

An Evaluation of the Employment Trends in the Clothing & Textile Industry (23 October 2006)

Dr. Lawrence Edwards, PhD, School of Economics, University of Cape Town.

Prof Mike Morris, PhD, School of Economics, University of Cape Town

A primary justification for the proposed quotas is the claim that 63 000 to 67 000 jobs have been lost over the past three and a half years (and that 1000 jobs are being lost per month)¹ and that these losses are directly related to the significant growth in imports from China over this period. Further, it is argued that the imposition of quotas, will not only reverse this decline, but will raise employment in clothing and textiles by 50 000 to 60 000.²

In this note we challenge these numbers. In particular, we argue:

- (1) The numbers misrepresent the effect on the sectors that have been targeted by the quotas
- (2) The data from which these estimates are drawn are faulty and bias the estimated job losses upwards
- (3) There is no economic justification for the estimated increase in employment within the quota-protected sectors
- (4) The direct connection between the quantum of jobs lost and Chinese imports is not established and the multiplicity of influencing and causal factors has been ignored.

We do not, however, argue that increased international competition (from China and other countries), product development and the stronger Rand have not led to substantial restructuring within the South African clothing and textile sectors, and as a consequence, some employment losses within the industries. In this note we merely refute the extent of the employment losses as well as the claim that the quotas will substantially increase employment and output of domestic producers.

Misrepresentation of impact on clothing and textile fabric sectors

The proposed quotas affect only imports of clothing and textile fabric. In the latter case, the quotas only affect HS 4-digit codes: HS 5208, HS 5209, HS 5210 and HS 5514. These HS 4-digit codes cover textile fabrics and **not** other textile products such as ropes, carpets, industrial textiles, technical textiles, household textiles etc. Footwear products are also not included in the quota restrictions.

Hence, if a justification for quotas is the loss of employment, we need to ensure that employment trends being used refer **only** to those sectors affected by the proposed quotas. Otherwise we are comparing apples with oranges.

In this regard, **the Statistics South Africa employment numbers referred to by SACTWU and DTI cover clothing, textile, leather and footwear products (SIC 31) and not just the sub-sample of products restricted by quotas.** As argued by Andre Kriel of SACTWU (Business report, Oct 10 2006)³, Statistics SA data indicates that employment dropped in the clothing,

¹ Statement by Iqbal Sharma (Acting deputy director-general, DTI) in "Perfectly happy with the cut of his cloth" Business Times, 24 September 2006.

² China-SA trade deal to stem clothing import tide. City Press, 24/06/2006.

³ Andre Kriel, "Morris' job data not authoritative", Business Report, 10 October 2006.

textile and footwear industries from 206 947 in January 2003 to 142 203 in June 2006 (a loss of 64 744 jobs). The Statistics South Africa data, however, covers all clothing, textile and footwear sectors. The estimate of over 60 000 therefore substantially misrepresents changes in employment within the clothing and fabric sectors that are subject to quota restrictions. The exact extent of this misrepresentation we shall specify below.

More importantly, as we will show later, **the Statistics SA data are characterized by sampling breaks and are not representative of the entire clothing and textile value chain from production to retail.** Hence, the focus only on production, presents a **biased impression of employment changes** as employment increases within the retail sector, as well as changes in the composition of employment (a shift from formal to informal trade, non-registered companies, CMTs, SMMEs) are not accounted for.

Use of unrepresentative data

In this section we interrogate the numbers presented by DTI and SACTWU regarding employment losses. We have two objectives:

- Firstly, we critically analyse the values presented by DTI and SACTWU regarding employment losses.
- Secondly, we estimate the extent of employment loss since 2003 in the clothing and textile products that will be affected by the proposed quota restrictions.

We first respond to the claim that employment in the industry declined by over 60 000 in the past 3 and a half years. This claim is reflected in the posting by Andre Kriel of SACTWU (Business report, Oct 10 2006) that Statistics SA (SSA) data indicates that employment dropped in the clothing, textile and footwear industries from 206 947 in January 2003 to 142 203 in June 2006 (a loss of 64 744 jobs).

The Statistics South Africa data on which this is based is replicated in Table 1. A close analysis of this data suggests that it is not a reliable estimate of employment trends in the clothing, textile and footwear sectors.

Firstly, as noted above **the estimated 60 000 plus decline in employment from 2003 to 2006 is for the entire clothing, textile, leather product and footwear sector** (see line 31 Dec 02 to 30 June 06 under column Total where 65 000 jobs are lost) and not the sectors subject to quota controls.

Secondly, **the data are too aggregated for us to identify the employment changes within the sectors subject to the proposed quota controls.** If we focus only on Wearing apparel, Knitted and crocheted fabrics and articles and Spinning weaving and finishing of textiles, we find a lower, although still high, decline in employment of 48,327 jobs over the same period. This estimate, however, is still an exaggeration as numerous other clothing product that are not subject to quota restrictions, are included in these sectors.

Thirdly, and most importantly, **the large declines in employment are exaggerated by a change in the employment series between end-2003 and 2005.** In particular, the Survey of Employment and Earnings (SEE) (P0271) from which the 2003 employment data are drawn was replaced by the Quarterly Employment Series (QES) (P0277) from which the 2006 employment data are drawn. These employment statistics are not directly comparable as the samples are drawn from different business registers and are of substantially different sample sizes (SEE

covers 8500 private businesses and public institutions, while QES covers 24 000 private businesses and public institutions).

The impact of inappropriate comparisons of employment data drawn from different employment series is most noticeable in the series break between 30 Sept 04 and 31 Dec 04, presented in Figure 2.⁴ This shift downwards in the level of employment in response to the new survey, accounts for approximately 50% of the estimated 60 000 plus decline in employment over the past 3 and a half years. These are not actual employment losses, rather they are statistical artefacts arising from differences in surveys. We find similar proportionate once-off declines in measured employment when we focus on Wearing apparel, Knitted and crocheted fabrics and Spinning, weaving and finishing of textiles. In other words, the inappropriate comparison of employment numbers results in a doubling of the estimated employment loss.

Further evidence that these declines are unrealistic is that we do not find similar declines in volumes of domestic production (see Figure 2), which we would expect if there had been substantial closure of manufacturing firms during this period.⁵

In short the data is not comparable between these two time frames and the attempt by SACTWU to use this data to make claims regarding job losses in the industry over the past three years is erroneous. Approximately half of the decline in employment claimed by SACTWU and DTI can be attributed to the erroneous comparison of different employment surveys.

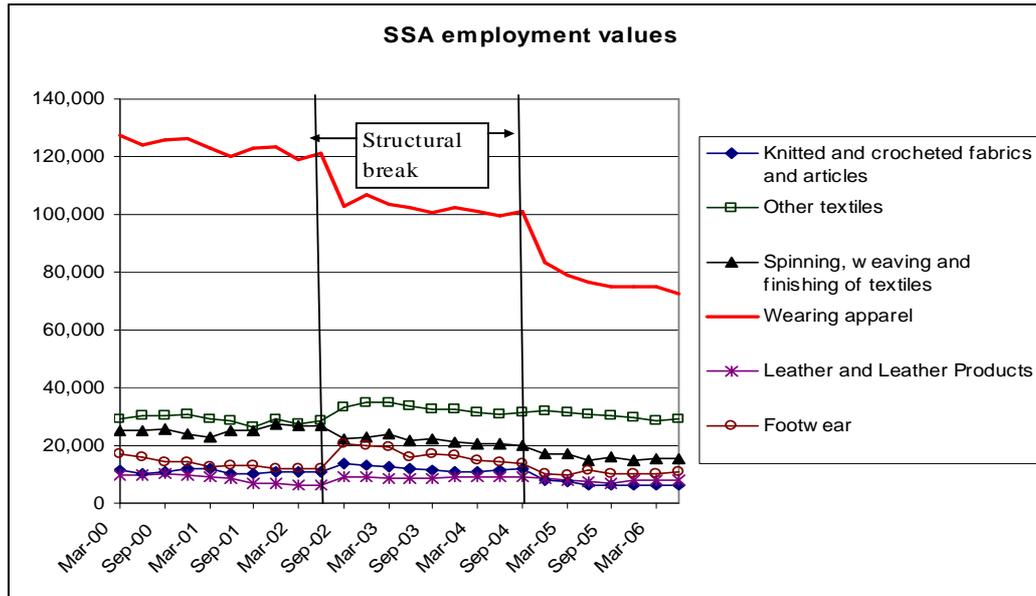
Fourthly, if we compare the period 31 Dec 02 - 30 June 06 but exclude the series break between 30 Sept 04 and 31 Dec 04 period, we find substantially lower declines in employment and a much lower rate of decline per month than is emphasised by the DTI and SACTWU. In particular we find that total employment in clothing, textiles, leather and footwear declined by 37,600. Our estimated employment loss for wearing apparel plus textile fabrics (final column Table 1) over this period suggests a decline in employment of around 24,500 (note that this is similar to the sudden drop in employment from 30 Sept 04 to 31 Dec 04).⁶ This is equivalent to around 650 jobs lost per month, a far cry from the 1000 suggested by Iqbal Sharma , as reported in Business Times (24 September 2006).

⁴ This data are obtained from SSA P0271 and the DTI website. SEE was discontinued from June 2005 and was replaced by the QES. The employment data from December 2004 is based on the QES.

⁵ Note that this data refers to total output of clothing, textiles and leather goods. Total employment within all these sectors also dropped suddenly in response to the change in employment survey.

⁶ If we analyse changes in employment within clothing & textile fabrics from 31 Dec 02 to 30 June 06, but exclude the fourth quarter of 2004, we find a decline in employment of approximately 24,500.

Figure 1: Employment trends from 2000: Statistics South Africa data



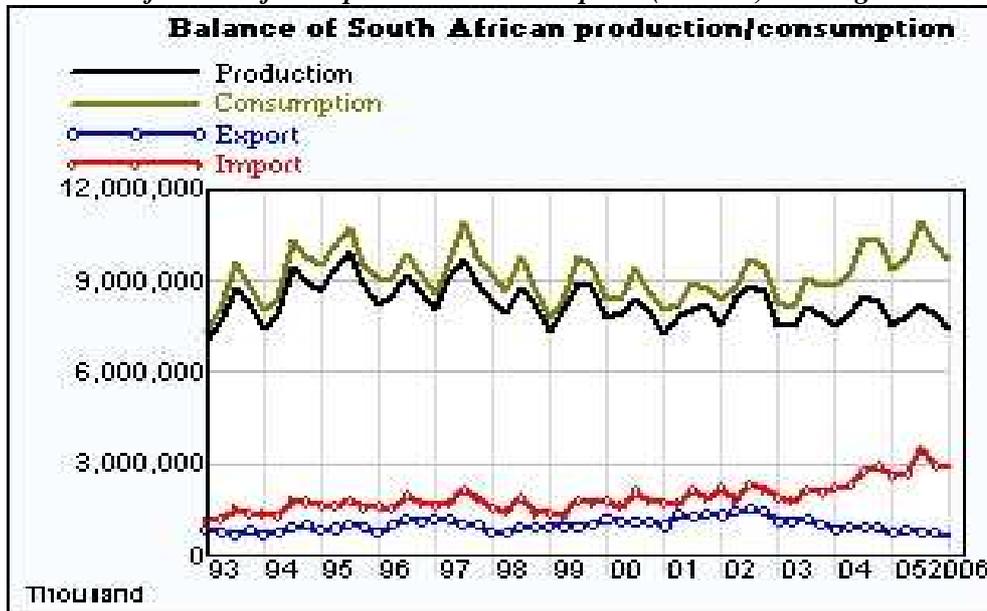
Source: SSA P0271 and <http://www.thedti.gov.za/econdb/cssrap/SsaP027115.html>

Table 1: Statistics South Africa employment data

	Knitted and crocheted fabrics and articles	Other textiles	Spinning, weaving and finishing of textiles	Wearing apparel	Leather and Leather Products	Footwear	Total: clothing, textiles, leather & footwear	Wearing apparel plus fabrics ¹
3/31/00	11,203	29,103	25,128	127,168	9,525	16,873	219,000	163,499
6/30/00	10,489	30,258	25,182	124,001	9,634	15,778	215,342	159,672
9/30/00	10,753	30,061	25,518	125,650	10,084	14,542	216,608	161,921
12/31/00	11,745	30,878	24,195	126,059	9,457	14,073	216,407	161,999
3/31/01	11,821	28,999	23,054	122,739	9,097	12,783	208,493	157,614
6/30/01	10,022	28,487	25,110	119,839	8,596	12,963	205,017	154,971
9/30/01	10,318	26,524	24,939	122,899	7,047	13,087	204,814	158,156
12/31/01	10,643	29,166	27,708	123,175	6,842	12,198	209,732	161,526
3/31/02	10,782	27,481	26,750	118,749	6,550	12,245	202,557	156,281
6/30/02	10,970	28,508	26,840	121,402	6,384	12,179	206,283	159,212
9/30/02	13,777	33,103	22,339	102,962	9,029	20,469	201,679	139,078
12/31/02	12,991	35,105	22,980	106,757	8,891	20,223	206,947	142,728
3/31/03	12,815	35,126	23,840	103,322	8,492	19,557	203,152	139,977
6/30/03	12,078	33,705	21,455	102,339	8,579	15,869	194,025	135,872
9/30/03	11,646	32,824	22,306	100,685	8,854	17,029	193,344	134,637
12/31/03	11,103	32,807	20,929	102,354	9,132	16,611	192,936	134,386
3/31/04	10,844	31,562	20,810	101,281	9,126	14,657	188,280	132,935
6/30/04	11,181	30,811	20,616	99,558	9,311	14,007	185,484	131,355
9/30/04	11,783	31,429	19,954	101,234	9,279	13,892	187,571	132,971
12/31/04	8,235	32,226	17,422	83,541	8,346	10,461	160,231	109,198
3/31/05	7,160	31,276	17,401	78,908	7,744	9,985	152,474	103,469
6/30/05	6,350	30,986	14,997	76,792	7,586	11,349	148,060	98,139
9/30/05	6,159	30,543	15,823	74,670	6,944	10,406	144,545	96,652
12/31/05	6,138	30,000	15,045	74,990	7,971	10,428	144,572	96,173
3/31/06	6,300	28,784	15,308	75,031	7,761	10,556	143,740	96,639
6/30/06	6,166	28,953	15,458	72,777	7,933	10,660	141,947	94,401
Changes in employment								
31 Dec 02 - 30 June 06	-6,825	-6,152	-7,522	-33,980	-958	-9,563	-65,000	-48,327
% change	-64%	-21%	-27%	-28%	-14%	-78%	-31%	-30%
Job loss per month	-175	-158	-193	-871	-25	-245	-1667	-1239
31 Dec 04 - 30 June 06	-2,069	-3,273	-1,964	-10,764	-413	199	-18,284	-14,797
% change	-16%	-9%	-9%	-10%	-5%	1%	-9%	-10%
Job loss per month	-115	-182	-109	-598	-23	11	-1016	-822
Structural breaks								
30 Sept 04 to 31 Dec 04	-3,548	797	-2,532	-17,693	-933	-3,431	-27,340	-23,773
<i>As proportion decline in employment from 31 Dec 02- 30 June 06</i>								
	52%	-13%	34%	52%	97%	36%	42%	49%
Alternative estimates excluding break								
31 Dec 02 - 30 June 06 excl								
30 Sept 04 - 31 Dec 04	-3,277	-6,949	-4,990	-16,287	-25	-6,132	-37,660	-24,554

Notes: 1. Wearing apparel plus fabrics includes Wearing apparel, Knitted and crocheted fabrics and articles and Spinning weaving and finishing of textiles.

Figure 2: Balance of South African production/consumption (Textiles, clothing and leather goods)



Source: Department of Trade and Industry (<http://www.thedti.gov.za/econdb/cssrap/SsaP027115.html>)

Fifthly, the Statistics South Africa sample of firms does not adequately capture new firms that have arisen, or the shift in production towards Cut-Make-and-Trim (CMT) industries and hence exaggerates the decline in employment. The employment series is based on a sample of firm surveys. With the rapid restructuring of the clothing and textile industry, and the emergence of CMT industries, the register of firms from which the sample is drawn needs to be updated regularly. Since there has not been a Manufacturing Census since 1996, it is probably that the sample used to estimate employment within the clothing and textile sector (and other manufacturing sectors) under-estimates employment created through the emergence of new participants. As we show later, there is evidence of entry in this sector, even during periods of intense international competition. Further, as shown by Borat and Oosthuizen (2005)⁷, the SSA formal employment series under-estimates employment creation in manufacturing from the mid-1990s.

Finally, as noted by Statistics South Africa (2003: 7)⁸: “Decreases in employment in the formal non-agricultural business sector, as reflected by the Survey of Employment and Earnings, thus, do not necessarily reflect an equivalent increase in the number of unemployed persons in South Africa, since some of the persons may have taken up or created employment in the sectors or industries listed above which are not included in this survey.” The estimated decline is therefore not representative of the change in unemployment.

In conclusion, the estimate of 60 000 plus job losses misrepresents the job losses incurred within the sectors subject to the proposed quotas, but also are based on inappropriate comparisons of data drawn from different employment surveys. This considerably exaggerates the estimated job losses within the clothing and textile fabric sectors over the past three-and-a-

⁷ The Post-Apartheid South African Labour Market, Development Policy Research Unit, Working Paper 05/93.

⁸ Discussion paper: Comparative labour statistics, survey of employment and earnings in selected industries, December 2002 (P0271).

half years. Further, if we more appropriately use Statistics South Africa employment data over a more recent period (from Dec 04), we find far more moderate declines in employment (less than 500 per month for the entire clothing, textile and footwear sector. Approximately 380 for the clothing and textile fabric sectors) than is estimated by SACTWU and the DTI (Iqbal Sharma). Finally, the data under-represents employment growth in new firms, the emergence of CMT operations and employment found in alternative sectors of the economy.

We now respond to alternative estimates of the decline in employment using the SACTWU research division's database - South African Labour Research Institute (SALRI). According to Andre Kriel of SACTWU (Business report, Oct 10 2006), the SALRI database indicates that 530 factories have retrenched workers or closed down over the three and a half years. The database tracked about 67 000 job losses, made up of 51 930 recorded job losses and estimates of a further 14 961 retrenched workers.

There are a number of problems associated with these estimates. Firstly, it is not clear what industries the SALRI database covers. The similar values to the SSA data, would suggest that footwear and leather products are included. As argued above, the inclusion of footwear, leather products and textiles not covered by the quota (if this is the case in the above data), is a misrepresentation of the change in employment within sectors subject to the proposed quota restrictions.

More problematic, however, is that **the data used presents an upwardly biased estimate of employment losses in the industry.** The SALRI based estimates of employment losses, only account for retrenched workers or recorded job losses as companies that retrench workers are required to disclose this information to SACTWU. What is not captured is employment creation through new entrants and re-engagements. The following table presents data on labour turnover within clothing manufacturing industries in KwaZulu-Natal and Western Cape for 2005. The data are provided by the National Bargaining Council for Clothing industry. Unfortunately, we do not have similar data for the relevant textile products. Nevertheless, the data are sufficient to highlight the inherent bias in the method used by SACTWU to estimate employment losses

Table 2: Labour Turnover, Clothing manufacturing industry (KZN & WC) - 2005

	KwaZulu-Natal	Western Cape	Totals
Re-Engagements	3,228	8,463	11,691
New Entrants	3,672	2,976	6,648
Total Engagements	6,900	11,439	18,339
Terminations	9,874	15,156	25,030
Movements (+/-)	(-) 2,974	(-) 3,717	(-) 6,691
Average Employment Strength for 2005	36,326	31,724	68,050⁹
% Terminations vs Employment Strength	27.18%	47.77%	36.78%

Source: Clothing National Bargaining Council

What this data indicates is that there has been substantial "churning" within the clothing industry. Although around 25 000 jobs were terminated (either through closure, retrenchment or voluntary exit), approximately 18 000 new engagements were registered. Interestingly, over 60% of the latter are made up of re-engagements, suggesting that there is some scope for individuals who have had their employment terminated, to re-gain employment. The net employment change was a reduction in employment of around 7 000. In conclusion, **the focus on retrenched workers only, substantially exaggerates the employment losses within the industry.**

⁹ Note this does not include data for the whole country and hence the total differs from the national NBC data.

There are further reasons why the focus on retrenched workers exaggerates employment losses. Firstly, the data does not capture entry of retrenched workers into employment in other non-registered firms, such as small CMT operations, within the industry. The growth in informal CMTs from the mid-1990s has been an important source of employment for clothing and textile workers who have lost formal employment.

Secondly, there has been a tendency in the industry towards casualisation and displacement of productive activities from metro to non metro regions (especially in KwaZulu-Natal). Focussing only retrenchments misses out on this phenomenon and overstates job losses. Degradation of job conditions may be a concern but it is not equivalent to job loss.

Thirdly, some of the workers, whose employment was terminated, will have found employment in other sectors of the economy. While we do not have exact data on this, it must be noted that the recent official statistics based on the Labour Force Survey, as well as the report by Borhat and Oosthuizen (2005) indicate substantial growth in the services and manufacturing sector.

Fourthly, access to cheaper clothing has boosted sales of clothing in the retail sector. While a high proportion of the increased sales are from imports, the growth in sales has raised employment within the retail sector. While we do not have data on employment created within the retail industry, the failure to account such employment creation again distorts the net effect on employment within the clothing and textile value chain from intermediate producer to retailer.

The reasons presented above suggest that the employment estimates provided by SACTWU are a gross exaggeration of the net impact on employment over the past three-and-a-half years.

We have further reasons to doubt the data presented by SACTWU. According to the SALRI database 530 firms have retrenched workers or closed down. As noted above, the focus on closures alone without considering new entrants, presents a distorted picture of trends in the industry.

Figure 2 presents data on the number of employers and employees for Clothing Manufacturers. The data are obtained from the National Bargaining Council (NBC) and covers all registered employers. This data are arguably the most reliable data available. In the middle of 2003 the compliance unit of the NBC went on a drive to track down all known employers of labour in the formal clothing sector so as to force compliance. The number of firms and employees hence jumps dramatically from June 2003 to Dec 2003 with a more moderate increase in 2004. We therefore only compare the data from Dec 2004 to avoid changes in the sample of firms.¹⁰

The data, however, does not reflect small CMT operations with less than five or six workers, nor does it include those firms who manage to avoid detection by the national compliance officers. These firms are also not included in the data used by SALRI, hence would not account for the differences we find.

The data indicates that there has been a marginal decrease in the number of Clothing employers over the period December 2004 and December 2005. While these values may 'hide' closure of

¹⁰ Note that the criticism that Mike Morris by Andre Kriel of the employment estimates of Mike Morris, "Clothing and textile job losses revisited. Business Report, 10 October 2006., are not valid.

firms, the conclusion we can draw is that the net effect on clothing firms is relatively small. Unfortunately, we do not have similar data on the number of employers within the relevant textile products. The textile sector (including products not covered by the quotas) has seen larger declines in output relative to the clothing industry since 2000. Hence a decline in the number of employers in the textile sector can be expected. However, given the data available and the inability to separate out fabrics (which are covered by the proposed quota) from other textiles (ropes, carpets, industrial textiles, etc.), we are unable to adequately estimate this change. More data and research is clearly required on this issue. Nevertheless, the data we have provides reason to doubt the employment and firm closures presented by SACTWU.

Estimates of employment change

As noted above, estimates of employment changes within the clothing and relevant textile firms are made difficult by the paucity of data available. Nevertheless, we attempt to estimate the overall employment impact using two sources of data:

- (a) Employment data obtained from the National Bargaining Council for Clothing. This data has been discussed above in relation to the discussion dealing with the number of employers.¹¹
- (b) Appropriate employment data for fabric textiles is more complicated. We use the Textile Federation data base of its registered members. This database is estimated to cover about 99% of firms producing woven and knitted textile fabric. These are large capital intensive firms and this is the largest part of the industry. The other part of textile fabric sector is the knitted fabric sub sector which constitutes a much smaller part of the textile sector. These are smaller firms and is easier for firms to avoid membership of Texfed if they so wish. As opposed to their estimate of nearly total membership of woven fabric, Texfed estimates that about 80% of producers of knitted fabric are members of Texfed¹². This data therefore covers nearly the entire textile fabric industry and also does not suffer from the aggregation problems associated with the Statistics South Africa data.¹³ An alternative source of data is the Textiles Bargaining Council. However this data aggregates all textile firms and hence mixes up fabric, technical, industrial, carpets, household etc. Hence we have refrained from using this data as it provides a misrepresentation of the sector under consideration.

We also evaluate the use of alternative data sources, but limitations regarding this data make the above data our preferred choice.¹⁴

Looking first at employment within clothing producers, we note a jump in employment numbers from June 2003 to December 2003. This is not an increase in actual employment but simply a discovery of existing employment, as the compliance unit of the NBC tracked down unregistered employers of labour. A more appropriate comparison is between Dec 2003, Dec 2004 and Dec 2005.

The data indicates that total employment in clothing rose from 95 000 in Dec 2003 to 98 000 in Dec 2004. Although this rise also reflects the registration drive by the Clothing NBC, there is no a priori reason to suppose that the 2005 employment 'churning' effect does not also apply to

¹¹ The NBC representatives (Roberts and Deetleffs) say this is extremely reliable and very specific data

¹² Internal sources within Texfed.

¹³ SSA aggregates knitted textile fabrics and knitted garments; the latter falls under the clothing sector.

¹⁴ We also evaluated data from the Labour Force Surveys. However, the very low numbers of individual respondents (less than 700 for SIC 311, 313, 314) at the sector level make extrapolation to the aggregate level tenuous.

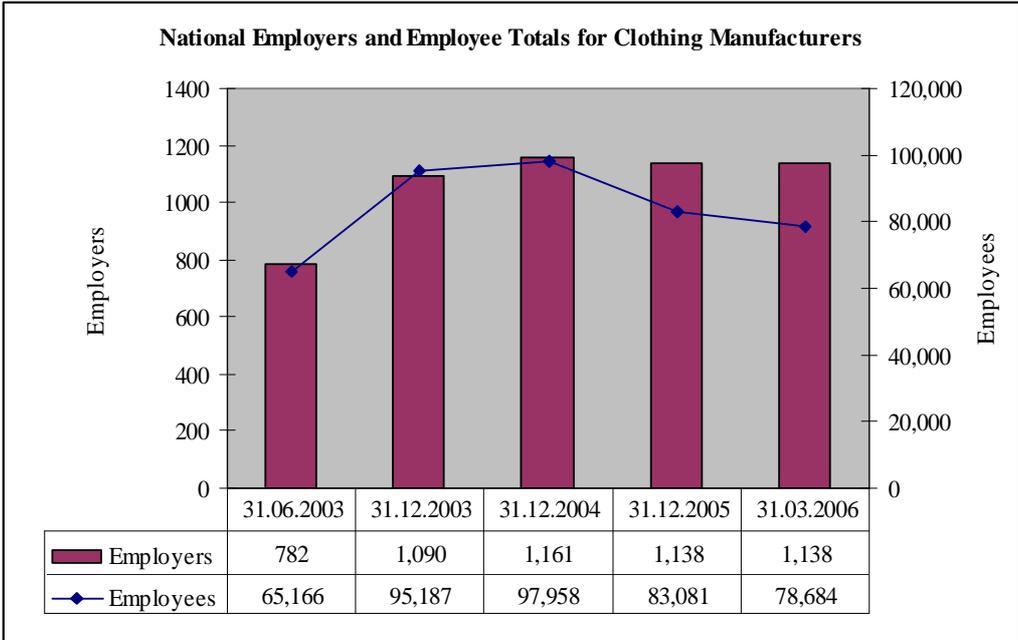
2004. Employment then fell to around 83 00 in Dec 2005, and the latest employment figures we have are 78 600 in March 2006. Strictly speaking comparisons should be made from the same monthly calendar point to avoid extraneous intervening factors and business cycles. Hence the desirable comparison date is Dec 2003 to Dec 2005. This also approximates the time period which corresponds with SACTWU’s claim of 67 000 jobs lost in the industry. Furthermore our latest textile employment data is also late 2005. On this basis we have witnessed a loss of clothing 12 000 jobs between Dec 2003 to Dec 2005. Even if we relax the criteria for comparison, and take the point when employment was at its highest, Dec 2004 relative to the latest data available, March 2006, the greatest decline is roughly 20 000 jobs.

These are estimates of the net effect on employment, as employment created is included in the estimate. However, we do not account for the possibility that some of those that have lost their jobs have been rehired in a casual capacity, or found employment within the un-registered informal CMT operations, or in other sectors of the economy. Hence even our more detailed data contains an element of uncertainty as to the process of the changing composition of labour versus job loss in the industry, pointing to the need for more rigorous research.

Looking now at employment changes within the textile fabric for clothing sector, the Texfed data indicates that in late 2003 there were 21 380 employees. By late 2005 the numbers had declined to 16 800 - a drop of 4 580.

Overall, our estimates therefore suggest that, using the strict criteria the number of jobs lost in the clothing and the fabric sectors between Dec 2003-5 was roughly 16 500. Even if the criteria are relaxed, at the most outer limits employment declined by approximately 24 000. Although this value does not include possible employment losses in firms not registered with Texfed or the Clothing NBC, it also does not include possible employment creation in the growing small CMT clothing sub sector nor in the clothing retail sector. Either way, the estimated employment losses by SACTWU, cited by the DTI, appear substantially exaggerated.

Figure 3: National Employers and Employee Totals for Clothing Manufacturers



Source: Clothing National Bargaining Council

Furthermore we reiterate the point that this data does not capture the phenomenon of the changing composition of employment towards smaller ‘informal’ CMT enterprises and away

from larger clothing firms. Anecdotal evidence from the industry, as well as very limited qualitative interviews, suggests a restructuring of the sector has been taking place.

Creation of employment

In this section, we briefly evaluate the claim that the quotas will increase employment by 50 000 to 60 000. To analyse this we estimate the employment output elasticity between 1991 and 2002 using annual data. The employment output elasticity is an indication of the percentage employment created by a 1 percent increase in output. Given the predicted increase in employment of 50 000 to 60 000, we can then estimate the required percentage change in output required to generate such employment.¹⁵

The proportionate changes in output of clothing and textile fabrics to generate 55 000 jobs are presented in Table 3. We try a number of simulations using different employment output elasticities and estimates of initial levels of employment within clothing and textile fabric sectors in 2006. Initial employment levels of 100 000 are based on the NBC and Texfed data presented above. The 130 000 is included to account for un-registered firms. Looking at the employment elasticities, simple estimates using output and employment growth rates (using Statistics South Africa data) from 1991 to 2002 suggest an employment output elasticity of 0.9 for textiles and 0.4 for clothing.¹⁶ Taking the employment weighted average, yields an employment output elasticity of 0.56. We also present results using an employment output elasticity of 0.7.

Our results show that prediction that 55 000 jobs would be created through the use of quotas is unrealistic. Assuming an employment output elasticity of 1, the creation of 55 000 jobs requires a 40% to 55% increase in output of clothing and textile fabrics. Using the employment weighted average elasticity, suggests output would need to rise by 75% to 98%. Such increases in output are unrealistic given the analysis in the main Economic report prepared for this study.

Table 3: Output growth required to generate 55 000 jobs in quota protected sectors

Simulation	Employment-output elasticity	Estimated employment in 2006	% change in employment from 55 000 jobs	Estimated % change output
1	1	100000	55%	55%
2	1	130000	42%	42%
3	0.56	100000	55%	98%
4	0.56	130000	42%	76%
5	0.7	100000	55%	79%
5	0.7	130000	42%	60%

Causes of job loss

In citing their job loss figures, SACTWU (and the DTI), claim that the **direct cause** of the decline in employment is the ‘surge of Chinese imports’ over the past 3 years. Hence the remedy proposed is import restriction of garments and fabric from China through the imposition of quotas, which will then lead to increased jobs as the industry takes advantage of the easing of competition. The latter policies and remedies follow from the former argument. Correspondingly though, if the direct connection between the importation of Chinese

¹⁵ The employment output elasticity (η) = $\% \Delta E / \% \Delta Q$. Given $\% \Delta E$, we can derive $\% \Delta Q$ as $\% \Delta E / \eta$.

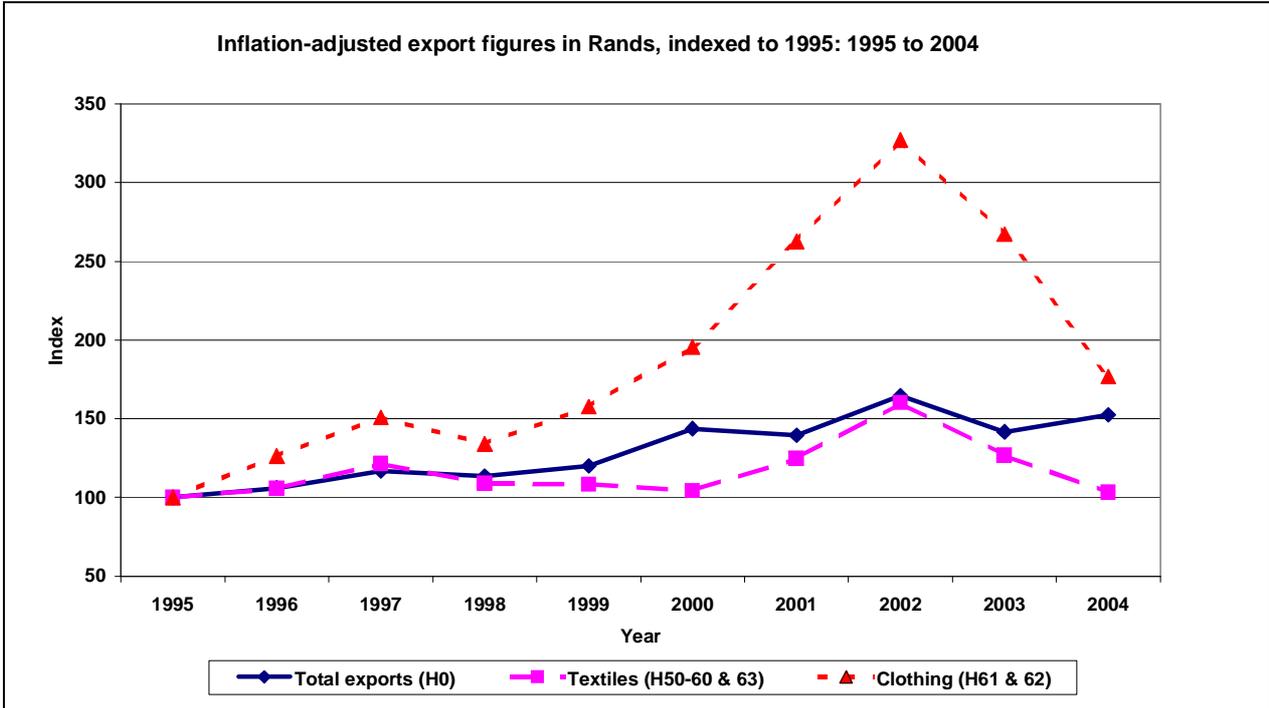
¹⁶ SIC 313 Manufacture Of Knitted And Crocheted Fabrics And Articles is included in Textiles.

clothing/fabric and job losses cannot be established, then the policy remedies must also be called into question for their appropriateness.

We have disputed the extent of job losses by interrogating the data. We do not however dispute that imports play a role in shaping unemployment in the sector. However Chinese imports are but one factor amongst a multiplicity of causes impacting on these industries in the last few years. Others are the dramatic collapse of clothing export production caused by the strengthening of the Rand, the ending of the Duty Credit Certificate Scheme, the relocation of non-metro clothing firms because of rising wage levels due to the extension of bargaining agreement and possible compliance prosecutions, the movement of clothing exporters to neighbouring countries such as Lesotho and Swaziland which have grown their export clothing sectors to the USA as a result of being able to take advantage of the rules of origin in the AGOA, increasing import price pressure arising from the appreciation of the Rand, and major global technological advances in textile production which reduced employment internationally.

Without wishing to engage in an extraneous discussion around exports, but in order to illustrate the importance of one of these factors in causing job losses, in Figure 4 we present data on clothing and textile exports from South Africa. This illustrates the collapse of exports from 2002 onwards, which had a significant impact on employment in those enterprises and geographical areas that were exclusively or primarily dedicated to serving the export market.

Figure 4: Clothing and Textile Exports 1995 - 2004



Source: Trade and Industrial Policy Strategies

As the DTI’s own Sector Development Strategy (CSP)¹⁷ notes:

¹⁷ Department of Trade and Industry, Clothing and Textiles Sector Development Strategy, August 2006, paragraphs 40-41

“Firms that took advantage of the opportunities provided by AGOA have suffered the most in terms of order losses and **subsequent lay-offs**. This is evident in terms of the drop of apparel exports to the US through 2004.

Textiles exports grew 60% from 1995 to 2002, but declined 35.6% through 2003 and 2004. Wearing apparel performed more impressively with 2002 levels 227% higher than in 1995. However, 2003 and 2004 also saw export levels decline significantly, contracting by 45.9% in real terms.”

This partial analysis shows that the direct connection between the scale of job loss in the sector and the importation of Chinese garments as claimed by SACTWU and the DTI is unsubstantiated. Establishing the extent to which job loss is attributable to imports requires an analysis of the variety of causal relations operating in the sector, disaggregating each of them, and attributing weightings in respect of job losses. Only then can any claims with respect to halting job losses or increasing employment through specific policy interventions be evaluated and measured. This is an exercise that neither SACTWU nor the DTI have undertaken.

Conclusion

In conclusion, we find no justification for the claim that 63 000 to 67 000 jobs have been lost within the clothing and textile fabric sectors over the past three and a half years. Further, we find the argument that the quotas, will raise employment in clothing and textiles by 50 000 to 60 000 over the two years during which the quotas will be implemented is unrealistic.¹⁸ Further, we find that

- The employment numbers used by the DTI and SACTWU to justify the imposition of quotas misrepresent the effect on the sectors that have been targeted by the quotas
- The data from which these estimates are drawn are faulty and bias the estimated job losses upwards
- There is no economic justification for the estimated increase in employment within the quota-protected sectors
- The causes of the job losses (which include the direct effect of Chinese imports) have not been adequately established, and hence the imposition of a China import policy in the absence of such a study is inappropriate.

While we do not dispute that international competition has challenged the domestic production industry and has led to job losses, the extent the decline in employment and the cause thereof has not been sufficiently established to justify the imposition of quotas.

¹⁸ China-SA trade deal to stem clothing import tide. City Press, 24/06/2006.