused on because of its labor-intensive nature and its potential contribution to job creation in South Africa. Because of the clothing and textile industry's lack of competitiveness, its job creation potential remains unrealized. Establishing the efficacy of the government's intervention measures to help build competitiveness in the industry consequently constituted the 'raison d'etat' for carrying out this research.

This chapter of the dissertation is divided into three sections. The first section considers economic development through a facilitating-state approach and locates the role of government in the development of the industrial sector; it explains what industrial policy is, what its principles are and how governments use industrial policy to intervene in the economy. Different positions are considered. Authors like Rodrik (2004), Rodrik, Hausmann and Sabel (2008) and Chang (2009), who argue for a facilitative role of the government in selecting and nurturing sectors with latent competitive advantage, are analysed; as are authors like Lin and Monga (2010), who caution that governments have the propensity to select sectors that are too ambitious and not aligned with a country's comparative advantage. The different positions need to be understood in the context of identifying how an effective industrial policy is designed. The second section deals with the development of the clothing and textile industry at a global level. This section analyses the development of the industry in the developing world following the decision by leading firms in the developed world to outsource simple activities of the clothing and textile value chain, like assembly and production, to low-cost locations. The section also looks into how some of these low-cost locations (China) deployed industrial policies to upgrade and go beyond just simple activities in the clothing and textile value chain and what the impact of this was on the economies of the developed countries. The response of the developed world to challenges posed by countries like China is also explored. In brief, the section looks into how and what trade and industrial policy instruments were used by China to develop its clothing and textile sector and the developed world to protect its domestic industries from challenges posed by China. The third section focuses on the development of the clothing and textile industry in South Africa and what policy instruments were deployed by successive governments to develop it.

2.2. Facilitating-State Approach and Economic Development

Different schools of thought advocate different approaches to economic development, ranging from market fundamentalism to state intervention. On the one hand neo-classical economists reject government involvement in economic development, other than, among other things, the maintenance of law and order, the protection of private property and the provision of basic infrastructure, and argue for the market forces to be given free space to allocate resources efficiently. On the other hand, facilitating-state approach argues that markets are characterized by inherent failures (information externalities, coordination problems etc.) and this justifies government intervention beyond just the maintenance of law and order and the provision of basic infrastructure but to steer an economy in the right direction (Lin: 2009, 484-485). According to this position, while market forces have a crucial role to play, the government has to intervene to address their inherent failures. Industrial policy serves as one of the policy tools with which a government intervenes in the economy to steer it in the right direction. It does so by targeting sectors whose competitive advantage remains unrealized due to some obstacles. Rodrik (2004) argues that it is pivotal that activities that are targeted have a clear potential for providing spill-overs to crowd in other complementary investments in the economy in general. This would ensure diversification and growth in the economy in general.

2.2.1 What is Industrial Policy?

Rodrik (2004, 1-3) argues that industrial policy is a discovery process-where firms and the government learn about the underlying costs and opportunities underpinning new opportunities and then engage in strategic coordination to exploit latent opportunities in the economy. It is, therefore, not a generic but a selective private-public partnership building process designed to identify and elicit areas of latent competitive advantage in the economy where policy interventions by the government are most likely to make a positive difference (Ibid, 25).

Concurring with the above position Rodrik, Hausmann and Sabel (2008, 5) argue that an industrial policy should focus on economic activities whose potential remains unrealized because of some roadblocks, and consists of putting mechanisms in place to ensure that roadblocks are identified and removed so as to build efficiency in such activities/sectors and increase productivity. This line of reasoning is consistent with Ha-Joon Chang's position. However, Lin and Monga (2010, 2) warn that governments have the propensity to target industries that are too ambitious and not aligned with the country's comparative advantage and therefore end up picking losers instead of winners.

Haque (2007, 8) argues that selecting sectors for government support is extremely difficult but mistakes can be avoided if policy decisions are made in collaboration and consultation with the private sector, which Rodrik, Hausmann and Sabel (2008, 5) view as the source of information about sectors/activities with latent competitive advantage. Once sectors with latent potential have been identified to benefit from government industrial policy, Rodrik, Hausmann and Sabel (2008, 5) and Lin (2009, 498) recommend the deployment of the tax rebates, subsidies, supporting research at tertiary institutions to effect innovativeness and new inventions, maintaining low but stable exchange rate policy to stimulate exports and lowering interest rates to reduce cost of borrowing capital.

2.2.2. The Quest for Private-Public Partnership

Chang (2009, 491) in his debate with Lin concurs with the assertion that industrial development, which is necessary for economic development, cannot happen purely through market forces but it needs government intervention. However, both the public and private sectors are characterized by some failures which make it impossible for either of the two to achieve industrial development without the assistance of the other.

Rodrik, Hausmann and Sabel (2008, 2) argue that markets are characterized by the following failures:

- information/self-discovery externalities-about which industries within the global industrial frontier align with the country's latent comparative advantage,
- coordination externalities, and
- missing public inputs.

Lin (2009, 485) in his debate with Chang, and Lin and Monga (2010, 2) agree that these market failures, which are inevitable in the process of modern economic growth, provide a rationale for government intervention. However, Rodrik, Hausmann and Sabel (2008, 2) argue that while the role of government in the industrial sector development is central, the public sector is also characterized by the following failures:

- poor governance,
- corruption and
- poor macro-economic management.

Because of the above-mentioned public and private sectors' failures partnership between them becomes a requirement if industrial development is to be achieved. What roles do government and markets fulfill in this partnership?

Lin (2009, 486) in his debate with Chang, and Lin and Monga (2010, 2-3) argue that the state has to play a facilitating role, helping the private sector by encouraging the emergence of firms, industries, and sectors with latent competitive advantage by providing the necessary coordination to remove barriers to their emergence and give them a helping nudge to overcome externalities, so that once launched, they would make effective use of the country's current comparative advantage to be competitive domestically and internationally.

Emphasizing the importance of private sector investment Schneider (2000, 413) argues that while many economists agree that a certain amount of government intervention is necessary for infant industries in the early stages, public sector alone is inherently inefficient. Therefore the private sector must invest in areas like in-house skills upgrading programs, technological upgrading etc.

2.2.3. The Logic Behind and Challenges for Selective Intervention

Lin and Monga (2010, 8) argue that in the developed world governments used industrial policy to intervene selectively in the economy to develop capabilities and increase outputs. Sectors which had competitive advantage, taking cognizance of the factor endowment structure of the countries' economies, were identified and selected to enjoy government support. As a result of their selectiveness developed economies' attempts at industrialization made good progress.

Conversely, Lin (2009, 486-487) in his debate with Chang argues that the developing world governments responded to political emotions and as a result did not appreciate their factor endowment structures, did not take time to identify and support sectors where they had a clear comparative advantage and implemented industrial policies whose successes depended on factors (capital and skills) that were largely lacking in the developing world. As a result of this Lin argues that the industrial development landscape in the developing world is littered with failed attempts at stimulating industrial development. Shaffaeddin (2008, 35) indicates that many of those countries are in Africa like Botswana, Mauritius and others are in Latin America.

While selective interventions based on a country's factor endowment structure are credited with enabling developed countries to make economic progress, a number of criticisms have been leveled against Lin's position. Chang (2009, 489-490) argues that selective intervention based on comparative advantage and factor endowment structure, is premised on an assumption that, for example, it allows factors of production to be shifted from unproductive sectors to the ones with latent advantage i.e. employment can be created in sectors in which government has intervened to the extent that even workers from sectors that have been perceived as lacking latent advantage and therefore failed to receive government support could be absorbed. "However, unless they are retrained, otherwise they most likely risk remaining unemployed" (Ibid, 490). It therefore neglects limited/imperfect factor mobility which could present disruptive adjustment process in the economy in general and labour market in particular.

Furthermore, Chang argues that a focus on comparative advantage discourages venturing into new territories because backward economies cannot accumulate capabilities in new industries without defying their comparative advantage (Ibid, 491). While sticking to one's comparative advantage may create efficiency in the short term in the long run the development process and growth, as a result of, for example, the over-protection of an infant industry, are slowed down and rent-seeking behavior may result while too much deviation from one's comparative advantage may result in incurring huge adjustment costs before competitiveness is built. Therefore a proper balance has to be struck.

2.2.4. Designing an Effective Industrial Policy

In designing industrial policies so as to play a facilitative role Rodrik (2004, 21-25) and Haque (2007,8) state that governments have to take into account the following principles:

- provision of incentives to encourage new economic activities so as to diversify an economy and bring about new areas of specialization once the comparative advantage has been exhausted,
- establishment of clear benchmark/criteria for success/failure. This would ensure increase in productivity and that there is no development of rent-seeking tendency amongst policy beneficiaries. Business and technical consultants should carry out audits and benchmarking to monitor productivity,
- beneficiaries to be held accountable for their own performance,
- there must a built-in sunset clause which would ensure that resources are not held up in activities that are not paying off. Should such activities be identified support on them should be withdrawn after a certain period,
- activities that are subsidized must have a clear potential for providing spill-overs to crowd in other complementary investments in the economy,
- authority to carry out the industrial policy should be vested with credible and competent institutions e.g. if the central bank is in good position to provide credit while the tax administration is dysfunctional, industrial promotion may need to be done through direct credit instead of tax incentives,
- since the political leadership takes ultimate responsibility for government's industrial policy interventions it has to monitor the implementing agencies against the development of self-interested behavior and protect the agency from capture by private interests,
- the implementing agent must maintain communication channels with the private sector (investors and business people). This would allow information sharing and informed decision-making, and
- the industrial policy must adapt with time as some of its key tasks may have to be phased out after some time and new ones may have to be taken on.

2.2.5. Conclusion

The analysis presented above locates the industrial sector and its continuous upgrading at the center of economic development. While concurring with the idea that effective markets are necessary for economic growth, facilitating-state approach argues that markets are characterized by some failures which justify government intervention in the economic domain. In intervening, the government uses various industrial policy instruments to help propel the industrial sector in the right direction.

Authors like Lin and Chang concur with facilitating-state approach's argument in the relevancy of state intervention but differ regarding the nature of state intervention. Lin argues that intervention should be focused on exploiting comparative advantage to stimulate those sectors whose competitive advantage lies dormant because of some bottlenecks in the economy which need government to unlock. According to his line of reasoning if a country has a comparative advantage in unskilled labour it should go for industries that use this factor of production. While the economy is exploiting its comparative advantage the factor endowment structure has to be transformed (for example the skilling of the previously unskilled labour) to enable the economy to shift away from the current mode of production (from labour-intensive) to sophisticated ways of production (capital-intensive). This line of reasoning cautions that jumping to capital intensive industries would result in the economy incurring huge adjustment costs. Chang argues that focusing too much on a country's comparative advantage hinders venturing into new territories in the economy which is necessary for economic development. So defying one's comparative advantage becomes necessary if the economy is going to move up development/upgrading ladder from labour-intensive to capital intensive mode of production.

The question therefore is not whether government intervention is necessary or not, but the nature of intervention (limited to or focused on comparative advantage according to Lin or extensive or encourage defying comparative advantage according to Chang), the role of the private sector like helping provide information about sectors with latent competitive advantage and how to design an effective industrial policy which, according to Rodrik (2004, 21-25) and Hague (2007, 8), should entail, inter alia, clear benchmarks for success or failure, provide incentive for new activities to encourage economic diversification etc.

2.3. Contextualizing the Clothing and Textile Industry

2.3.1. Introduction

Having explained how economic development takes place, the potential role of industrial policy and what an industrial policy is, how it is designed, what are its principles and outlined the role of the private and public sectors in developing the industrial sector, it suffices to turn to how industrial policy has been used globally in protecting and developing the clothing and textile industry.

The nature of the production process in the clothing and textile industry is contingent upon production factor costs. As a result of this the production process was spread all over the world, with some activities being shifted to low-cost locations. This section looks into how clothing and textile production became global in scope, how those low-cost locations that benefitted from outsourcing used industrial policy to develop the sector, and the associated impact on the developed world. Lastly it looks into the impact of the ATC on trade in clothing and textile products.

2.3.2. The Changing Geography of Production

Nordas (2004, 1) and Gereffi and Memedovic (2003), as quoted in Barnes and Morris (2009, 1), argue that textile and clothing (in particular) industries are labor-intensive in nature and because of this character they served as the springboard both for developing and developed countries in their industrial development journey. However, the labor-intensive nature of the sector and the low barriers to its entry expose the industry to intensive competition among producers. Globalization made it easy for the clothing and textile value chains to take a global scope, dispersing production while integrating trade. Morris and Barnes (2009, 2) state that "Generally, more complex, higher value tasks remain in developed countries with higher paid and skilled workers while less skilled tasks have moved to low-cost locations, mainly in the developing world". East Asia, Latin America and Africa benefitted from this outsourcing process. East Asian governments successfully intervened in the economy by establishing Export Processing Zones (EPZ) to stimulate industrial growth generally and the clothing and textile sector in particular. As a result they were not just confined to the simple production and assembly processes but went up the value chains to activities like designing, branding, marketing etc. When outsourcing, the developed world had intended to retain these profitable activities. The quality and quantity of clothing and textile products from East Asia presented a threat even to developed countries economies. As a result numerous trade arrangements were put in place to govern international trade in clothing and textile products. Nordas (2004, 13) states that in 1957 the Asian producers (Japan, Hong Kong, China, India and Pakistan) agreed to a voluntary restraint for their textile and clothing exports to the USA.

In 1962 the Long Term Agreement Regarding International Trade in Cotton Textile was signed by the United States and other developed nations under the aegis of the General Agreement on Trade and Tariffs (GATT), allowing developed countries to impose quotas on cotton textiles on a country-by-country basis and in some cases to impose unilateral quotas without penalty in favor of their domestic industry (Ibid, 13).

Nordas (2004, 13) states that in 1974 the Multi-Fiber Agreement (MFA) was reached between the United States, Canada, and some European countries, replacing the 1962 agreement. It governed international trade on clothing and textile products for two decades, until 1994. "The MFA extended restrictions on trade to wool and man-made fibers in addition to cotton" (Ibid, 13). Barnes and Morris (2009, 6) state that "the purpose of MFA was to give rich countries time to restructure their textiles and clothing industries before opening up to competition from poorer countries". Francois et al (2000) quoted in Nordas (2004, 13) argues that quotas were applied almost exclusively to imports from developing countries. They did this by negotiating bilateral arrangements with supplier countries in light of the perceived threat to the domestic interests in the importing countries. Up until 1994 trade in clothing and textile products was regulated to protect fragile industries in the developed economies.

In 1994 a watershed Agreement on Textile and Clothing (ATC) was reached between the USA and the developed world countries. Nordas (2004, 13) states that "The ATC is not an extension of MFA but rather a transitional regime between MFA and full integration of textiles and clothing into multi-lateral trading system". It required that the quota system be phased-out within a period of ten years, beginning from the 1st January 1995 (Ibid, 13). The MFA was duly terminated at the end of 1994.

2.3.3. The Impact of ATC in the Clothing and Textile Sector

The liberalization of trade in clothing and textile products was bound to have a huge impact on both developing and developed economies. China became the main beneficiary of the free trade environment with both the developed and developing worlds experiencing negative consequences as a result of inroads of Chinese imports into their economies. Barnes and Morris (2009, 9), Nordas (2004, 29) and Morris and Einhorn (2008, 355) all concur that following the elimination of quotas Chinese exports of cheap fabric and garments into other countries increased dramatically and this threatened the viability of domestic producers and affected the employment creation capacity of the clothing and textile industries both in developed and developing countries.

The following table shows China's share of world exports of clothing and textiles for the period 1990 to 2006.

Table Three: China’s share of world exports of clothing and textiles (US$ million).

Clothing exports										1990-2004	% world total	
Country	1980	1990	1995	2000	2002	2003	2004	2005	2006	% change	1990	2006
China	1,625	9,669	24,049	36,071	41,302	52,061	61,856	74,163	95,388	984	8.9	30.6
H/Kong	4,976	15406	21,297	24,214	22,343	23,152	25,097	27,292	28,391	63	14.2	9.1
World	40,590	108,129	158,353	197,498	202,310	225,940	258,097	277,971	311,410	188	100	100
Textiles exports										**1990-2004**	**% world total**	
Country	1980	1990	1995	2000	2002	2003	2004	2005	2006	% change	1990	2006
China		7,219		16,135			33,428	41,050	48,683	574	6.9	22.3
H/Kong		8,213		13,441			14,296	13,830	13,910	69	7.9	6.4
World		104,354		158,579			195,541	205,135	218,594	109	100	100

Source: WTO (2007) quoted in Morris et al (2008)

The above table shows that between 1990 and 2006 China emerged from a relatively low status, in terms of clothing and textile exports, to become the world’s biggest exporter, having increased its clothing and textile exports from 8.9% and 6.9% in 1990 to 30.6% and 22.3% of the world share respectively in 2006.

How did China manage to grow its clothing and textile industry and export so much to the detriment of its trade partners? China managed to outmaneuver its competitors because its government intervened in the economy. It maintained low interest rates, provided non-repayable loans, maintained a stable but undervalued currency and provided cash export incentives. Barnes and Morris (2009, 29 & 33) also state “it boasted, inter alia, low wages and high productivity and production of high quality but low-cost inputs and investment in new manufacturing technologies”. This gave China a competitive advantage which other countries could not match as a result of which some found it difficult to survive. This was a terrible blow for clothing and textile industry employment and development in countries, including USA, France, Germany, Italy, U.K, Spain and Greece.

Chinese trading partners tried to curb the surge of Chinese imports into their economies by developing restrictions to Chinese products. The strategy involved:

a) U.S giving preferential but conditional access to her markets for some countries of the developing world under the aegis of the Africa Growth Opportunities Act; and
b) China's negatively affected trading partners developing restrictions on specific exports from China under a phased quota system; and
c) The development of protective tariff regimes in general to protect domestic economies**.**

Although these measures managed to slow down Chinese clothing and textile exports to the US and E.U, the preferential access to markets was not always beneficial to the developing world. For the developing world to benefit, it needed to observe Rules of Origin requirement which required that preference receiving countries buy components of their products from the preference giving countries, mostly at high costs. This, instead, created a captive market for developed countries' clothing and textile components e.g. yarn, fabrics and so on, which were exported to the preference receiving countries. It also gave certainty to preference receiving countries that their products had guaranteed markets and that became a disincentive in terms of improving their competitiveness. On the other hand developed countries also started to focus on their comparative advantage. They restructured the clothing production chains by shifting the responsibility for the manufacture of apparel from the developed to the developing countries. Barnes (2005, 6-7) and Barnes and Morris (2009, 9) argue that developed countries like E.U, Japan and the USA, despite being the biggest consumers of textile and clothing products, experienced clothing manufacturing declines and opted for imports. This decline in clothing manufacturing in the developed world was accompanied by job losses, which could have been worse had there been more offshore textile production.

The table below shows the extent of job losses between 1995 and 2004 in clothing and textile industries in the developed countries as a result of off-shore clothing and textile production investment into the developing countries.

Table Four: ATC countries textiles and clothing employment, 1995-2004 (000s)

Country	1995	2000	2002	2003	2004	% Employment Reduction
TEXTILES						
U.S.A	688	678	535	-	436	37
France	134	123	113	106	94	30
Germany	175	154	139	129	120	31
Italy	301	269	255	249	231	23
Portugal	99	98	97	85	84	14
Spain	97	110	109	104	90	7
U.K	181	144	121	101	96	44
CLOTHING						
U.S.A	814	442	295	-	219	73
France	137	100	89	80	77	44
Germany	105	77	61	55	55	48
Greece	66	50	45	-	-	100
Italy	288	240	224	220	206	28
Portugal	143	129	139	128	127	11
Spain	107	123	104	100	90	7
U.K	154	113	68	53	45	66

Source: Nordas, 2004; UNIDO, 2008 quoted in Morris and Barnes.

The above table shows that the clothing sector experienced severe job losses, with the US and United Kingdom contracting 73% and 66% respectively.

Textile production, as indicated, is capital intensive and therefore its production remained mostly with the developed world which was better equipped technologically and in terms of the skills. As a result of this Barnes and Morris (2009, 17) argue that “employment losses in developed economies’ textile industry have been less severe than for clothing”.

For clothing, the remaining manufacturers in developed economies have had to restructure to avoid complete obliteration. Taplin et al (2003) quoted in Barnes and Morris (2009, 9) state that firms responded by making marketing and operational changes, e.g. just-in-time (JIT), quick response and team-based manufacturing, and bolstering technological innovation, making quality improvement, and outsourcing. They had to invest in technology, skills development and in more efficient production processes.

In a nutshell, China used the free trade environment and manipulated its industrial policies to its benefit and in response developing countries of the world, faced with huge imports from China, responded by resorting to trade and industrial policies to limit imports and secured preferential access to developed economy markets, thereby placing their industries on a stronger footing.

2. 4. South African Economy

2.4.1 Introduction

The intention of this section is to provide a concise picture of how the clothing and textile industry developed in South Africa, particularly from 1993 to 2010, and to establish if government intervention in the form of industrial policy managed to build competitiveness in the industry. Historical and contemporary development of the sector will be traced to establish the impact of government intervention measures.

2.4.2. South African Economy Before Democracy

The economy of South Africa was based on agriculture up until 1860 and 1886, when diamond and gold were first discovered in Kimberly and Witwatersrand respectively. Trade between South Africa and the rest of the world increased, particularly because of gold**.** Africans provided cheap labor through migrant labor system. Government enacted various laws e.g. 1913 Land Act and imposed levies, to ensure African labour's availability for white owned mines and industries. This forced Africans to work to earn cash so as to sustain a living in general and to pay the imposed levies. On the other hand the government, particularly after the coming into power of the Pact government in 1924, deployed demand-side support measures to stimulate domestic industry and fulfill the ISI intentions of substituting imports into the domestic economy by stimulating growth of domestic industries. Kaplan (1975, 10-11) argued that the new Government that entered in 1924 had a definite protective policy for the domestic industry. This saw the imposition of increased customs duties or taxes and tariffs on imported manufactured products.

2.4.3. The Growth of the Manufacturing Sector in S.A

Although agriculture and, later, mining have historically dominated South Africa's economy, manufacturing began to show signs of growth in the early twentieth century. The expansion of the mining sector in the early twentieth century culminated in the development of new industries to meet growing urban demands for, inter alia, clothing and footwear. Until the 1920s, the country still depended heavily on imports from Britain, ranging from mining equipment to textiles and clothing as it did not have major manufacturing industries. But during the Second World War British manufactured products went to the British war effort and South Africa had to devise means to meet its own demand. The government encouraged the local manufacturing sector to meet the country’s demand for manufactured products.

Such industries did not have enough capital to develop and as a result after the war they found it difficult to compete against the outside world which was beginning to export manufactured goods to the country again. In 1924, an alliance between the National Party and the Labour Party came to power. It was called the Pact Government and was under the leadership of General J. B. M. Hertzog as the Prime Minister. The Pact Government had a policy of supporting and encouraging fledging local industries. As a result more factories developed and small industries grew. The Pact Government protected local industries by increasing customs duties or taxes and tariffs on imported manufactured articles, surcharges, and imposing strict import licenses. Schneider (2000, 415) states that the real push for import substitution industrialization came with the victory of the Pact government in 1924 and the push lasted for 50 years. Entities like Electricity Supply Commission (ESCOM), Iron and Steel Corporation of South Africa (ISCOR) and SASOL were also established to provide inexpensive electricity and steel for industrial use. This stimulated industrial development in the economy and created further employment opportunities. Import tariffs provided some protection against dumping by foreign manufacturers, whilst import surcharges helped reduce import demand and raise government revenues.

There was a reduction in the preference for British products and new markets opened for South African products, which brought greater profits for local manufacturing companies. The support for the Pact Government subsided due to economic problems related to the Great Depression of 1929. In 1934 the United Party, formed in 1933 as a result of the merging of Hertzog's National Party and Jan Smuts' South African Party, formed a coalition government. When in power the United Party continued with the protection of the local economy through the above-mentioned trade policy tools. Also benefitting from these demand-side support measures was the clothing and textile industry which Van Dijk (2000, 2) regarded as a fast growing sector up to the Second World War. From 1936 to 1946, manufacturing output grew by 6 percent per year, and growth jumped even more dramatically after 1948, when the government tightened its control over imports. Annual manufacturing output increased at an average of 13.3 percent in the early 1950s.

On the industrial policy front, the government maintained and even increased its role in the economy, especially in the manufacturing sector, during the 1950s and the 1960s. Schneider (2000, 418) states that government investments through the state-owned Industrial Development Corporation (IDC), established in 1940, helped to establish new and expand existing industries, including the local textile industry.

While benefitting from cheap black labor, during the 1970s manufacturing enterprises invested in technology by steadily increasing their fixed-capital stock. In an economy focused on supplying the internal market that was small and less demanding this investment in technology led to surplus capacity by the mid-1980s and a reduction in employment creation capacity of the manufacturing sector. Nevertheless, by the mid-1980s the government recognized that much of the responsibility for creating jobs for new entrants to the labor market would necessarily rest on the manufacturing sector and it began to encourage more labor-intensive manufacturing enterprises. In the late 1980s, the government presented a blueprint for economic policy whose central economic strategy advocated a shift towards strongly market-oriented policies, but left room for government intervention in response to social and political demands. The blueprint placed an increased emphasis on an import-substitution-industrial (ISI) strategy in order to cut imports and to create jobs. However, it departed from the previous policy by also placing an emphasis on shifting away from inward orientation to strengthening export industries, especially to increase value added through local processing of raw materials for exports.

In brief, successive governments before and during apartheid had tried to encourage and support local industries that could reduce imports, provide jobs, and create a multiplier effect by encouraging further industrial growth. This goal was achieved through putting in place some trade and industrial policy instruments that were aimed at protecting local industries on the one hand while strengthening the production side on the other hand.

With regard to the clothing and textile industry, just like other sectors of the economy as indicated above, Barnes (2005, 7), Woolfrey (2009, 3) and Jeppesen and Barnes (2011, 238) argue that the industry developed in a protectionist environment and was geared towards import substitution. Furthermore, Jeppesen and Barnes (2011, 238); Department of Trade and Industry (2007, 20); DTI (2010, 64); Hirschsohn, Godfrey and Maree (2000, 15) and Woolfrey (2009, 13) are unanimous in asserting that South African clothing and textile industry contributed heavily to the employment of an unskilled and semi-skilled workforce. This character of the industry is crucial, taking cognizance of South Africa's factor endowment structure which is characterized by abundance of unskilled labour.

However, MATRADE (2005, 3), Vlok (2006, 227) and Woolfrey (2009, 3) argue that the protectionist environment and inward orientation created inefficiency, encouraged the concentration of production in low valued-added products and compromised global competitiveness. Nevertheless, Vlok (2006, 227) concedes that a number of high quality, high value-added producers, such as manufacturers of men's formal shirts, suits and other tailored garments came into being and achieved success both in the domestic and export markets.

It is also worth noting that not only inefficiency but also trade and investment sanctions imposed on the apartheid regime in the late 1970s and 1980s made it difficult for South African manufacturers to export to foreign markets.

2.4.4. Industrial And Trade Policy Changes During Transition

The Department of Trade and Industry in its National Industrial Policy Framework (2007, 12) stated that in the early 1990s, in recognition of industrial challenges, there was an agreement that South Africa needed to shift away from its inwardly focused and uncritically protected domestic economy, and integrate into the global economy in a more export-oriented manner. Although economic and investment sanctions were still in place it was clear that their lifting was imminent and inevitable once the new political dispensation came into existence.

As a result the South African government adopted an export-oriented economic development trajectory and established an export incentive scheme known as General Export Incentive Scheme (GEIS) in 1990. GEIS was a scheme initiated by the South African Department of Trade and Industry to encourage exporting through the payment of incentives, based on value added and local content. It was phased out in 1997 in accordance with WTO regulations.

The government also established the Duty Credit Certificates Scheme (DCCS) in 1993, to encourage exports. The rationale for and the level of benefit of the DCCS is explained in Box 1 below.

BOX 1. THE DUTY CREDIT CERTIFICATE SCHEME

The DCCS was introduced in 1993 by the Department of Trade and Industry to strengthen the export potential of the domestic economy. Reid (1999, 4) argues that its introduction was made necessary by the necessity to phase out two schemes: Structural Adjustment Programme (SAP) and General Export Incentive Scheme (GEIS) introduced in 1989 and 1993 respectively, which had to be dismantled because GEIS had become too expensive for taxpayers to sustain and SAP had become difficult to administer and was therefore subject to abuse. The DCCS was a Southern Africa Customs Union-wide export incentive scheme that allowed firms to earn duty rebates on imported clothing and textiles for proven exports outside of SACU. The Duty Credit Certificate Scheme was targeted at reducing the anti-export bias that prevailed in the economy and in the Fiber-Textile-Apparel value chains in the 1990s. Also employment retention in the South African-owned clothing factories, which had argued in the 1990s that they required special support in order to upgrade equipment and machinery and to undertake training and skilling of staff to improve competitiveness, was another target of the DCCS. The value of the duty rebate on qualifying imports was determined by the value of the exported goods outside of SACU. Participants in the DCCS whose export sales turnover was less than 15% of the total sales turnover during an export period received level 1 benefits which was 15% for clothing, 12% for household textiles, 8% for fabric and 5% for yarn in 2005. Any company exporting more than 15% of the total sales turnover qualified for level 2 benefits which, in 2005, was 25% for clothing, 17.5% for household textiles, 12.5% for fabrics and 8% for yarn. Reid (1999, 5) states that "the DCCS was designed to include both "carrot and stick" characteristics to compel the industry towards certain restructuring ends. For instance, firms that benefited from the scheme were required to spend a minimum of 4% of their wage bill on human resource development initiatives, beneficiaries were expected to show improvement in operational efficiency over a specified period of time and beneficiaries had to engage independent auditors to verify their compliance with regard to these expectations".

Source: Rustomjee and Hanival (2010, 52) and Reid (1999, 5)

Notwithstanding the scheme, Woolfrey (2009, 1) argues that “exports only accounted for 6% of clothing production in 2009”. Furthermore, wide-spread abuse of the certificates rendered the scheme almost worthless. “The vast majority of certificates issued to qualifying exporters was tradable and certificates were therefore sold to domestic importers who used them to avoid paying tariffs for clothing and textile imports into the country” (Ibid, 1). Furthermore, Flatters and Stern (2008, 50) argue that “DCCS were not of sufficient value to compensate for the high cost of imported cloth and other materials”. This made it difficult for local producers to compete globally and as a result a number of them focused on the less demanding internal market. The scheme eventually came to an end in 2010 after being reviewed and altered on a number of occasions.

2.4.5. Post-Apartheid Neo-Liberal Trade Environment

South Africa attained WTO membership in 1994. It also held democratic elections in 1994 and government under the leadership of the ANC strengthened the country’s move towards neo-liberalism. The new Government continued with the economic policies of its predecessors, emphasizing a market orientation overall, but allowing government intervention when necessary, and maintaining import-substitution industries while trying to spur industrial development toward exports. Weeks (1999, 2) states that “the ANC government almost immediately adopted a typically ‘orthodox’ macro-economic policy; fiscal deficit reduction through expenditure restraint and a tight monetary policy, along with trade liberalization”. In 1996 a neo-liberal macro-economic policy document known as Growth, Employment and Redistribution (GEAR) was promulgated (Ibid, 2-3).

South Africa began an ambitious set of trade policy reforms in the mid-1990s, which included substantive multilateral liberalization through the WTO; the elimination of quotas, and most import surcharges; and the replacement of most formula, specific and mixed tariffs with ad valorem duties. Bell (1997, 74) states that “in accordance with its participation in GATT during the Uruguay Round, South Africa was required to dismantle its complex protective tariff regime and reduce its tariffs on manufactured goods on average by 33% over the period 1995-99”.

As a result of its conformity to WTO requirements Edwards and Cassim (2009, 1-2) state that “the number of tariff lines fell from over 12 000 at the beginning of the 1990s to 6 420 by 2006. Progress was also made in improving the transparency of the tariff structure with the replacement of specific, mixed, compound and formula duties with ad valorem duties”. Concurring with the above argument, Flatters et al (2008, 26) state that “the tariff structure was simplified through a substantial reduction in the number of tariff lines and some reduction in the number of rates levied”. As a result of the government’s new approach to tariffs, rates in textile products were reduced from the early 1990s, as outlined in table five below.

Table Five: Ad valorem Tariff Rates in the South Africa Textile Value Chain (%)

	1993	2000	2005
Synthetic fiber	25	13	7.5
Yarn	35	20	15
Fabric	50	27	22
Household textile	60	37	30
Clothing	100	54	40

Source: Barnes et al 2005 quoted by Flatters et al 2008.

The reduction and rationalization of the tariff regime was in line with neo-liberal prescriptions. With tariffs rationalized and reduced, most of the protective barriers removed and some measures in place to promote exports, South Africa began to conclude a series of regional and bilateral free trade agreements to facilitate regional and cross border trade.

The Southern African Customs Union (comprising of Botswana, Lesotho, Namibia, Swaziland and South Africa), established in 1910 to regulate the setting up of tariffs between member countries (although in reality South Africa unilaterally set them) was restructured in 2002 in terms of a SACU Agreement which created new institutional structures to administer tariff policy. Negotiations between SACU and the USA started in 2003 but, due to some discrepancies, collapsed in 2006; while South Africa concluded trade agreements with Common Markets of the South (MERCOSUR-a grouping of

Argentina, Brazil, Paraguay and Uruguay with Chile and Bolivia as associate members) in December 2004 and EFTA in the middle of 2006.

As a result of these bilateral and regional free trade agreements the average South African tariffs were phased down from 8.8 percent in 1999 to 4.9 percent in 2012, although they remained relatively high (above 10 percent) in certain sectors, including clothing, vehicles, footwear and processed food. With the protective regime gradually being phased down, the local economy was subjected to increasing import penetration by foreign producers.

2.4.6. China's Penetration of the Local Market.

The focus of this dissertation is on the impact of trade and industrial policies in the clothing and textile industry, therefore the focus on China will specifically be on penetration of these sectors, without implying that trade between the two countries is necessarily limited to these products.

As is the case in a number of developing countries, the clothing and textile industry contributes heavily to employment in South Africa. The labor force of the clothing industry in particular is predominantly semi-skilled and is women dominated. Barnes (2005, 6) put the component of semi-skilled workers at 82. 2% of the entire labor force. This shows the precarious and desperate nature of the people who could be victims should South Africa's trade and industrial strategy fail to enable domestic clothing and textile industry to withstand competition from China.

While the trade policy was undergoing reforms to shift away from inward-orientation and import-substitution industrialization to export-orientation the South African rand suffered major depreciation in 1999. This precipitated exports by local manufacturers to countries like the USA. Morris and Einhorn (2008:362) state that "the rand suffered a major devaluation from $=R6.10 in 1999 to R11.61 in January 2002. Local manufacturers used this to sign numerous export orders to US retailers, seeking larger profits than in supplying the domestic market". With local manufacturers focusing on exports to make profits, leaving a domestic demand gap Morris and Einhorn (2008, 362-363) state that "local retailers found alternative supply from China".

The rand appreciated in 2004, making exports difficult while precipitating a surge in imports. The appreciated currency made it unprofitable to pursue exports while for local retailers the appreciated rand made it cheaper to buy in the international market than domestically. WTO (2007) quoted in Morris and Einhorn (2008, 363) state that clothing imports grew from $223m in 2000 to $1,123m by 2006. Morris and Einhorn (2008, 363) state that "while clothing manufacturers found the local market occupied by China, they reneged on their export orders, and by 2005 clothing exports had collapsed to R1005.5m". In other words both internal and external markets had collapsed for local manufacturers. This had a profound impact on employment in and the continued survival of the clothing and textile manufacturing sector. Although Edwards and Morris (2006, 1) argue that "the employment crisis created by Chinese imports is exaggerated because it is based on data full of omissions and inaccuracies, Morris and Einhorn (2008, 364) concede that "indeed the number of clothing workers employed in the formal sector declined by 25, 9% between December 2004 and December 2007. The number of firms also declined by 11% during the same period".

2.4.7. Areas of Difficulty for the Industry and Consequences.

The neo-liberal trade policy exposed major deficiencies in South Africa's economy in general and the clothing and textile industry in particular.

The following table shows areas in which the textile and clothing industry was lacking as compared to international clothing.

Table Six: Selected average comparative competitiveness indicators for the clothing industry (2004)

Indicator	S.A clothing	S. A textile	International clothing
Output per employee (Rand '000)	91.35	387.9	316.62
Total inventory (days)	45.83	66.90	37.22
Customer return rate (%)	0.49	1.90	0.09
Customer delivery reliability (%)	86.67	88.0	8 9.38
Absenteeism (%)	7.93	4.03	4.66

Source: Barnes (2005)

The above table compares South African clothing and textile firms with international competitors and shows that the South African clothing and textile industry was relatively weak in so far as competitiveness is concerned in 2004. It performed badly in relation to all the selected competitiveness indicators. The only exception was customer delivery reliability, which was almost on par with international competitors, and output per employee for the textile, in which South Africa was doing very well.

As a result of the lack of competitiveness in the sector, and with trade having been liberalized the clothing sector experienced a surge in imports while its penetration of foreign markets was fluctuating with a relatively slightly upward trend. This is revealed in table 7 below.

Table Seven: South African Textile and Clothing Imports and Exports (2001-2010)

CLOTHING AND TEXTILE ARTICLES EXPORTS (USD THOUSAND)										
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Volumes	28,501	31,910	40,922	47,854	48,840	46,525	53,179	69,951	74,149	85,077
CLOTHING AND TEXTILE ARTICLES IMPORTS (USD THOUSAND)										
Volumes	35,394	36,817	56,092	79,137	109,243	140,482	159,535	163,689	145,193	198,338

Source: DTI Trade Statistics (2010)

Table 7 above shows an increase of 199% in clothing and textile exports, while imports of the same products into the country increased by 461% in the period between 2001 and 2010. The bulk of these imports were from China as table 8 below shows.

Table Eight: Overview of clothing imports into South Africa 2008/9 to 2010/11

	Q3-08 to Q2-09 R-millions	Q3-09 to Q2-10 R-millions	Q3-10 to Q2-11 R-millions
1. China	R5, 146	R5, 938	R6, 732
2. Mauritius	R482	R383	R583
3. India	R459	R396	R485
4. Bangladesh	R415	R277	R343
5. Madagascar	R79	R111	R200
6. Other	R1, 558	R1, 057	R1, 042
TOTAL	R8, 139	R8, 163	R9, 384
	Percentage share of imports		
	12 months to June-09	12 months to June-10	12 months to June-11
1. China	63%	73%	72%
2. Mauritius	6%	5%	6%
3. India	6%	5%	5%
4. Bangladesh	5%	3%	4%
5. Madagascar	1%	1%	2%
6. Other	19%	13%	11%
TOTAL	100%	100%	100%

Source: TexFed (N.D)

Coinciding with an increase in imports into the country is a downward trend in the contribution of the sector both to formal manufacturing employment and total formal employment. The report compiled by CAMCO, TIPS, British High Commission Pretoria and ComMark (2009, 1) shows that the contribution of the clothing and textile industry to total employment in the country in the 1970s was 16.7% of formal manufacturing employment and 2.9% of total formal employment. The proportion had already dropped to 12.1% and 2% respectively in 1994 and dropped further to 9% and 1.2% of formal manufacturing and total employment respectively in 2009.

During this transition era the clothing and textile industry was faced with problems that, to a certain extent, proved to be insurmountable, manifesting themselves in increasing imports, a decrease in exports and a decrease in the contribution of the sector to employment both in manufacturing and total employment in the country. Morris and Einhorn (2008, 372) argue that “for many clothing firms the past few years have been a massive shock. Many have struggled and failed to make the required transition. They have restructured, downsized, or shifted from full package producers to outsourcing locally (i.e. importing some garment components and producing others to make a composite pack) and established Cut-Make-and-Trim small enterprises”. The survival strategy of the industry saw formal employment in full package firms shrinking and this was accompanied by reduced wages, benefits and job security (Ibid, 372). Barnes argues that:

> If the sector continues along its trajectory it is probable only a few firms will remain, employing a smaller number of people and servicing a small market. In essence South Africa will have lost the sector, resulting in the loss of thousands of jobs. If the clothing industry is lost, the demand for nearly half of the textile industry will also be lost and this would result in closure of more textile firms and loss of additional jobs. Secondly, despite the surge in imports due to trade liberalization, the retail industry still relies heavily on domestic clothing firms. If the domestic clothing industry disappears, retail would become completely dependent on imports. This would result in less flexibility, increased costs and greater price volatility due to exchange rate fluctuations, all of which would impact negatively on consumers. (2005, 8)

Within this context of the failing clothing and textile sector the government adopted an increasingly interventionist approach to salvage the sector from continued decline through the 2000s.

2.4.8. Government’s Adjustment Strategy for the Clothing and Textile Industry

Faced with destructive competition the government implemented a three-pronged strategy, comprising:

a) a trade policy aimed at securing exceptions for the domestic clothing and textile industry, but within WTO limits,
b) cross-cutting and
c) sector-specific intervention measures.

South Africa's ascension to World Trade Organization in 1994 and the bilateral and multi-lateral free trade agreements meant that it did not have full autonomy over its own trade policy. Trade policy had to be applied within WTO acceptable limits in as far as tariffs are concerned. South Africa enjoys a WTO sanctioned 45% tariff bound for clothing and textile products. Woolfrey (2009, 14) argues that "DTI envisages the determination of tariffs on a case-by-case basis, taking into account the specific circumstances of sectors involved". To avoid a disaster in the clothing and textile industry "South Africa negotiated significant exceptions in case of the textile and clothing sector. In the clothing and textile industry a 12 year, rather than the normal five year adjustment period, and a maximum tariff level of 45% instead of 30%, were allowed" (Bell, 1997:74). However, this was not sufficient for the industry that was lacking global competitiveness and consequently failed to stop Chinese imports.

Partly as a result of Chinese government support, Chinese clothing and textile imports kept on making unprecedented inroads into the local market while exports from South Africa to foreign markets were in doldrums even though there were preferential trade agreements with economies like European Union and the US- as well as export incentives (GEIS at the beginning and DCCS later on). Though tariffs were meant to protect domestic industries Barnes (2005, 7) argues that "the reason for these difficulties related, among other things, to the higher cost structure (tariff) which meant that firms were finding it difficult to compete with low-cost competitors such as China, India, Indonesia, Turkey and Pakistan even for those markets where South Africa had preferential access". This is particularly so because South Africa had to import some components of its clothing and textile products and, as a result, importers incurred expenses as a result of tariffs. This picture revealed an industry that was lacking international competitiveness, which, unless it restructured, upgraded and improved its competitiveness, faced extinction/elimination by global competitors with dire consequences for, inter alia, local employment.

The protectionist strategy needed to be supplemented with the building of the competitive capability of the production side of the industry to survive in this technologically sophisticated industrial environment. Concurring with this, the Department of Trade and Industry (2007, 11) in its National Industrial Policy Framework (NIPF) conceded that "the productive capabilities required to produce goods and services in an ever more globalized economy are becoming increasingly sophisticated. All types of production are affected by this trend, even the so-called labor-intensive activities". The Department of Trade and Industry therefore came up with cross-cutting intervention measures to raise overall levels of manufacturing investment. The box below shows cross-cutting intervention measures brought about to raise overall levels of the manufacturing investment.

BOX 2: CROSS-CUTTING INTERVENTION MEASURES.

1. The Tax Holiday Schemes (THS). The following three factors were to be considered in determining if firm qualified for tax holiday/exemption:
    - regional location,
    - job creation and
    - priority industries.
2. Small and Medium Manufacturing Development Programme-later extended beyond manufacturing as the Small and Medium Enterprise Development Programme,
3. Strategic Industrial Projects (SIP),
4. Spatial Development Initiatives (SDI) -to facilitate investment in regions of inherent economic potential. Legislative framework was passed to allow development of Industrial Development Zones that would be linked to international airports and ports for easy transportation and Critical Infrastructure Fund was initiated to support infrastructure construction (communication, transportation, electricity, water, etc). This is crucial because according to the Department of Trade and Industry's National Industrial Policy Framework (2007,

11) “much of our industrial activity is located inland”.

5. Sector Partnership Fund, Competitiveness Fund, support for the establishment of Exports Councils and Export Marketing and Investment Assistance Programme were put in place to support a shift to a more competitive environment by encouraging small and medium firms to act collectively to undertake functions that they would not do individually,
6. Support Programme for Industrial Innovation (SPII) introduced to provide funding/incentive for industrial innovativeness,
7. Technology and Human Resources for Industrial Programme (THRIP) introduced to support partnerships between private sector and universities in research projects undertaken for industrial purposes to enable the dissemination of industry relevant skills,
8. Competition Act promulgated in 1998 to deal with anti-competitive behavior resulting from highly concentrated nature of our economy as a result of apartheid planning and facilitate entry and growth of small and black-owned firms and foreign direct investment, and
9. National Empowerment Fund, the BEE Act and the phased release of the Broad-based Black Economic Empowerment (BBBEE) Codes of Good Practice were introduced to facilitate Black Economic Empowerment. The Black Business Development Supplier Programme was introduced to finance services to help black-owned firms improve their core competencies.

Source: Department of Trade and Industry (2007)

Finally, the Department of Trade and Industry introduced sector-specific intervention measures to rescue the clothing and textile industry specifically. Once GEIS and later DCCS proved to be of little assistance in terms of rescuing the clothing and textile industry by building production and export capacity the national government came up with a new set of sector-specific supply-side support measures to build the industry’s global competitiveness. The Department of Trade and Industry in its Industrial Policy Action Plan (2007, 3) stated that DCCS had been only partially successful and that the industry required a different support environment for long term sustainability. As a result the Clothing and Textile Competitiveness Program (CTCP) was introduced in 2006/7 and went into implementation in 2009. The box below shows sector specific support measures implemented under the CTCP.

BOX 3: CLOTHING AND TEXTILE COMPETITIVENESS PROGRAM

1. Clothing and Textile Competitiveness Improvement Program (CTCIP), introduced in 2009, was designed to build capacity among manufacturers (individual or cluster of companies) and in other areas of the apparel value chain in South Africa to enable them to supply their customers effectively.
2. The Production Incentive (PI), introduced in 2010 and set to run for a period of five years, consists of two components (upgrade grant facility which is meant to focus on competitiveness improvement, and a facility consisting of an interest subsidy for the working capital which is meant to support working capital requirements resulting from past and future upgrading interventions). It provides funding assistance (75% of project cost for cluster projects and 65% of project cost for company-level projects) to the clothing, textile, footwear, leather and leather goods manufacturing industries for them to invest in competitiveness improvement interventions. An upgrade grant facility can be used for upgrading equipment, developing people, improving manufacturing processes, optimizing material used or developing new products while the facility, consisting of an interest subsidy for the working capital, aims to reduce the cost of funding to companies that qualify for working capital facilities granted by Industrial Development Corporation (IDC). Interest rate on the subsidy is equal to the prevailing prime interest rate and the applicant has to provide sufficient security for a minimum funding of R1 million. DTI (2010, 8) states that "the incentive provides investment support to both local and foreign-owned manufacturing entities in the clothing, textiles, footwear, leather and leather goods industries in South Africa";
3. Illegal Imports Program (IIP), implemented within the Customs and Excise Act, no. 91 of 1964 legal framework (Matlotsi, 2010:3), is designed to clamp down on illegal imports and under-invoiced products and facilitate legitimate trade; and
4. Skills Development Program (SDP), designed to upgrade 20% of the workforce over 5 years and facilitate the production of technicians, technologists, engineers, managers and scientists so as to address skills dearth in the industry. This was in line with Kaplan's (2008, 40) assertion that skills shortages are obstructing firm level productivity in South Africa.

Sources: DTI (2007), Kaplan (2008), DTI (2010) and Motlotsi (2010)

Furthermore, the government, at the beginning of 2007, under pressure from the labor movement, signed a two-year Chinese imports restraint, imposing quotas on specific clothing and textile products from China to give domestic clothing and textile producers a chance to become more globally competitive and to reverse job losses. Describing the aims of the above strategy in a press statement released on the 8th of November 2011 SACTWU research Director, Etienne Vlok, stated that the strategy's aim was to stabilize (and even grow) employment by re-engineering companies to be more competitive in relation to imports and even create the basis for exports in future. Furthermore, the strategy seeks to make price less significant by exploiting the locational advantage of manufacturers to local retailers; in other words, more quickly delivering orders to customers; and to move the bulk of production to higher value added products which do not compete with the mass of cheap imports (Ibid).

In summary, during transition the South African government tried to shift South Africa's industrial development away from an ISI to an EOI strategy. To this end GEIS and later DCCS were established. Protective barriers were gradually phased out. South Africa's fragile industrial base was exposed to foreign competition. The export promotion strategy did not pay the necessary attention to the strengthening of the production side of the industry, export incentive scheme benefits were both insufficient and were abused and as a result, notwithstanding the support provided by the government, the industry found it difficult to withstand foreign competition. It continued to shed jobs. On the one hand the industry tried to restructure by informalizing employment by establishing small informal CMT enterprises, run mainly by retrenched and experienced former employees, which offered limited benefits for employment and the creation of reasonably paid jobs.

On the other hand the government negotiated a reasonably longer adjustment period for the clothing and textile sector while also coming up with both cross-cutting and sector-specific support measures to build competitiveness in the industry and also, due to pressure from the trade unions, restrained the inflow of the Chinese products.

2.4.9. The Impact of Clothing and Textile Imports on Consumers

While the increase in imports was negative for the development of the clothing and textile industry it was positive for consumers whose disposable incomes went up due to the availability of cheap clothing and fabrics. In demonstrating the benefits to consumers as a result of the reduction of tariffs and the resultant increase in imports Flatters and Stern (2008, 53-54) argue that “South African consumers have gained from significant tariff reductions on clothing. The recent growth of the domestic clothing retail sector and especially the success of low price sellers such as Mr. Price and Pep Stores suggest this might be the case, and that lower income groups might be among the greatest beneficiaries”. Morris and Einhorn (2008, 356) state that “sustainable industrial policy does not only have to address industrial competitiveness but also welfare issues which have two dimensions; a) impacting on the employment situation, and b) favorably affect consumption patterns. The welfare consumption aspect of the policy is concerned with raising population’s living standard through decreasing prices, hence increasing disposable income”. Flatters et al (2008, 54) state that “while the overall CPI has increased by 82.8 percent from 1995 to the present, nominal clothing prices have risen by only 5.5 percent. In other words, the real price of clothing has fallen by approximately 75 percent since 1995. Clothing comprised 3.87 percent of all South African household expenditures in 2000, but was more important for low-income groups, comprising 4.37, 5.27 and 5.99 percent of expenditures for the very low-income, low-income and middle-income groups respectively. Reductions in clothing prices are therefore of real significance to poor and middle-income consumers in South Africa”.

Concurring with Flatters’ and Stern’s view, Morris and Einhorn (2008, 364) state that CP Indices show a rise of around 30 percent in inflation over the six year period between 2000 and 2007. This contrasts with the deflation experienced in the clothing CPI, which exhibited a downward trend of 5 percentage points between 2000 and 2005”. The deflationary trend in terms of clothing prices was also facilitated by the increase among Chinese exporters to the country, which increased consumers’ welfare gains as a result of the opening up of the economy through the neo-liberal economic development model. Morris and Einhorn (2008, 364) state that falling import prices was also attributed to the fact that retailers managed to reduce logistics costs as a result of greater competition between shipping lines, use of large (40-foot) containers, volume commitments, scale negotiations with fewer shipping lines, more direct port to destination shipments, an increase in ships, etc. Out of these arrangements consumers benefited since these culminated in the lowering of prices. "As a result of the imports the cost prices dropped between 2005 and 2006, ranging from -2.8 to -19 percent, with an average decrease of -9,7 percent. In all cases, this has translated into a retail price reduction or constancy of retail prices" (Ibid, 366).

2.4.10. Conclusion

Prior to 1994 the South African government intervened actively to develop and protect the domestic manufacturing base in general and the clothing and textile industry in particular. This did not stop with the ushering in of a democratic dispensation. What differed during this period was the intensity/extent of the intervention strategy. The pre and apartheid governments did not only provide subsidies but also put in place protective tariff regimes. The democratic government developed and implemented industrial policy which had both cross-cutting and sector specific supply-side intervention measures while its trade policy was characterized by the reduction of protection although tariffs are still at 45% for the clothing products. So up to this level there is not much that makes the two epochs different. But digging deeper one could argue that the industrial policy pursued before and during the apartheid era planted the seeds for the demise of the clothing and textile industry in the post-apartheid neo-liberal environment. Because industries were heavily protected they never invested in labor skills, new technology and in other factors that support the development of competitiveness. When the country heeded neo-liberal prescriptions domestic clothing and textile manufacturers were caught off guard and a wave of labor lay-offs was triggered. The manufacturers could not compete in the domestic nor foreign markets effectively.

Within this context of domestic industry's lack of global competitiveness, the international trade environment was also fundamentally different. Global trade in clothing and textile was opened up and China emerged as the most competitive producer and exporter of clothing and textile products globally over this period.

On a positive note the trade policy pursued during the post-apartheid era increased the disposable incomes for consumers by increasing clothing and textile supplies from low cost production locations and thereby lowering their prices in the domestic market. For South Africans with jobs this is obviously positive. However, in light of South Africa’s unemployment crisis, and the apparent inability of the domestic economy to create sufficient jobs for a large percentage of the working age population, the impact has been devastating. The decline of the clothing and textiles industries since the early 1990s needs to be analyzed in this context.

Chapter Three: Fieldwork Findings

This chapter presents a detailed description of the findings to emerge from the fourteen interviews conducted. It contains two areas of focus, which are:

1) The DCCS period-1993 to 2010 and
2) The CTCIP period-2007 to 2010

3.1. Detailed Description of the Interviews

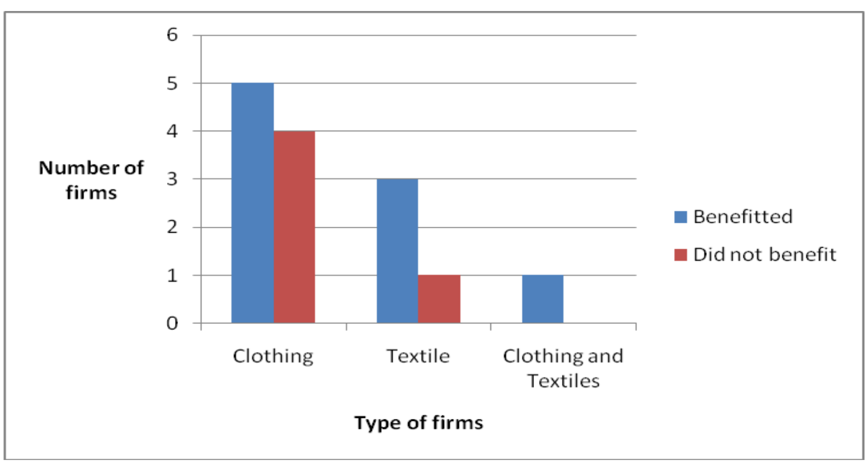
The first component is organized into two broad focus areas. The first broad focus area deals with the Duty Credit Certificate Scheme period which is 1993 to 2010. The second focus area deals with Clothing and Textile Competitiveness Improvement Program period which covers the period 2007 to 2010. The description of the research findings is according to the questions that were posed.

3.1.1. The DCCS Period (1993 to 2010)

3.1.1.1. The Perceived Impact of the DCCS on the South African Clothing and Textile Industry

To establish the perceived impact of the DCCS it was imperative to first establish the number of firms that benefitted from the scheme. The graph below shows the number of firms that benefited and those that did not benefit from the scheme.

Graph One: Surveyed firms that benefitted/did not benefit from the DCCS



The above graph shows that five of the nine clothing firms surveyed benefited from the scheme while the rest of the clothing firms did not benefit, three of the four textile firms surveyed benefitted while one did not benefit and one clothing and textile firm surveyed benefitted. In other words five of the fourteen firms visited indicated that they did not benefit from the scheme. The reason these firms supplied was that they were supplying the local market and therefore did not qualify for benefits from the export-oriented scheme.

3.1.1.2. The Impact of the DCCS on the South African clothing and textile industry from 1993-2010

For the nine firms that benefited their perceived impact of the scheme is revealed in the table below.

Table Nine: Perception of the scheme (n=9)

Firm Type	Positive	Negative
Clothing	4	1
Clothing and Textile	0	1
Textile	1	2

The Scheme Contributed in a Positive Way at its Inception

Four of the five clothing firms and one of the three textile firms that benefitted from the DCCS reported that the DCCS had a positive contribution towards the development of the industry after its inception. Key Respondent C reported that her firm was initially chosen as “Exporter of the Year” by Coopers & Lybrand and the Sunday Tribune”. They perceived the scheme as having been helpful in that:

1) it allowed the firm to import what is expensive to produce or not available domestically and
2) it enabled firms to reduce production costs by using certificates to import from low-cost areas.

However, their approval of the scheme was qualified in that they mentioned that because of abuse resulting in manufacturers who never export buying certificates so as to import from low cost areas, poor policy monitoring to establish the attainment of the intended policy goals (employment creation and competitiveness building), the exchange rate policy charaterised by the appreciation of the local currency which, on the one hand, discouraged foreign consumers from buying South African products and, on the other hand, culminated in South African retailers buying certificates to import finished products that could be sourced locally. As a result of the lack of internal capacity due to many years of protectionism which made it impossible to supply foreign markets with locally produced products, many manufacturers ended up importing products that they should be producing domestically using local labour, and high interest rates which made it difficult for manufacturers to borrow funds and invest in technological and skills upgrading to benefit from trade liberalization, all made the scheme to operate ineffectively. Ironically, the scheme eventually facilitated the demise of the very industry it was established to salvage.

At the beginning of the scheme beneficiaries mentioned that their productivity and exports increased but that changes in employment were nominal. When retailers and other manufacturers started abusing the scheme by buying readily available, often dubiously sourced certificates to support their growing importing models, instead of producing or buying locally, production declined. The industry's export potential further deteriorated in 2002/2003 when the rand appreciated. These two scenarios contributed negatively to the employment creation potential of the clothing and textile industry and its very development.

The Scheme was Ill-concieved and a Failure

Two of the three textiles, one of the five clothing and one clothing and textile firms that benefitted from the scheme percieved the scheme as having been an outright failure at its very inception. Its failure emanated from the fact that:

1) the scheme offered no protectition from imports from low-cost locations for the fragile domestic firms that had just emerged from years of protectionism,
2) it did not provide for capacity building to allow firms to produce and in the process employ local labor and
3) the exchange rate policy discouraged exports.

Key Respondent B reported that "The scheme did not offer protection from imports from countries like China whose exports into South Africa increased by 335% in 2002 and 2004. The rand also appreciated between 2002 and 2004. This displaced local firms because local retailers and producers opted for cheap imports from low-cost areas". Key Respondent D reported that "The plight of the domestic industry was exacerbated when AGOA beneficiaries found it difficult to export to countries like USA, where they received preferential treatment, because of the appreciation of the rand. The situation was complicated by the unprecedented inflow of Chinese imports into the domestic market while domestic firms found it difficult to penetrate foreign markets because of the appreciated currency. These two factors threw the domestic industry into complete disarray and resulted in huge labour lay-offs".

3.1.1.3. Other national and regional or local government policies that supported or undermined the South African clothing and textile industry

The table below gives various responses that were furnished by the industrialists regarding other policies that supported or undermined the SA clothing and textile industry over the period 1993 to 2010. Responses are arranged in terms of whether they are positive or negative.

Table Ten: Other National/Regional/Local Government Policies (n=14)

Negatives	**Noted by (% of firms)**	**Positives**	**Noted by (% of firms)**
Lack of focus on capacity building	93%	AGOA	57%
Rapid tariff removal	71%	CTCIP	93%
Labour market rigidities	57%	Chinese quota	36%
Exchange rate policy	64%	KZN CTC	86%
High interest rates, resulting in high borrowing costs	50%		
The removal of Specific Duty in 2002	29%		
Ongoing existence of non-complaint firms	79%		

Responses indicate that the industrialists view that there were more negative policies in place than positive ones. These negative policies, like labor market rigidity and policy failures e.g. a policy lacking focus on capacity building, and so on, weighed heavier than the positive ones and undermined the development of the clothing and textile industry in South Africa. This is more so given that the rand appreciated while the government intended to stimulate exports.

3.1.1.4. In relation to the DCCS, policy elements that were more or less important in shaping the performance of the clothing and textile industry.

As indicated above, five of the fourteen firms visited did not export but served only the domestic market and therefore did not qualify for the DCCS. The nine firms (inclusive of those that saw the scheme as being a success or a failure) that benefitted from the scheme indicated that the following policy positions affected the industry either negatively or positively.

Table Eleven: Policy elements that shaped the performance of the clothing and textile industry (n=14)

Negative	**Noted by (% of firms)**	**Positive**	**Noted by (% of firms)**
Rapid tariffs removal	71%	CTCIP	93%
lack of focus on capacity building	93%	KZN CTC	86%
Inflation targeting monetary policy	64%		
labor market rigidities	57%		

The table above shows that the industrialists indicated more elements that negatively impacted on the development of the clothing and textile industry. As noted, these negative policy elements include:

1) lack of focus on capacity building on the part of the government for the industry that was supposed to compete domestically and in foreign markets,
2) inflation targeting monetary policy which resulted in high interest rates and appreciated currency,
3) rapid tariffs removal which exposed infant industries to foreign competition, and
4) labor market rigidities which inflated production costs and resulted in South African products failing to be price competitive.

However, on a positive note, firms commended the CTCIP and KZN Clothing and Textile Cluster (KZNCTC) as being helpful in terms of addressing major hindrances to the development of the industry. Some of the pitfalls prevalent during DCCS era are being addressed by the current policy instruments.

3.1.1.5. In retrospect, what industrial policy would have better supported the development of the South African clothing and textile industry?

The industrialists came up with a wide range of views regarding the industrial policy that would have better supported the development of the RSA clothing and textile industry. These views appear to be in stark opposition to the above mentioned negative policy elements that shaped the performance of the clothing and textile industry during the DCCS era, as well as to address some pitfalls identified in the CTCIP below.

BOX 4: ASPECTS OF INDUSTRIAL POLICY THAT WOULD HAVE BETTER SUPPORTED THE SECTOR

Industrialists noted that industrial policy relating to the clothing and textile industry should have entailed:

- capacity building (technology and skills) before trade was liberalized,
- policy alignment (monetary, fiscal and industrial policy) to facilitate exports,
- local content requirement for supply into the domestic market, the establishment of tax disincentive for those who import locally available products, the introduction of tax rebate for firms that are compliant with this requirement and the introduction of quota system for imports from low-cost areas to fight dumping tendencies,
- in-house bargaining, as opposed to centralized bargaining, to accommodate industry-based dynamics to allow the invisible hand of the market to determine labor costs so as to ensure the highest possible employment. Key Informant A reported that "This would address the cost of labor that hinders progress in the industry",
- state-supported decentralization scheme to low cost areas to allow firms to produce at low cost based on in-house bargaining in those areas, and create employment in them. Key Respondent F argued that "This would encourage price competitiveness of RSA clothing and textile products in domestic and foreign markets because of low cost of

production and therefore safeguard the domestic market against cheap imports",

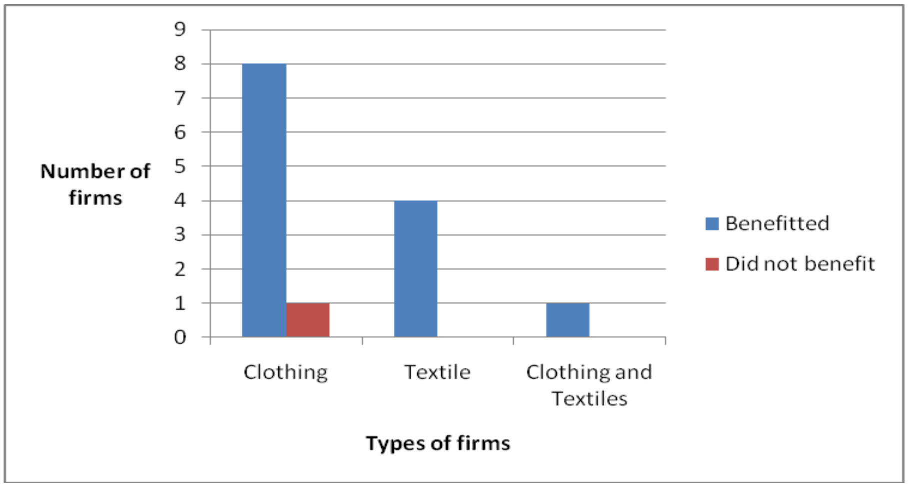
- subsidy for production necessities like oil, gas, water, rent and particularly electricity which have escalated and made doing business more expensive. Key Respondent B reported that "The availability of this subsidy scheme under CTCIP is appreciated but it came very late, after a lot of manufacturers had closed down, triggering a job losses tide which will take years and more state resources to reverse" and
- benchmarking of non-compliant firms and giving them grants proportionate to their level of compliance e.g. 30% compliance qualifies the firm to access 30% of the grant with the requirement to be 100% compliant after a certain period. This would eventually level the playing field for all the manufacturers in terms of wages that would be offered and retail prices that would be charged in the market.

3.2. The CTCIP Era (2007-2010)

3.2.1. Perception of the CTCIP and how it is supporting the re-development of the clothing and textile industry

It is imperative to establish first firms that have benefitted from the CTCIP before establishing the perception of the beneficiary firms with regard to how it supported the re-development of the RSA clothing and textile industry. The graph below shows firms that benefitted, as well as those that did not benefit from the intervention measure.

Graph Two: Status of surveyed firms under the CTCIP (n=14)



Out of fourteen firms surveyed thirteen benefitted and only one did not benefit from the CTCIP. The only one clothing industry that did not benefit from the CTCIP indicated that the application process was too onerous for small firms. All of the thirteen firms gave a qualified approval of the scheme. They all believed that it is a well-positioned scheme to salvage the industry from its current predicament characterized by lack of capacity/competitiveness, both technologically and in relation to skills. Because of the CTCIP manufacturers have invested in modern capital (technology and labor) and are beginning to adopt World Class Manufacturing (WCM) practices which would culminate in increased productivity and more labor-intake. However, they did express numerous concerns about the scheme. The box below lists the concerns noted.

BOX 5: CONCERNS ABOUT THE CTCIP

- the onerous nature of the application process,
- timing of the implementation, that is, many years after the industry was subjected to destructive competition as a result of which many manufacturers had either relocated to low costs areas or closed down,
- the selective nature of the scheme that excludes non-complaint firms which deprives a bigger component of the industry of the necessary support to help it attain compliancy,
- bureaucratic bottlenecks resulting in long time lags between the application for and the receipt of the grant. Key Respondent C reported that "I have been waiting for the grant from the government for more than a year and if I did not have enough money to keep operations going I would have closed down. This normally happens for the small firms who do not have enough reserves to keep operations going while waiting for government grant",
- over-valued currency which discourages exports while encouraging imports.

3.2.2. The central industrial policy issues that SA government should understand in relation to the South African clothing and textile industry

The industrialists interviewed argued that the previous industrial policy did not take cognizance of many factors impacting on the ability of the clothing and textile firms to compete competitively. As a result, even though there was an incentive scheme for exports the industry failed to make headway. Instead many either closed down or relocated to countries like Botswana, Lesotho, Swaziland and Mauritius. The industrialists suggested that the government needed to understand a number of important industrial policy issues as highlighted in the box below.

BOX 6: CENTRAL INDUSTRIAL POLICY ISSUES THAT GOVERNMENT SHOULD UNDERSTAND

- there are different firm-based dynamics and therefore it is crucial for the government to establish the impact of centralized bargaining instead of in-house bargaining that would take cognizance of different firm level dynamics,
- the government regulation regarding minimum wages somehow discourages the attainment of the highest possible employment because for small employers the minimum wage is not as low as they would like it to be to allow them to employ the highest possible number of people,
- the government should understand that the industry is mostly non-compliant and therefore it should devise a constructive mechanism to encourage compliancy instead of excluding non-compliant firms from government support,
- the urgency with which compliancy has to be attained because of the negative impact non-compliant firms have over compliant ones in the market as a result of the nominal wages non-compliant firms pay to their labour and prices they charge for their products which enable them to outcompete compliant firms in the products markets,
- the industry still struggles with getting properly skilled personnel like machinists and therefore there is an urgent need for a concerted effort in this area. This requires cooperation between the industry, the government and the institutions of higher learning to align the latter's products with industries' skills requirements,
- small firms do not have the financial muscle to keep going while waiting for the government grant and therefore there is a need for bureaucratic bottlenecks to be addressed for grants to delivered quickly and for the documentation to be simplified as this is a disincentive for the firms,

- some clothing components can't be produced locally or the textile industry is lacking capacity to supply them at big enough quantities and if it becomes necessary for the clothing industry to import these, the government should offer duty rebates while the textile capacity is being built to eventually supply them,
- production costs (labor) and operation costs (electricity, gas and oil) are still high and this makes doing business internally too expensive and disadvantages domestic industry in terms of prices they have to charge both in the internal and external markets as compared to prices for the imports,
- the exchange rate policy should be aligned with government's intentions of infiltrating foreign markets (exports), and
- the alignment of government inflation-targeting goal with the industrialists intention to keep the cost of borrowing low (low interest rates)

Chapter Four: Critical Data Analysis

4.1. Introduction

This chapter critically explores the experiences of the industrialists regarding the interventionist role played by the government between 1993 and 2010. The fieldwork findings highlighted numerous industry frustrations relating to government support mechanisms for the South African clothing and textiles industry. The industrialists' view of the DCCS was overwhelmingly negative and even those firms that commended the scheme as having been helpful indirectly admitted that it failed to help stimulate domestic employment. Whilst the architecture of the CTCIP is viewed much more positively, bureaucratic bottlenecks that delay the disbursement of grants and the rather limiting qualification criteria that ensure only a segment of the industry is able to benefit from its support, have limited its effectiveness.

The critical analytical considerations that emerge from the fieldwork consequently need to be unpacked. A total of eight considerations emerged, each dealing with a particular facet of the challenge associated with implementing effective sector-specific industrial policy in the South African clothing and textiles industry (and more broadly). These considerations relate to an inappropriate policy being implemented (policy failure) and a regulatory failure which manifests itself in the failure of an appropriate policy due to the inability of the government to effectively implement policy.

4.2 Macro-Economic Environment and Export Facilitation

Emerging from a protectionist environment and adapting to an open trade environment the economy was subjected to intense global competition both for the domestic and foreign markets. The protectionist environment had created inefficiency, and the speed with which trade was liberalized made it very difficult for the economy to adjust successfully. The government saw an export potential that needed to be unlocked. To this end the Duty Credit Certificate Schemes (DCCS) was introduced. However, evidence on the ground demonstrates that the industrial policy adopted by the government was too narrow as it focused only on promoting exports. There was no focus on a host of other macro-economic variables that impact on effective export promotion. These relate to issues impacting on production costs to make South African products price competitive, development of the production/supply side of the economy so as to be able to export to foreign markets locally manufactured products, monetary policy that makes the cost of borrowing cheaper for investors to be able to expand their operations and produce more, fiscal policy characterized by low corporate tax to make doing business in the country attractive to investors, and an exchange rate policy alignment with export-oriented industrial development strategy to make locally manufactured products cheap and attractive to foreign markets. Key Informant D stated that “Exchange rate policy militated against exports, particularly in 2002 when the Rand appreciated, making it difficult for the sector to keep on exporting while also making it easy for foreign companies to export into the country”. Kaplan (2008, 4) argues that “South Africa has also had significant fluctuations in the exchange rate and (arguably) significant periods in which the exchange rate has been over-valued”. The complete disregard of other macro-economic policy variables or poor policy coordination resulted in weakening of the industrial policy at best and at worst resulted in it producing the direct opposite of what it was intended to produce. Without the accompanying policies like an export-oriented exchange rate policy, a friendly labor market policy to reduce production costs, and other mechanisms to stimulate the production-side of the economy, such as advanced skills development; industrial policy alone was not in a position to rescue the clothing and textile sector.

All the firms, even those that commended the scheme as having been a success, directly and indirectly admitted that the scheme discouraged internal manufacturing by encouraging the importing of products that could be sourced locally and in the process contributed to the predicament in which the industry found itself. This discouraging effect emanated from a number of factors like allowing domestic retailers to use certificates to import from low-cost areas goods that could be sourced locally from manufacturers who use local labor to manufacture, and the ability of manufacturers who never exported to buy certificates and import from low-cost areas to avoid buying domestic products which they perceived as being relatively expensive. These discouraged domestic manufacturing and contributed to the demise of the South African clothing and textile sector.

4.3 Poor Policy Monitoring and Evaluation

The importance of policy monitoring and evaluation is explained clearly by Rodrik (2004, 21-25) and Haque (2007, 8) when they state that an effective industrial policy should entail the establishment of clear benchmarks/criteria for success or failure to ensure, inter alia, an increase in productivity and that business and technical consultants need to be roped in to carry out audits and benchmarking. This policy monitoring and evaluation enables policy adjustments along the way in line with changing/new realities on the ground so as to ensure that unintended consequences are minimized. However, only one of the fourteen industrialists interviewed claimed to be aware that the government monitored the DCCS over its lifespan. This is despite the fact that the National Production Initiative (NPI – now Productivity South Africa) was responsible for monitoring the development of the sector's competitiveness during the implementation of the scheme. Even Key Informant J who claimed to be aware of the existence of National Productivity Initiative indicated that he was paid just a single visit by NPI officials. This lack of monitoring and evaluation accounts for the continued existence for almost two decades of a scheme that was perceived as being a failure by the majority of the industrialists.

A further concern highlighted by industrialists related to the abuse of the certificates and the mushrooming of fake certificates. Key Informant H noted that "The abuse of the certificates earned through the DCCS was rife". It was noted that this abuse occurred at firms and retailers who never exported, and that the mushrooming of fake certificates went undetected or unresolved and in the process negatively impacted on the industry. Policy monitoring and evaluation would have enabled the government to pick up these unintended consequences and adjusted the policy to minimize damage.

Another critical deficiency was what seemed to be the failure of the government to maintain communication channels with the private sector/policy beneficiaries. Rodrik

(2004, 21-25) and Haque (2007, 8) state that policy implementing agent(s) must maintain communication channels with the private sector (investors and business people) to allow information sharing and informed decision-making. Taking cognizance of the long period over which a policy, producing opposite results, was implemented this information sharing about policy impact in the sector did not seem to have occurred or if it did occur, did not seem to have had an effect – otherwise the government would have been made aware of the realities on the ground (unintended consequences emanating from the scheme) and would have intervened to minimize policy damage.

4.4 Understanding Sector Dynamics

Rodrik, Hausmann and Sabel (2008, 5) view the business sector as being the major source of information relating to the sector securing government support. This cooperation/collaboration between the private sector and the government, which would have enabled the private sector to furnish the government with the correct information about dynamics in the clothing and textile sector and how to exploit latent opportunities through the deployment of properly targeted and judicious industrial policy intervention measures to successfully develop the sector, is not evident from the data collected. The government misread the underlying costs and opportunities in the clothing and textile sector and put in place a scheme that paradoxically exacerbated its plight and contributed to its demise.

The bottlenecks in the sector pertained mostly to its production efficiency rather than just its failure to export. To supply foreign markets other macro-economic variables should have been aligned with the export promotion intentions of the government. Numerous issues, like production costs, poor policy monitoring and evaluation, export-disadvantaging exchange rate policy etc. undermined the integrity of the scheme.

The above policy failure saw the scheme being opened up to abuse because:

1) the domestic sector experienced production inefficiency due to the fact that it had just emerged from protectionism which did not encourage investment in labor skills and technological upgrading to strengthen competitiveness and clothing

manufacturers had to look internationally for components and fabrics so as to benefit from the export drive and

2) some manufacturers and retailers decided to import cheap and/or finished products from low-cost areas where production costs were relatively lower.

As a result the scheme failed to enable the sector to realize its potential since it disregarded crucial areas such as skills, production costs etc. that promote efficiency. This policy failure to address the industry's lack of competitiveness proved to be a disservice to the clothing and textile sector. Almost all (93%) of the industrialists interviewed indicated that the DCCS had no provision to promote efficiency in the sector. Key Informants C, F, H, I, K and M indicated that as a result of policy and regulatory failures manufacturers who were inefficient and/or just unscrupulous resorted to importing either by buying the certificates or by securing fake certificates that mushroomed. None of these helped to attain the fundamental goal of the scheme i.e. improved domestic manufacturing capabilities and associated employment creation.

4.5 Poor Coordination between the Public and Private Sectors

Lack of continuous consultation between the government and the sector during the design and implementation of the DCCS is evident in the extent to which views from the industrialists about the type of industrial policy framework that would have better supported the industry differed from the DCCS. While the DCCS intended making imports of domestically unavailable products or components thereof cheaper for domestic exporters, almost 80% of the industrialists interviewed argued that competitiveness, in the form of helping the sector to upgrade labor skills and modernize its capital stock to enable it to compete domestically and internationally, should have been the main focus of the industrial policy framework. This would have allowed the sector to serve the domestic and foreign markets competitively. Key Informant N argues that "The fact that the scheme intended enabling manufacturers to import cheaper products that were not available locally was an indication that the government was admitting that the sector was experiencing capacity deficiency to enable the production of the goods, the import of which the scheme intended to facilitate". Key Informant E was explicit in his point where he stated that any policy that would have better supported the sector should have treated building internal capacity (skills upgrading and capital modernization) for the long term survival of the sector even beyond government support as the primary and fundamental objective to be attained with urgency. This was the major failure of the DCCS. It never treated this objective as primary and fundamental.

4.6 Supply Side Intervention Measures and Access Criteria

Against the background of the industry that was failing to compete globally as a result of which job losses escalated, the government introduced an incentive scheme whose fundamental purpose was to build competitiveness, through investment in new capital and the upgrading of labor skills, for the industry to compete domestically and internationally. All of the firms surveyed claimed to be compliant in terms of the government minimum wage regulation and therefore qualify to benefit from the program. However, it is worth noting that it transpired during the interviews that approximately 60% of clothing and textile operators in South Africa are non-compliant and as a result do not qualify to benefit from the CTCIP until they become compliant. The bigger number of non-compliant firms means that excluding them from government assistance amounts to condemning the whole industry into perpetual predicament. This poses twin problems of allowing non-compliant firms, incapable of making a meaningful contribution in employment creation and stimulation of domestic demand because of wages they offer to their employees, to continue to exist but remain underdeveloped, and also in the process disadvantage the compliant firms because of the lower prices non-complaint firms charge in the goods market for their products as compared to those charged by complaint firms. Key Informants A, D, G, K and L complained that they find it difficult to compete in the domestic market with non-compliant firms who have an advantage of low production costs since they pay lower wages to their employees.

As briefly alluded to above, government assistance is available only to firms that are compliant in terms of wages they offer to their employees and that the sector is mostly comprised of non-compliant firms that form the majority of operators. Depriving access to government assistance this big component of the sector amounts to condemning almost the whole industry to perpetual under-development and defeats the very government objective of creating a competitive sector that is able to compete globally and create jobs locally. Because these non-compliant firms are not supported by the government their employment creation potential remains unrealized. The industrialists favored a carrot and stick approach to the problem of non-compliancy in that government should address underlying factors that promote non-compliancy e.g. illegal imports, under-invoicing and put in place incentives for compliancy while simultaneously charging non-compliancy penalties after a certain period (Key Informants A, B, E, G, H, I, J, K and L).

4.7 Policy Implementation

While the CTCIP was praised by all the thirteen firms that benefitted from it as being well positioned to help build competitiveness in the sector, the need for a diligent and dedicated bureaucracy tasked with the implementation of the policy is necessary and the application process itself needs to be made user-friendly. This is based on concerns that the application process is onerous and complicated, and bureaucratic bottlenecks which culminate in long waiting periods for grants to be made available; resulting in small industries having to close down while awaiting the government grant. One key informant from the clothing sector, Key Informant H, argued that “My firm has not benefitted from the CTCIP because of the onerous and complicated nature of the application process which deprives small firms like mine an opportunity to benefit from government support”. Key Informants A, C, D, E, I, G, K, M and N all indicated that even though the program is helpful the time lag spent waiting for the grants to be disbursed is too long and as a result operators who do not have enough reserves find it very difficult to sustain their operations.

4.8 Issues Relating to the South African Labour Force (unproductive, expensive, skills shortage)

Price and labor efficiency are some of the determinants of competitiveness of the economy in a neo-liberal environment. Price competitiveness depends entirely on production costs (labor and other input costs) while labor efficiency depends mostly on how skilled the labor force is. It transpired from the data collected that the industry still experiences skills shortage in areas like machinists, and relatively less productive but more expensive labor vis-à-vis trading partners like China, Botswana, Mauritius and Swaziland. Kaplan (2008, 8) states that

> "In the World Bank's recent survey of the investment climate, more enterprise managers said that worker skills were a serious obstacle to their enterprises' operations and growth than any other area of the investment climate. Consistent with this, per worker labor costs are very high in South Africa—over three and half times higher than in the most productive areas of China, over two and half times higher than in Brazil and Lithuania and over 75 percent higher than in Malaysia or Poland".

Price competitiveness is also affected by centralized bargaining although there are geographically different wage rates applicable for the industry e.g. rural-based firms pay a different wage rate as compared to metro-based firms. Industrialists believe that this fails to take into account different firm-level dynamics. All these factors make it difficult for the industry to be globally competitive and they defeat its employment creation potential. Key Informant L stated that "Other countries like China, with which we compete for the market, invested heavily in education and as a result their institutions of higher learning produced big enough quantities of people with industry relevant skills. Their sectors are not experiencing the same skills problem as we are here in South Africa. As a result we are not in a position to compete with them in the market". The World Bank (2005, 64-66) quoted by Kaplan (2008, 8) also blames the private sector for skills shortage, arguing that despite the obvious skill shortages, South African firms invest less in training and were less likely to have training programs than in most comparator countries.

During this study the industrialists mentioned receiving grant from the government to facilitate in-house skills upgrading while the government also liaises with institutions of higher learning to ensure the production of graduates with much needed skills.

As a mechanism of addressing production costs in terms of wages paid to labor the industrialists objected to centralized bargaining and suggested that in-house bargaining would help take cognizance of local dynamics for each firm. This would see the invisible hand of the market (supply and demand) determining labor costs (wages) which would then make such firms price competitive in the products market and ensure the attainment of the highest possible employment rate. However, they commended wage differentials between urban and rural based firms.

4.9 Operating costs (electricity, rent)

Just like labor costs and labor efficiency, operating costs (electricity and rent) also impact on the price competitiveness of the country's economy. Industrialists highlighted these as some of the major hindrances towards achieving price competitiveness in the clothing and textile sector. Ninety percent (90%) of them complained that their profit margins are not as good as they should be because of the cost of electricity. Key Informant J reported that "Electricity costs escalated from the middle of the previous decade (2005) making it very difficult for the business to make enough profit". Since any business in the market economy operates to make profit and in doing so it has to hire labor these hamper employment creation in the sector.

Chapter Five: Conclusion

The above analysis has brought to the fore a number of crucial policy lessons. It has shown categorically that a mixture of policies should have been put in place for the clothing and textile sector to be resuscitated and developed over the last two decades. Government's failure was in treating industrial policy alone as a panacea for the clothing and textile sector's woes. A host of other policies like monetary policy, fiscal policy, labor market policy and even education policy were treated as being of less importance and yet it was exactly these elements that culminated in the failure of the industrial policy. Almost all of these policies militated against the success of the industrial policy. One lesson that could be learned out of this analysis is that no single policy alone can resuscitate and develop an industrial sector. There is a need for policy alignment. Even with proper policy alignment the possibility of a policy producing opposite results cannot be ruled out, therefore a policy has to be constantly monitored and evaluated to establish if it is still in a position to ensure the attainment of the intended policy goals, or whether there is a need for policy adjustment. The South African government realized this very late when policy failure had inflicted huge damage on the clothing and textile sector. Not only the policy failed but even the regulatory mechanism failed during the DCCS era (1993-2010), culminating in the mushrooming of fake certificates and the buying of certificates by manufacturers who never exported. It was during this era that a significant portion of the sector either closed down or relocated to other Sub-Saharan countries. Given the importance of the sector in employment creation for the most vulnerable sections of the South African community (uneducated and women) closures and relocations were extremely damaging to not only employment, but the livelihood of entire communities.

Later on in 2007, the South African national government introduced a new policy (CTCIP), which seemed to be well positioned to address the fundamental woes of the sector. Under the new policy, addressing capacity and capability deficiency (skills upgrading and technological modernization) seems to have taken a center stage. This deficiency is attended to from two different fronts: 1) in-house investment in training and capital equipment by the industrialists themselves, and 2) government liaison with institutions of higher learning to ensure the production, by the latter, of skilled personnel for the sector. However, some concerns pertaining to bureaucratic bottlenecks, production and operating costs and rather discriminatory access criteria warrant urgent attention otherwise they carry the potential to undermine the integrity of the policy.

In line with facilitating-state approach's position regarding the role of government in the economy and the arguments by authors like Lin and Chang who (notwithstanding their differences regarding the nature of interventions) agree that government has an indispensable role to play in the economy by deploying industrial policy to develop sectors that have latent competitive advantage, findings from the fieldwork suggest that a well designed industrial policy is necessary to stimulate the South African clothing and textile industry. South Africa's factor endowment structure is characterized by an abundance of unskilled labour. The clothing and textile sector is therefore well positioned to help reduce unemployment in the country. However, the major pitfalls identified in this research will need to be addressed if the current industrial policy is going to help rejuvenate the clothing and textile sector, thereby enabling it to contribute to employment creation.

In line with the facilitating-state approach's position regarding public-private partnerships to address information externalities, fieldwork suggests that there is a clear and urgent need for closer relationships between the public and private sectors. These relationships would allow information sharing that is a necessary condition for the effective formulation of an appropriate industrial policy. They would also provide the basis for the effective monitoring of the impact of industrial policy on the targeted sector. Key in this regard is the establishment of clear benchmarks and success criteria, as argued by authors like Rodrik and Hague.

At the macro-economic policy level, it is also clear that South Africa needs policy coordination that would see industrial, monetary, fiscal, labour market and education policies aligned to propel forward the economy in general and the clothing and textile industry in particular. These would see the transformation of the endowment structure of the economy.

Furthermore, that the CTCIP is in a better position to resuscitate the sector is evident in the fact that since its implementation in 2009 the intensity of the job losses tide seems to have been arrested. However, given the extent of the damage already inflicted on the sector, judging the success of this policy necessarily has to be based not only on how many jobs it has helped to protect but also and crucially how many it has helped to create. This is after all the major economic challenge confronting South Africa. There is consequently a clear need to continue monitoring and evaluating the effectiveness of the programme before concluding that the CTCIP has indeed been a success or a failure. Also, addressing pitfalls identified in this research, like bureaucratic bottlenecks, macro-economic policy alignment, limiting access criteria, onerous application processes, etc. will help put the CTCIP in a more advantageous position to ensure that the clothing and textile sector is indeed rejuvenated.

Finally, there is still a room for further research in this area, which would be broader in scope and ensure that the views of other role-players, like government officials entrusted with industrial policy implementation and labour representatives, are taken into consideration to get an all-inclusive view of the sector and the woes with which it is faced and how they can be overcome.

Appendix 1: Interview schedule

NAME OF THE FIRM	
POSITION OF THE INTERVIEWEE IN THE FIRM	
TYPE OF THE FIRM	
DATE OF THE INTERVIEW	
TIME OF THE INTERVIEW	
INTERVIEWER'S NAME	

1. How do you view the impact of the DCCS on the RSA clothing and textiles industry from 1993 to 2010?

2. What other national and regional/local government policies supported and/or undermined the SA clothing and textiles industry over the period 1993 to 2010?

3. In relation to the DCCS, which of these policy elements were more/less important in shaping the performance of the clothing and textiles industry? And how?

4. With the benefit of hindsight, what industrial policy framework would have better supported the development of the RSA clothing and textiles industry over the period 1993 to 2010? And how?

5. What is your view of the dti's CTCIP? Is it supporting the re-development of the RSA clothing and textiles industry? How?

6. What are the central industrial policy issues that you believe the SA government needs to understand in relation to the RSA clothing and textiles industry? Can you prioritise these?

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