UNIVERSITY OF CAPE TOWN

The changing dynamics of the South African clothing value chain and the role for industrial policy: A case study of the China quotas

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List of Acronyms

AGOA	African Growth and Opportunity Act
ANC	African National Congress
ATC	Agreement on Textiles and Clothing
BA	Business Alliance
CSP	Customised Sector Programme (Plan)
Clotrade	Clothing manufacturers body
CMT	Cut, Make and Trim
COSATU	Confederated South African Trade Union
CTCC	Cape Clothing and Textile Cluster
CPI	Consumer Price Index
DC	Developed Country
DCSS	Duty Credit Certificate Scheme
DTI	Department of Trade and Industry
EU	European Union
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GVC	Global Value Chain
IES	Income and Expenditure Survey
IPAP	Industrial Policy Action Plan
ISI	Import Substitution Industrialisation
KAP	Key Action Program
KZN	KwaZulu-Natal
LDC	Lesser Developed Country
MFA	Multifiber Arrangement
MOU	Memorandum of Understanding
NBC (BC)	National Bargaining Council
Nedlac	National Economic Development and Labour Council
NIPF	National Industrial Policy Framework
NIC	Newly Industrialised Country
PPI	Producer Price Index
RoO	Rules of Origin
SA	South Africa
SIC	Standard Industrial Classification
SME	Small and Medium Enterprise
RoO	Rules of Origin
SACTWU	South African Clothing Workers Union
SACU	South African Customs Union
SSA	Sub Saharan Africa
TCDC	Textile and Clothing Development Council
UIF	Unemployment Insurance Fund
UK	United Kingdom
US	United States

WCM	World Class Manufacturing
WC	Western cape
WTO	World Trade Organisation

Chapter 1: Introduction

In 2001 the South African clothing sector was reintegrated into the global economy and became exposed to the icy winds of globalisation. The fundamental changes from developments that had been playing out in global clothing markets and from which, as an import-substitution economy with high levels of protection, it had previously been shielded, were brought heavily to bear on the South African clothing industry. By all accounts, it did not adjust well to the new globalised environment. The once thriving industry withered under the combined impact of domestic and international factors. The negative impact of this transformation was manifest in a declining relative contribution to total manufacturing output, falling productivity levels, lack of capital investment, a large and significant contraction in sector employment and stagnant export performance, all of which occurred in the context of rapidly expanding domestic demand for clothing, which was increasingly fed by imports (Kaplan 2003; Barnes 2004).

The import surge into South Africa in 2003 was driven by completely different dynamics to the rest of the world where this was generally a consequence of trade liberalisation (Edwards, Kantor and Ross 2006). In South Africa, the switch was tied to a brief, calamitous drop in the Rand at the turn of the millennium, which lowered the international price of South African clothing. AGOA buyers from the US flocked to South Africa to buy clothing and signed up numerous export orders with local manufacturers. However, faced with supply capacity constraints, local firms could not simultaneously supply both markets and chose to pursue exports, which at the prevailing exchange rate offered greater profits. Left stranded, South African retailers went offshore in search of stock; and this at a very unpropitious time for them when the Rand was very strong. This period coincided with China's rise in global clothing markets following WTO accession in 2001 and MFA quota dissolution in 2005. What local retailers discovered abroad was a global market awash with Chinese clothing, which had driven clothing prices down worldwide. The subsequent strengthening of the Rand, coupled with a radical drop in import tariffs in 2002 created both easy access to domestic markets and more limited opportunities for exports. Imports began to flood into South Africa and exports, which

had principally been driven by AGOA exports to the US, collapsed as the price of South African products increased in international markets.

Section 1: Introducing the problem

Table 1 and Table 2 clearly demonstrate the two dimensions to the problem; first China's overwhelming dominance in South Africa's clothing imports, which ballooned from a mere R663 million (m) to R5 billion (bn) by value and from 65 million to 485 million by volume (growth of over 600%) between 2000 and 2006. As a result, China's share of South African clothing imports moved from 50.42% to 77.13% over the same period.

Table 1: Sources of South African imports of HS61 and HS62 as share of total clothing imports: 1996-2006

HS61	1998	1999	2000	2001	2002	2003	2004	2005	2006
China	33.64	38.82	50.42	53.73	58.27	68.81	74.47	75.59	77.13
India	3.41	4.33	4.02	3.30	2.91	4.12	3.81	4.56	3.79
Mauritius	0.11	0.83	1.31	0.41	1.89	1.91	1.42	2.03	3.27
Hong Kong	6.77	5.95	6.93	7.87	7.46	5.47	5.10	3.89	2.77
Indonesia	3.56	3.38	3.58	2.41	2.34	1.61	0.76	0.57	0.61
Myanmar	0.05	0.05	0.00	0.00	0.07	0.03	0.03	0.24	0.46
HS62	1998	1999	2000	2001	2002	2003	2004	2005	2006
China	15.35	22.16	48.75	48.55	51.96	64.92	74.25	73.10	79.51
Hong Kong	5.83	7.24	7.44	7.90	5.86	4.50	4.21	3.77	2.71
India	21.25	16.53	14.50	10.48	8.38	7.91	6.42	8.61	4.20
Malawi	26.34	24.34	7.56	11.34	14.92	6.56	3.61	3.20	1.97
Indonesia	2.67	3.75	1.45	1.12	1.74	0.96	0.67	0.96	0.77
Mauritius	0.20	0.17	0.15	0.20	0.45	0.29	0.26	0.52	1.21
HS61&62	1998	1999	2000	2001	2002	2003	2004	2005	2006
China	22.73	28.48	49.39	50.68	54.43	66.37	74.34	74.22	78.49
India	14.05	11.91	10.50	7.52	6.24	6.50	5.35	6.92	4.02
Hong Kong	6.21	6.75	7.24	7.89	6.49	4.86	4.58	3.82	2.74
Mauritius	0.16	0.42	0.59	0.29	1.02	0.89	0.74	1.15	2.10
Indonesia	3.03	3.61	2.26	1.66	1.98	1.20	0.89	0.74	1.15
Bangladesh	0.04	0.04	0.10	0.18	0.36	0.44	0.38	0.50	0.74

Source: Morris and Einhorn 2008

Second, the collapse in South Africa's clothing exports to the US (relative to growing exports from its SSA competitors to this market). Whilst at first glance these graphs are seemingly out of date, they are relevant to the time span of this thesis. Events during this time period had a crucial bearing on future developments in the South African clothing industry. The invasion of

South Africa's clothing market by Chinese imports and the simultaneous failure of its clothing exports post 2003 underscore the lack of competitiveness of the South African clothing industry in a global context from this point.

Table 2: SA exports vs major SSA competitors: 1990-2006

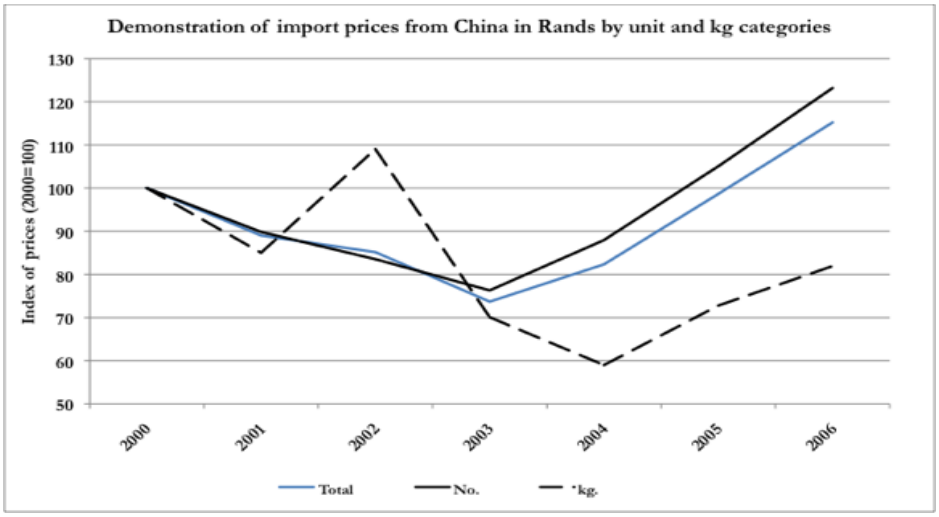
Clothing exports from selected SSA countries to the US and EU (US$m)

	Kenya		Lesotho		Madagascar		Mauritius		South Africa		Swaziland	
	US	EU	US	EU	US	EU	US	EU	US	EU	US	EU
1990	2.5	2.5	24.5	5.6	0.4	10.8	121.2	522.7	0.0	32.3	3.4	n/a
1995	34.0	6.3	61.7	12.6	6.7	122.0	190.3	573.3	55.7	66.9	11.7	n/a
2000	43.9	1.8	140.1	1.7	109.5	246.3	244.7	660.4	140.9	79.7	31.9	1.2
2001	64.4	1.7	216.7	3.4	178.2	247.9	238.3	637.2	173.4	74.6	48.1	0.7
2002	125.9	1.0	321.0	1.7	89.4	132.1	254.4	601.8	180.6	67.1	89.1	0.1
2003	187.8	1.4	392.4	1.2	195.9	145.4	269.0	659.4	231.8	87.5	140.5	0.2
2004	277.2	3.2	455.9	1.1	323.3	201.8	226.4	686.0	141.3	73.6	178.6	1.1
2005	270.3	3.4	390.6	0.8	276.9	229.7	166.6	601.8	67.0	52.0	160.8	0.0
2006	262.8	1.1	387.0	1.1	238.3	300.8	118.7	665.0	46.7	40.5	135.2	0.1

Source: Quantec Statistical Database Own calculations

The very heart of the issue, however, lay not with rising imports per se, but with the drastic fall in import values that accompanied the surge in import volumes from China; these fell by 26% on average and by an even greater 30% in kilogram categories (Figure 1). The suppression in clothing prices from imports placed local manufacturers under distinct and undue competitive price pressure that demanded swift and preventative action from government to avert an otherwise inevitable collapse of the industry.

Figure 1: Demonstration of fall in import prices from China: 2000-2006



Source: Clotrade Own calculations

The response of the South African government and the Department of Trade and Industry (DTI) was to employ a drastic set of measures to tackle the problem and reverse the trends that had taken place. This it did by negotiating the China Restraint Agreement, which I shall call the China quotas from now on. The essence of this Agreement was to set quantitative restraints on imports of certain textile and apparel products originating in China. The Memorandum of Understanding signed between South Africa and China in September 2006 established annual quotas through 2008 on - mostly cotton and cotton-rich - made-up garments and fabrics spanning 31, mainly HS61 and HS62, tariff lines. The aims of the China quota policy were threefold; i) to stop the flow of imported garments from China; ii) to stave off the bleeding of employment and to increase employment in the industry and iii) to give the local industry a two year stay from import competition for it to raise its capabilities and productivity to become more competitive (DTI 2006). In effect, the China quotas were a short-term radical intervention to bring about these three outcomes by affording further protection to an industry that already nestled behind the highest tariff walls in the economy (Edwards et al 2006).[1]

The adoption of this measure was highly controversial, eliciting a vocal and public outcry from industry retailers and clothing manufacturers who had widely anticipated the imminent implementation of the Customised Sector Programme (CSP) that formulated a cooperative solution to the problem. The textile sector was muted in its response. The lack of consultation with industry players was the focal point of contention, although there were also differences over the design and scope of the quotas, as well as their implementation and allocation mechanism. Although the DTI claimed the quotas were instituted on behalf of requests from Clotrade and SACTWU starting in 2004, Clotrade objected strenuously to the proposal when the decision was sprung on the industry in mid 2006. With no movement from the DTI on the original request, by then Clotrade had abandoned this as a measure that could be of any use. The clothing manufacturers had instead began successfully to build a business alliance with the domestic retailers and create value chain alignment in the sector as the most constructive way of laying the foundation for a sustainable clothing sector in South Africa (Business Alliance 2005; Bisseker 2006a). The China quotas, in both its mode of implementation and modus

[1] Edwards, Kantor and Ross 2006 observe that although the average import weighted tariff on wearing apparel has almost halved since 1993, falling to 40% for clothing and 22% for fabric, it is still 5 times higher than the average for the economy as a whole.

operandi, was perceived as a direct attack on the retailers and hence ran absolutely counter to these objectives. Government, it seemed, had fallen captive to the vociferous lobbying of the South African Workers Trade Union (SACTWU) against mounting job losses in the industry, which crowded out all other concerns, not least the competitiveness of local manufacturers and the very survival of the industry itself. In effect the China quota policy became an initiative of SACTWU under the aegis of the DTI.

The purpose of this thesis is to understand the dynamics of the China quota process and to assess whether or not the intervention was successful in terms of its objectives and why if it wasn't successful, it was a failure.

I shall approach this in the following ways. Firstly, I shall situate the China quotas in the context of globalisation, which has dramatically changed the position of industries like clothing and textiles, with the implication that perhaps some interventions are not appropriate as before. Secondly, I shall situate the China quotas in the context of South Africa's sectoral policy for the clothing and textile industry. This is important because the China quotas are essentially an industrial policy. However this comes with an important restrictive caveat. I shall look at the China quotas as an industrial policy measure with a restricted focus. I therefore eschew discussion of the entirety of South Africa's industrial policy and simply focus on the China quotas as a particular measure in a particular sector. Thirdly, I shall assess and discuss what took place in relation to the three major dimensions of this, namely imports, employment and output. And in conclusion, I shall be able to highlight where the major failure lies, which is an institutional and a political one in terms of the role of major stakeholders.

This thesis addresses four broad research questions:

1) Did import diversion occur?
2) Did the China quotas lead to greater levels of output and innovation in local firms; did they encourage upgrading and culminate in greater levels of domestic competitiveness?
3) Did the China quotas lead to more or less employment?
4) What impact did quotas have on consumer welfare?

I shall do this using a variety of different methodological techniques. I have i) conducted an intensive analysis of the macro trade and historical data; ii) interviewed and consulted with a number of key stakeholders; iii) interviewed 20 clothing and textiles firms in 2007; iv) undertaken a survey on 32 clothing manufacturers in co-operation with Clotrade in 2008. The conceptual framework used in this thesis is the Global Value Chain (GVC) approach, which is combined with an analysis of regulations and policies at different levels and a political economy perspective.

The structure of this thesis is as follows: Chapter 1 explains the problem and sets up guidelines for the discussion. It introduces the main research questions that I shall try to answer as well as the main hypotheses which unperpin this thesis. Chapter 2 situates the discussion of the China quotas in the broader context of globalisation and industrial policy. It begins with a literature review of the development of buyer driven value chains, the MFA and the liberalisation of global clothing trade under the ATC. Chapter 3 hones the analysis to China and the developed country response to China which establishes the incidence of China-specific safeguards in the US and EU. It evaluates the success of this intervention in these regions and infers some outcomes for the China quotas. Chapter 4 focuses on South Africa's clothing sector which orienates the analysis in the particular economic and political context of the South African clothing sector. Chapters 5 to 7 present the empirical and qualitative evidence from my research on the impact of the China quotas on trade (the retailers); competitiveness (the manufacturers and employees) and price (consumers and manufacturers). Chapter 8 evaluates the China quotas as an industrial policy tool. Chapter 9 concludes with a summary of the main findings and policy recommendations.

Section 2: Research questions, methodology and hypotheses

There are four primary research questions that I shall address in the anecdotal body of this thesis.

Research question 1: What happened to sourcing patterns?

The first part of the research focuses on trade and buying, looking at the retailers' response to the China quotas through their sourcing patterns and behaviour. A pervasive view was that the China quotas ignored the dynamic and complex nature of the clothing industry including its structural rigidities and sensitivity to policy regulation and that the scope and design of the quotas were based neither on an assessment of prices, quality and availability of material inputs, nor a detailed analysis of local industry capacity to produce the necessary product lines (Hazelhurst 2006a; 2006b). Industry experts argued that quotas would lead to supply shortages and supply chain bottlenecks mainly due to fabric restrictions and quota on fabric not domestically produced but also because of domestic supply capacity constraints (Edwards et al 2006; Bisseker 2006a; 2006b). The experience of the United States suggests that import restrictions on Chinese goods do not unequivocally translate into higher demand for locally produced substitutes (le Roux 2007). A more likely occurrence was that retailers would simply secure alternative and possibly lower cost, foreign suppliers or adopt a number of alternative strategies to mitigate the impact of restrictions such as pre-buying stock or trans-shipping (Brink 2006; Bisseker 2006a; 2006b).

The research was guided by the following questions:

1. Did supply shortages for garments materialise?
2. What was the predominant response of retailers in the short-run? And in the long-run?
3. Did quotas lead to import diversion by importers seeking alternative suppliers to the China, i.e. what was the macro trade effect of the quotas?
4. Was there evidence of an increase in the under-declaration of imports or trans-shipments?
5. What happened to small retailers and retailers with exclusively import oriented business models?

6. How did this response vary between different retailers covering the different market segments?
7. How did retailers respond to become more competitive i.e. did they import more high value added complex items and source more basics locally? What happened to the unit price of imports?

And used the following methodologies:

1. Analysis of current and historical macroeconomic trade data from a number of primary data bases.
2. Analysis of unit price trade data.
3. Solicitation of quantitative and qualitative data from retailers (where possible).

Research question 2: What happened to domestic production and the competitiveness of local firms?

The second part of the research focuses on the response of clothing manufacturers to the China quotas. The supposition that the China quotas would reduce the importation of cheap Chinese goods is predicated on the assumption that they would be substituted for locally produced goods and that the South African industry is internationally competitive once Chinese imports are disregarded. In the short run at least, it was expected that the local industry would not be able to fill the additional demand created by the intervention due to inherent physical and infrastructural constraints. Hence, long lead times, poor delivery reliability and deteriorating quality performance would persist (Bisseker 2006a). A well-recognised outcome of import restrictions is a shift by importers towards high-end garments as they seek to maximize their import basket (Edwards and Morris 2006). Should this occur, local firms would be left to fill low-end basics, which would downgrade the domestic value chain.

The research was guided by the following questions:

1. Quotas on fabric impact on manufacturers - and competitiveness - through both fabric shortages and fabric prices. Did fabric shortages materialise? Did fabric prices increase?
2. What happened to production: Did manufacturers get more or less orders?

3. What happened to the composition of output? Were manufacturers producing the same or different items?
4. What happened to innovation in local firms?
5. Manufacturers import as well. Did the application of quotas restrict the ability to package final items as a combination of locally produced and imported product?
6. Were manufacturers able to cross-subsidise their final products, or did they simply go out of business ?
7. How did the China quotas affect the relationship between these manufacturers and retailers?
8. Quota trading leads to higher import prices, which in theory should alleviate some of the price suppression on local manufacturers since retailers benchmark local prices against import prices. What happened to middleman mark-ups; were manufacturers able to achieve higher prices for their output?

And used the following methodologies:

1. Solicitation of qualitative and quantitative evidence from local manufacturers (where possible).
2. Analysis of the micro-economic PPI data.

Research question 3: What happened to employment?

A key stated objective of the intervention was employment creation. However, industry forecast that quotas would fail to create jobs and sustainably raise employment in the industry (Bisseker 2006a; 2006b) and that in fact, further job losses would likely be the most immediate consequence of the intervention (Minutes of meeting on quotas between DTI and industry 2006). The level and composition of demand for skills also provides important insights into employment strength and competitiveness albeit this is difficult to establish at the firm level (Morris and Reed 2008a).

The research was guided by the following questions:

1. What happened to employment – did it decrease or increase, or neither?
2. What happened to the demand for skills? Did skills requirements increase or decrease?
3. What happened to the supply of skills?

And used the following methodologies:

1. Analysis of quantitative monthly employment and industry data from the National Bargaining Council.
2. Solicitation of qualitative evidence from manufacturing firms (where possible).

Research question 4: What happened to clothing prices and consumer welfare?

The impact of the China quotas on consumers is included in the analysis for three main reasons. Firstly, consumers were major stakeholders in this process since they would ultimately bear the costs or reap the benefits from the intervention at the till. Secondly, one of the primary motivations behind the China quotas was consumer enrichment; the intervention would curb profiteering by retailers and redress the inequalities by channeling some of these surpluses to consumers (DTI 2006); and thirdly, the retailers cited the loss of consumer welfare as the most compelling argument against the China quotas and emphasised the important welfare function that they perform by delivering affordable quality imported clothing to consumers (Retailer Joint Press Release 2006). Retailers predicted that garment prices would rise by around 20% directly as a result of quota trading (Bisseker 2006a;)

The research was guided by the following questions:

1. Was there evidence of quota trading?
2. What happened to the shelf price of imported garments?
3. What happened to the shelf price of garments generally?
4. What happened to the quality and variety of garments sold which recognised the possibility of variations in quality between imports and local imitations?

And used the following methodologies:

1. Analysis of macroeconomic import price data.
2. Analysis of clothing retail price data from large clothing retailers.
3. Solicitation of qualitative evidence from retailers (where possible).

Time frame for the analysis

I decided to do the trade analysis using 2001 as the earliest time point, since this corresponds with the start of the transformation of the South African clothing sector in response to a confluence of events at this time, which culminated in the imposition of the China quotas. The time period for the analysis of retail data was largely governed by the availability of price and cost data from large retail companies.

The cut off date for analysis of quantitative data on retail prices and industry output and employment data is 31 December 2008. This was underpinned by the logic that, since retailers formulate their sourcing strategies at least six months in advance, changes in buying patterns in anticipation of quota removal would already be fully incorporated into responses to the event and largely captured in 2008 macroeconomic trade data. Similarly, the manufacturer response to quota removal is assumed to lead the actual event, such that changes to employment and output patterns would be reflected prior to 2009. An analytical period of eight years was deemed sufficient to identify trends both pre and post quotas, although this comes with the caveat that even when sourcing decisions are made months in advance, the sustainability of trends in output, employment and prices related to quota withdrawal may not be decisively captured by the 2008 data.

The cut off date for the trade analysis is 31 December 2010. I decided to extend the analysis of trade to include the two years after quota removal to assess to what extent the change in sourcing patterns, if any, endured beyond the intervention, or alternatively to see to what extent pre-quota patterns re-asserted themselves. This analysis comes with the caveat that the global economic crisis impacted South Africa with a lag, taking hold in 2008, which makes it difficult to interpret certain data and developments only in the context of safeguard removal as these two events happened simultaneously.

Data

Data for analysis, both qualitative and quantitative, was sourced from a diverse range of macroeconomic trade databases and dialogue with industry consultants, representatives and experts.

Macroeconomic and trade data

The primary sources of import trade and macroeconomic data are OTEXA (obtained both directly from their database at http://otexa.ita.doc.gov/msrpoint.htm and via Emerging Textiles, Stats SA, Comtrade and SARS (obtained indirectly from Quantec and Clotrade).

I used SARS import data obtained from the Clotrade Statistical database 2001-2010 for all the primary analysis of trade. Data from Quantec International Database 2001-2007 was used as an alternative source where necessary. Any variation in results to those reflected in imported graphs and tables from other sources is accounted for by variations in the data sets; for example analysts at Tralac use data from World Trade Atlas, which was found to differ, albeit not materially, from Clotrade and Quantec data. Aggregate import values are divided by aggregate import quantities to obtain import price data. This data is listed either as a dollar price per unit or per kilogram and a total has been constructed by SARS using weights to give an average unit price for all imported garments. Unit price data was used in the analysis of price in Chapter 7. Calculations for aggregate import values include all categories in HS Chapters 61 and 62. Calculations for restricted categories include only data for the quota categories, which appear in the Schedule of the Memorandum of Understanding between China and South Africa.

Macroeconomic data was sourced from the DTI economic database at the following URL address: http://www.thedti.gov.za/econdb/cssrap/SsaP014113.html unless otherwise indicated. The Consumer Price Index was constructed from two datasets: for 2002-2006, data for Metropolitan and Other Urban Areas, which appear in the following Schedules: VPN30501 (Wearing Apparel) and VPN40002 (All Items Excluding Housing). In 2008, the CPI was re-weighted and re-based on 2000; this new dataset was used for analysis between 2006 and 2008 and is available http://www.thedti.gov.za/econdb/cssrap/SsaP014113.html. I merged these two datasets and rebased them on 2000. The Producer Price Index data used was for All Domestic Output (since this is the most current) which appears in the following Schedules:

P1000002 (All Domestic Output); P1204102 (Yarn and Thread); P1205202 (Wearing Apparel) and P1200002 (Manufacturing). These indices are all based to 2000; where the base year was altered, this is clearly indicated. The exchange rate index was calculated using an average exchange rate over twelve months.

Manufacturing data

It is difficult (if not impossible) to build a solid statistical counterfactual case for quotas for a number of reasons, including the extent to which the China quotas can be "blamed" for the collapse of an industry, which was for all intents and purposes, already "on the skids". In compensation I gathered as much case history information on what happened prior to and during the quota period within manufacturing firms; this I used primarily to orientate the intervention in its historical and political economic context, not to make suppositions or conjecture about what "might have been" in its absence.

Whilst consultation was an ongoing process, the main data collection points on manufacturing were during fieldwork conducted in July 2007 and a survey of firms in November 2008. I personally interviewed 20 manufacturing firms – 16 clothing and 4 textiles – belonging to the Cape and KwaZulu Natal Clothing Clusters in July 2007. Although the main purpose of this research was to collect data on skills and employment in the clothing and textiles industries, it yielded important information about the preliminary impact of the quotas on manufacturing firms. The objective was to collate information from as large and diverse a sample as possible - irrespective of size, turnover, employee numbers or market orientation of the firm. Firms were classified as small, medium and large enterprises according to the DTI classification based on employee number: Micro: 1-9 employees; Small: 10-99 employees; Medium: 100-199 employees and Large: 200 plus employees. The breakdown of participating firms appears in Table 3. The questionnaire for this survey appears in Appendix A

In September 2008, I conducted a survey in cooperation with Clotrade of thirty-two firms from its membership base. A list of firms that participated in this survey appears in Appendix B. In total forty-one firms were surveyed and/or interviewed during these sampling exercises of which eleven of the sixteen clothing manufacturers (all large except one) that I had already

interviewed in 2007 were re-surveyed (via the questionnaire in Appendix B) in addition to twenty one new clothing firms who were Clotrade members. My findings from the 2007 interviews were corroborated by evidence from the 2008 survey. This confirmed that the anecdotal evidence that I collated on employment and output was representative of trends for the broader industry.

Table 3: Classification and identfication of firms interviewed in July 2007

Small: 9-99 employees	**Medium:100-199 employees**	**Large: +200 employees**
Natashas CMT (80)	Phase Fashions (107)	Rex Truform (364)
Bernadotte Clothing (62)	Radeen (145)	ITL (T) (487)
Fashion World (±60)	Rotex (T) (167)	Prestige Clothing (459)
		Cape Underwear (552)
		Celrose (Pty) Ltd (867)
		Bibette (933)
		House of Monatic (1149)
		Bonwit (1400)
		Monviso Knitwear (1444)
		Prestige Apparel (1747)
		Puma (T) (273)
		SA Clothing (2333)
		Pepclo (2304)
		Frame Textiles (T)(±2000)

Although the primary data used for analysis of employment and output in Chapter 5 was collated at the two main data collection points (the 2007 interviews and 2008 survey), collation of qualitative data from firm employees and representatives was an ongoing process. I conducted interviews with numerous other firms over the course of my research, including a large Mauritian-affiliated clothing manufacturer, a swimwear manufacturer, a sportswear

manufacturer and a large Australian affiliated branded manufacturer. Although the qualitative data from these interviews and discussions was not included in my formal analyses, it enabled a rich and far broader perspective on the impact of the China quotas on manufacturing firms than the sampling data alone could provide.

I attempted to assimilate data for small firms through a survey in 2009 based on the questionnaire in Appendix C. However, access to these primarily owner-operated firms proved difficult and the low response rate made it impossible to make generalisations about the impact of the quotas on this cohort based on the small dataset. I did however collate (mainly qualitative) information from a handful of small firms through personal interviews, which I used in the anecdotal part of the thesis on manufacturing. Although some of these small firms that volunteered qualitative data are listed in Appendix C, not all consented to disclosure due to the sensitive nature of the information and in particular that pertaining to the use of informal labor.

Whilst the significant contribution of the informal sector to the overall clothing GDP on both the retail and manufacturing sides is acknowledged, hard sales and production data is difficult to obtain and notoriously unreliable given the nature of this industry and discussions on the informal sector are based on conjecture and "hear-say" rather than hard data.

Retail price and interview data

Macro trade data is limited in a number of areas, such as its inability to comment on changes to garment complexity or quality since HS import categories may constitute a large range of changing products year on year. Consequently, this form of data cannot always be relied upon to give an accurate indication of market trends. Quotas were expected to impact on consumer welfare via two channels, the first being price and the second quality. The first is easily established through an interrogation of unit price data. However, interviews with key informants and retail chains were necessary in order to establish the qualitative effects and to understand the implication of unit sales price variations in the domestic market on welfare via changes in garment quality. Key informants constitute individuals directly involved in the clothing industry including Professor Mike Morris, co-coordinator of the (now suspended)

Business Alliance (BA) and Cape Clothing Cluster; Justin Barnes, CEO of Benchmarking Analysts (BMA); and Jack Kipling, former director of Clotrade.

Qualitative data in the analysis of retail was obtained via e-mails and interviews with individuals involved with buying and logistics for five major South African retail firms - each representing different market segments - between 2006 and 2008. One of these retailers was re-interviewed in 2011. Four of these retailers volunteered quantitative data[2]. These retailers are listed from A to E in order to maintain confidentiality of participants. Given the significant degree of retailer concentration and market power in the South African market, similar to that in developed countries, some prominent trends can be identified by analysing the dominant players. However, the analysis comes with the caveat that only formal sector trends are captured by this analysis and may be an unreliable indicator for clothing trends generally given the prolific growth of informal retail outlets, which feed an increasing share of consumer demand (Sandrey 2006).

Average retail sales price (RSP), average unit cost (AC) and unit volume data was selected against the following criteria. First, garments had to be comparable across time periods i.e. had not changed significantly in quality, style or complexity or undergone any fabric up/down grades. Second, data needed to be continuous to enable statistical year-on-year or season-on-season price and cost comparisons to establish trends in retail price, retail cost and mark-up during the quota period.

Retailer A, a retail chain supplying the top end of the market, volunteered retail price and sales data for 15 categories of babies' and children's wear, all of which are particularly import-sensitive and subject to restrictions. I used this data mainly to analyse the change in retailer margins during the quota period. Retailer B, a retail chain supplying the mid to-upper market segment, supplied average retail selling price, average unit cost and unit volume data for a total of 596 categories; ladies (276), men's (291) and children's (147) wear. I excluded "Active wear" due to the dominance of branded items in these categories, which by nature are driven by different dynamics, although a cursory analysis showed that these categories exhibited

[2] Three retailers, A, C, D and E were all interviewed and volunteered quantitative data.

remarkably little change in both cost, mark-up and selling price during the quota period. I included categories according to the above criteria and where unit sales exceeded 10,000 units in any one season.

I obtained similar data from Retailer C, a discount chain servicing the low-end of the market covering 471 categories in ladies' (168), men's (79) and children's (224) wear. Since it was not possible to solicit data at a level of disaggregation which allowed for differentiation of quota items from non-quota items, this analysis could not be done. Nor did the data differentiate between imports and local garments for the initial quota period. However I did get data for a restricted number of categories of children's wear from both retailers, which enabled a sub-sector analysis of price between imported and locally produced garments on a small sample. Retailer D provided significant and invaluable insights into the numerous challenges and concerns around the China quotas. For Retailer E, with a mid-to lower market orientation, I used a small data set of unit price and sales volume data for 40 product categories of children's and babies' wear.

Chapter 2: Globalisation, buyer driven value chains and competitiveness

A literature review of globalisation and regulation in global clothing markets

In the introduction, I emphasised the importance of orientating the discussion of the China quotas in the broader context of this era of globalisation and within this context, the question of industrial policy for the clothing and textile sector. In this Chapter, I review the vast body of literature that has happened around this era of globalisation to establish what changes have occurred in the worldwide clothing sector in this regard.

Globalisation and trade

Over the past decade and a half, clothing trade has expanded and become increasingly globalised, dispersed across a growing proliferation of countries (Nordas 2004; Ikesen 2006). In 2008 global clothing exports were valued at US$364.91 billion (bn), increasing at an annual compound rate of 10.5% between 2000 and 2008, by 11.07% and 12.23% in 2006 and 2007 respectively (Comtrade 2009) and by 5.14% in 2008 (Morris and Barnes 2008). Despite a contraction in growth in 2009 (and notably the first in over a decade), clothing was one of the world's most traded manufactured products with a share of 3.8% (equivalent to US$315.62bn) which constituted 2.6% of global merchandise trade in this year. More importantly, these exports were increasingly generated by a growing diversity of countries located in the developing world and with declining export activity from developed countries.

The data in Figure 2 ranks the top 25 exporters and importers of clothing by value in 2009, also expressed as a percentage share for each country and as a cumulative share of global exports. This data captures some of the important trends in clothing trade between 1990 and 2009, which are masked at the aggregate level.

First, export activity has largely shifted away from the hub of developed countries and gravitated toward developing countries (LDCs). The share of LDCs in global clothing trade increased from 6.5% in 1995 to 14% in 2008 driven by an average annual growth rate of 16%

(Staritz 2011). Second, in 2006 China replaced the European Union (EU) as the world's major clothing exporter in terms of value and share. China grew its clothing exports tenfold between 1990 and 2008 (Morris and Barnes 2008) and by 200% between 2000 and 2009. In 2009, China commandeered a 34% share (equivalent to US$107.26bn) of global clothing exports compared with a mere 9% in 1990[3]; and if Hong Kong is included, this share rises to 41.2%. The second largest exporter was the EU, who contributed an almost constant one third to total world clothing exports between 2000 and 2009, growing at an annual growth rate of around 8% for the 2000 to 2009 period. This was higher than the world average of 6.5%, but significantly lower than the 22% for China over the same period. However, China's growth rate halved (11%) between 2005 and 2009 due to safeguards.

Third, since 2006 clothing trade has become increasingly concentrated in Asia; the Asian 12 i.e. Bangladesh, Cambodia, China, India, Indonesia, Laos, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, and Vietnam, increased their market share from 42.4% in 2004 to 47.7% in 2005, with the largest growth rates recorded for India (30%) and China (26%), followed by Cambodia (11%), Vietnam (7%), and Indonesia (7%) as well as Turkey (4%), Sri Lanka (4%), and Bangladesh (1%) (Staritz 2011). In the last decade, clothing and textiles exports from Asia have been rising faster than those from the EU, the United States (US) and the world average thus reinforcing the leading role of the Asian region in world clothing and textiles trade (Memedovich 2009). In 2009 the top 10 Asian exporters in this year – China, Hong Kong, India, Bangladesh, Vietnam, Thailand, Pakistan, Malaysia, Sri Lanka and Cambodia - contributed 58% (US$182.98bn) to global exports of US$315.62bn compared with 45.3% (US$89.81bn) in 2000, implying an average annual growth rate of 16% between 2000 and 2008. Italy and Germany were the only developed countries that still featured meaningfully in global export markets in 2009, although in value terms they were decidedly dwarfed by China.

Fourth, the antithesis applies to clothing imports where the share of developed countries greatly outweighed that of developing countries. In 2009, the European Union was the leading world importer of clothing, accounting for 48.5% of global imports in this year. Imports into the EU almost doubled between 2000 and 2009, growing at an annual compound rate of 10%

[3] And if Hong Kong's share of 7.23% is included, China's rises to 40%.

during the period. Intra-European trade historically played a critical role in EU clothing imports but declined from 43.4% in 1995 to 36.6% in 2009 (WTO 2009; Memedovich 2009). In comparison, Asia's, and more particularly China's share grew from 7% to 25.2% over the same period. Imports from China into Europe (EU27) grew at a compound rate of 21% p.a. between 2000 and 2007 to US$322.85bn, a share of 19.8% of total imports. The Asian 12 also increased their share of EU imports dramatically from 26.6% to 40.3% between 2004 and 2009 (Staritz 2011).

On an individual country basis, the US is by far the greatest individual consumer of clothing. Between 1990 and 2007, US clothing imports grew by 214% from US$26.98bn to US$84.85bn (WTO 2008). In 2007 this constituted 23.7% of world clothing imports. More importantly, a third (33.6%) of these imports (US$28.53bn) came from China, which grew at a compound rate of 18% between 2000 and 2007 (WTO 2007)[4]. The estimated overall clothing import penetration ratio for the US was 94% in 2006 (Clothesource 2008, cited in Gereffi and Frederick 2010); Asia was the main contributor to these imports (68.9%), with China alone accounting for 29.4% in this year. However, although the US's share of global imports held steady between 2007 and 2009, hovering between 21-22% during this period, this was almost 10% below its 2005 share of almost 30% (which spiked following MFA quota removal and then dipped again in response to safeguards). In 2009 Germany was the second largest individual importer of clothing on a global basis with a share of 9.3%, followed by Japan with a 7.7% share. Again, most of these imports hailed from China (Morris and Barnes 2008).

[4] Comtrade data deviates from WTO data, showing total clothing imports into the US of $78.92bn in 2007 and imports from China into the US of US$25.18bn.

Figure 2: Top importers and exporters of clothing by value: 2000; 2005-2009

	Exports (US$ millions)						% change in exports		share and cumulative share of global clothing exports					
Country/Region	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2000-2009**	**2005-2009**	**2009**		**2005**		**2000**	
World	*198 158*	*278 423*	*309 239*	*347 059*	*364 914*	*315 622*	*59,28%*	*13,36%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*
China	36 071	74 163	95 379	115 516	120 399	107 261	197,36%	44,63%	33,98%	90,50%	26,64%	84,97%	18,20%	80,46%
European Union (27)	56 240	85 471	91 437	105 375	114 314	96 797	72,11%	13,25%	30,67%	-	30,70%	-	28,38%	-
Hong Kong	24 214	27 292	28 391	28 765	27 908	22 826	-5,73%	-16,37%	7,23%	56,52%	9,80%	58,33%	12,22%	62,25%
Italy	13 384	18 655	20 035	23 265	25 281	19 612	46,53%	5,13%	6,21%	49,28%	6,70%	48,53%	6,75%	50,03%
Germany	7 320	12 394	13 910	16 717	18 751	16 549	126,08%	33,53%	5,24%	43,07%	4,45%	41,83%	3,69%	43,28%
Turkey	6 533	11 833	12 052	13 886	13 590	11 555	76,88%	-2,35%	3,66%	37,83%	4,25%	37,37%	3,30%	39,58%
India	5 960	8 595	9 499	9 932	11 495	11 454	92,18%	33,26%	3,63%	34,17%	3,09%	33,12%	3,01%	36,29%
Bangladesh	5 067	6 890	8 318	8 855	10 920	10 726	111,68%	55,67%	3,40%	30,54%	2,47%	30,04%	2,56%	33,28%
France	5 414	8 500	9 250	10 941	11 639	10 065	85,91%	18,41%	3,19%	27,14%	3,05%	27,56%	2,73%	30,72%
Viet Nam	1 821	4 681	5 579	7 400	8 724	8 629	373,85%	84,35%	2,73%	23,95%	1,68%	24,51%	0,92%	27,99%
Belgium	3 941	6 715	7 236	8 362	9 747	8 354	111,97%	24,41%	2,65%	21,22%	2,41%	22,83%	1,99%	27,07%
Spain	2 084	4 145	4 863	5 723	7 048	7 015	236,59%	69,21%	2,22%	18,57%	1,49%	20,42%	1,05%	25,08%
Netherlands	2 732	4 784	5 362	6 406	6 832	6 124	124,15%	28,02%	1,94%	16,35%	1,72%	18,93%	1,38%	24,03%
Indonesia	4 734	4 959	5 760	5 870	6 285	5 915	24,95%	19,28%	1,87%	14,41%	1,78%	17,21%	2,39%	22,65%
United Kingdom	4 136	4 906	5 266	6 091	5 917	5 184	25,34%	5,67%	1,64%	12,53%	1,76%	15,43%	2,09%	20,26%
United States	8 629	4 998	4 876	4 320	4 449	4 186	-51,49%	-16,24%	1,33%	10,89%	1,80%	13,67%	4,35%	18,18%
Mexico	8 631	7 306	6 323	5 139	4 911	4 165	-51,74%	-42,99%	1,32%	9,56%	2,62%	11,87%	4,36%	13,82%
Thailand	3 759	4 085	4 247	4 073	4 241	3 724	-0,92%	-8,83%	1,18%	8,24%	1,47%	9,25%	1,90%	9,47%
Denmark	1 722	2 775	3 126	3 711	3 943	3 492	102,77%	25,83%	1,11%	7,06%	1,00%	7,78%	0,87%	7,57%
Pakistan	2 144	3 604	3 907	3 806	3 906	3 357	56,60%	-6,83%	1,06%	5,96%	1,29%	6,78%	1,08%	6,70%
Malaysia	2 257	2 479	2 842	3 159	3 624	3 126	38,51%	26,12%	0,99%	4,89%	0,89%	5,49%	1,14%	5,62%
Tunisia	2 227	3 124	3 018	3 571	3 766	3 120	40,11%	-0,13%	0,99%	3,90%	1,12%	4,60%	1,12%	4,48%
Morocco	2 401	2 847	3 238	3 517	3 420	3 079	28,24%	8,14%	0,98%	2,92%	1,02%	3,48%	1,21%	3,36%
Poland	1 915	2 221	2 264	2 520	3 401	3 071	60,37%	38,27%	0,97%	1,94%	0,80%	2,46%	0,97%	2,14%
Romania	2 333	4 614	4 443	4 336	4 073	3 052	30,80%	-33,87%	0,97%	0,97%	1,66%	1,66%	1,18%	1,18%
	Imports (US$ millions)						**% change in imports**		**share and cumulative share of global clothing imports**					
Country/Region	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2000-2009**	**2005-2009**	**2009**		**2005**		**2000**	
World	*202 731*	*279 177*	*323 155*	*362 677*	*381 335*	*329 825*	*62,69%*	*18,14%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*	*100,00%*
European Union (27)	83 181	131 496	144 448	165 320	179 982	160 112	92,49%	21,76%	48,54%	-	47,10%	-	41,03%	-
United States	67 115	80 071	82 969	84 851	82 464	72 059	7,37%	-10,01%	21,85%	87,43%	28,68%	95,19%	33,11%	87,43%
Germany	20 183	25 155	27 242	30 608	33 453	30 615	51,69%	21,71%	9,28%	65,58%	9,01%	66,51%	9,96%	65,58%
Japan	19 709	22 541	23 831	23 997	25 870	25 510	29,43%	13,17%	7,73%	56,30%	8,07%	57,50%	9,72%	56,30%
United Kingdom	12 995	20 227	21 639	23 981	23 588	21 235	63,41%	4,98%	6,44%	48,56%	7,25%	49,42%	6,41%	48,56%
France	11 412	18 000	18 976	21 610	23 677	21 216	85,91%	17,87%	6,43%	42,13%	6,45%	42,18%	5,63%	42,13%
Italy	6 139	12 198	14 117	15 919	17 481	15 513	152,70%	27,18%	4,70%	35,69%	4,37%	35,73%	3,03%	35,69%
Hong Kong	16 008	18 437	18 852	19 149	18 546	15 508	-3,13%	-15,89%	4,70%	30,99%	6,60%	62,35%	7,90%	30,99%
Spain	3 847	9 471	11 102	13 389	15 403	12 893	235,14%	36,13%	3,91%	26,29%	3,39%	24,76%	1,90%	26,29%
Belgium	4 828	7 706	8 213	9 266	10 504	8 912	84,58%	15,64%	2,70%	22,38%	2,76%	21,36%	2,38%	22,38%
Netherlands	5 371	6 905	7 753	8 551	9 522	8 778	63,43%	27,12%	2,66%	19,68%	2,47%	18,60%	2,65%	19,68%
Canada	3 690	5 975	6 825	7 613	8 248	7 559	104,86%	26,51%	2,29%	17,02%	2,14%	16,13%	1,82%	17,02%
Russian Federation	2 688	7 928	8 103	14 505	12 018	7 250	169,71%	-8,56%	2,20%	14,72%	2,84%	13,99%	1,33%	14,72%
Austria	2 753	4 658	4 906	5 539	6 124	5 367	94,97%	15,23%	1,63%	12,53%	1,67%	11,15%	1,36%	12,53%
Switzerland	3 160	4 451	4 654	5 184	5 805	5 242	65,90%	17,78%	1,59%	10,90%	1,59%	9,48%	1,56%	10,90%
Australia	1 858	3 120	3 279	3 703	4 280	4 058	118,42%	30,09%	1,23%	9,31%	1,12%	7,89%	0,92%	9,31%
Denmark	2 213	3 208	3 619	4 207	4 489	3 741	69,04%	16,61%	1,13%	8,08%	1,15%	6,77%	1,09%	8,08%
Republic of Korea	1 307	2 913	3 744	4 318	4 223	3 379	158,51%	15,98%	1,02%	6,94%	1,04%	5,62%	0,64%	6,94%
Poland	546	1 241	1 582	2 155	3 476	3 359	515,16%	170,62%	1,02%	5,92%	0,44%	4,58%	0,27%	5,92%
Sweden	2 111	2 983	3 269	3 516	3 790	3 291	55,89%	10,33%	1,00%	4,90%	1,07%	4,13%	1,04%	4,90%
Saudi Arabia	813	1 458	1 649	1 939	2 018	3 025	272,11%	107,48%	0,92%	3,90%	0,52%	3,06%	0,40%	3,90%
Greece	1 106	1 806	2 036	2 868	3 306	2 797	152,88%	54,86%	0,85%	2,14%	0,65%	1,90%	0,55%	2,14%
United Arab Emirates	832	1 529	1 823	2 296	2 777	2 543	205,70%	66,39%	0,77%	2,14%	0,55%	1,90%	0,41%	2,14%
Ireland	1 234	1 916	2 059	2 479	2 508	2 273	84,21%	18,64%	0,69%	1,37%	0,69%	1,35%	0,61%	1,37%
Norway	1 287	1 848	1 977	2 286	2 571	2 235	73,70%	20,99%	0,68%	0,68%	0,66%	0,66%	0,63%	0,68%

Data source: ITC Own calculations

Analysis of macro trade data shows that a distinguishing feature of the recent wave of globalisation in the clothing sector is deep asymmetrical growth of clothing production both between developed and developing countries, and between developing countries, and more recently, a global consolidation of production in China and a handful of other Southeast Asian countries coupled with increasing marginalisation of other developing countries. Studies evidence similar trends in the microeconomic data i.e. falling clothing output and employment levels in developed countries compared with output and employment expansion for developing countries.[5]

[5] For further reading on employment see Morris and Barnes 2008 and Nordas 2004

The restructuring and reorganisation of the clothing value chain over the past decade had two main drivers: i) the development of global buyer-driven value chains and production networks in the clothing sector and ii) changes in the strategies and sourcing techniques of these large global buyers in response to the phase-out of the Multifiber Arrangement (MFA) quota system at the end 2005.

The development of the buyer driven clothing value chain

Similar to many other traded manufactured products, clothing production refers to a series of component activities which are sold as inputs for other components and end up as final products, all linked and coordinated globally (Dicken 1998; Morris 2007). Each distinct task spanning the conception of a garment through the different stages of production and final disposal can be easily outsourced and allocated to capable foreign suppliers (Gereffi, Humphrey and Sturgeon 2005; Memedovich 2009). Complex tasks that are capital and knowledge intensive such as design, distribution, market intelligence, branding and advertising, for which significant barriers to entry for new firms exist, and profitability is greatest, remain largely in rich developed economies (Gereffi 1999; Kaplinsky and Morris 2006). In comparison, production related tasks, which are neither skill nor capital intensive and have low entry barriers, are outsourced to developing economies (Gibbon 2003a; Morris 2007; Bair 2008). In this manner, the clothing value chain has become functionally and spatially segmented according to comparative advantage. The clothing sector is particularly suited to these global production arrangements as most (intermediate) products can be exported at each stage of the chain (Morris and Barnes 2008). What is more, since a large part of garment assembly - cutting, sewing and finishing activities - cannot be easily standardized and automated, labour remains a major part of production costs (Jones 2005; ILO 2005). For this reason, the search for low wage is a major driver of the clothing value chain and has driven production toward the lowest wage/cost regions around the world (Nordas 2004; Morris and Barnes 2008; Memedovich 2009). At the same time, given its low capital - low skill requirement, investment in clothing production is notoriously fickle and mobile (Nauman 2006) with the implication that clothing sector development in many developing countries is superficial with low levels of domestic integration and is thus vulnerable to competition from emerging and especially Asian supply countries.

A key characteristic of global value chains is the dominance of one key party who is able to exert a defining influence over the activities within a given value chain. In a value chain, such as for clothing, where design and marketing play an important role, but where production is relatively labour intensive, "the buyers" i.e. large retailers, marketers and branded manufacturers perform this lead role (Roberts and Thoburn 2002). These chains are demand-driven and aptly called "buyer driven" chains due to the hold that buyers have over manufacturers, specifying critical characteristics in terms of style, fit and fabric, as well as many aspects of production itself, including which firms make what products, how, where, when, and at what cost (Gereffi 1999; Kaplinsky 2005; Gereffi et al 2005). Whilst not directly involved in production, these buyers control and organise production on a worldwide basis. A group of leading transnational corporations (TNCs), from developed and developing countries, has played a major role in organizing and coordinating these global production systems (Appelbaum and Gereffi 1994; Gereffi and Memedovic 2003). Coordination and cooperation have become central to their corporate strategies.

The emergence of global buyers and the transfer of power from manufacturers to retailers

The main leverage of buyers over other actors in the chain is exercised through their ability to shape mass consumption via the development of strong global brands and their reliance on global production networks to feed this demand (Gereffi 1999; Gereffi et al 2005). Consumers have responded in kind by demanding disposable high quality fast-fashion clothing (ILO 2005). They have become more demanding in terms of price, spending a smaller proportion of their income on clothing but shopping more frequently and buying a larger number of clothing items (Nordas 2004). They have also increasingly fallen to the allure of brand labels.

Developments in the retail space have been key drivers of global clothing production activity. Over the past decade value chains have been reinforced by a growth in retailer power in both developed and increasingly, developing economies (Gereffi and Memedovic 2003; Kaplinsky 2005). In 2007, the top five retailers in the US accounted for 56% of sales among the top 20 retailers (Morris and Barnes 2008). Walmart is the single largest retailer, representing 32% of total US demand in the retail sector in 2007 (National Retail Foundation 2008). The UK clothing retail sector is similarly concentrated. Concentration through mergers and acquisitions enhances retailer buying power which extends their considerable control over the activities of

other agents within the value chain allowing them to manage and coordinate global contracting networks and to cater for the latest fashion trends, change stock, lower unit prices and provide product variety with ease (Salinger, Bhorat and Flaherty 1999; Morris and Einhorn 2008). At the same time, technological advancements in information and transportation – bar coding, point of sale scanning and containerisation - combined with standardisation of business protocols and international product codes, allows the cost and flexibility advantages of global sourcing to be realised at the production level by linking the clothing value chain both vertically and horizontally (Morris and Barnes 2008).[6] As a result, retailers are increasingly able to transfer the pressures to minimise costs and improve quality and variety to manufacturers, mainly in developing countries (ILO 2005). These manufacturers either have to absorb the costs and lower their margins, or improve productivity.

As intangible aspects of the value chain (such as marketing, brand development, and design) have become more important for the profitability and power of lead firms, so "tangibles" (production and manufacturing) have increasingly become "commodities" (Gereffi and Frederick 2010) and the roles and relationship between retailers and manufacturers have become increasingly blurred with time. There has been a realignment of interests in the chain as organisational barriers to entry – associated with the creation and buttressing of brands - have grown (Gereffi and Memedovic 2003). Bargaining power has gradually gravitated towards the branding, design and merchandising ends of the value chain (i.e. towards the retailers) whilst the supply end (the manufacturers) has been marginalised. Consequently, the sector is driven mainly by the largest brand name owners and retailers in the industry, who are able to exercise decisive influence over their value chain without having to take direct control of the production process itself.

This fundamental restructuring in the retailing and merchandising ends of the industry in developed economies has culminated in a shift in power from manufacturers to retailers and branded marketers which has enabled them to subsume the traditional manufacturer as the leader in the clothing chain (Gereffi and Memedovich 2003; Gereffi et al 2005). The ultimate outcome of the transfer of power from manufacturers to retailers has been a shift from a

[6] This refers to vertical relations between links (e.g. supply chain management) and horizontal relations within links (e.g. cooperation and linkages within companies and between firms) (Kaplinsky and Morris 2002).

supplier-driven value chain to a buyer-driven value chain; and a simultaneous expansion of production (Kaplinsky 2005; Morris 2006a; Morris and Barnes 2008). Competition has intensified as retailers, manufacturers and branded marketers all compete in a global market. On one hand, retailers have "taken on" their old customers (the manufacturers) by themselves moving into the manufacturing and design space. They have also started to import from low cost offshore locations (Morris and Barnes 2008); they have become more specialised by product (i.e. the rise of specialised stores selling only one item, such as clothes) and price (the growth of high-volume, low cost discount chains)(Gereffi and Memedovich 2003) and they have developed their own proprietary brand labels, which are highly fashion-oriented and price sensitive. These are designed in-house and marketed alongside products from branded marketers and manufacturers. Production is outsourced offshore, often by direct foreign sourcing (Gereffi and Memedovic 2003; Gereffi and Frederick 2010). Cutting out the middle-man provides both better prices to customers and higher margins to retailers. Today, retailers are expanding the range of private-label products offered and developing higher-margin private-label goods (Euromonitor 2009).

On the other hand, retailers' involvement in manufacturing activities has been echoed by manufacturers' move into retail activities aimed at strengthening their own brand strategies. This trend has intensified over time and brand owners have themselves become speciality retailers. Thus the industry can be described as 'hypercompetitive'; where local producers compete both with international competition as well as domestic manufacturers. Simultaneously an oligopsony amongst retailers occurs as they compete fiercely amongst themselves for low cost suppliers (Morris 2006a; 2006b).

Global buyers in the clothing sector have been described as 'the organisational motors' and 'the key drivers of globalisation in the apparel industry' as they shape the geography of clothing manufacturing by their sourcing strategies (Appelbaum and Gereffi 1994; Gereffi 2005; Palpacuer, Gibbon and Thomsen 2005). Over the past five years, there has been a significant rationalisation and consolidation of the supply base. Large buyers have begun managing their supply chain more effectively and have started to establish more effective direct supply relationships around a handful of reliable and capable suppliers (Gibbon 2002a; 2008; Morris and Barnes 2008). The initial spur to this change came from the removal of Multifiber

Arrangement (MFA) quotas in 2005, whilst their intensification in recent years has been largely attributed to the economic downturn (Gereffi and Frederich 2010).

The Multifiber Arrangement (MFA)

The MFA was a quota-based preferential trade agreement that limited exports of certain countries to the US and major trade destinations across Europe (Kaplinsky and Morris 2006; Brambilla, Khandelwal and Schott 2007). Beginning as a series of voluntary export restraints imposed initially by the US on Japanese textile exports, it gradually morphed into a more systematic mechanism "to deal with market disruption in importing developed countries while allowing exporting developing countries to expand their share of world trade in these products" (USITC 2004). This was presumably to give developed countries time to restructure their clothing industries before opening up to competition from developing, and arguably lower cost, countries. In reality, the MFA was designed to protect the high value-added segments of the value chain in developed economies in order to prevent large structural adjustment costs as Asian clothing and textile production started to grow (Kaplinsky and Morris 2006; Memedovich 2009). It afforded a high level of protection to clothing industries in developed countries whilst muting the participation of developing countries such as China (Brambilla et al 2007). Quota was allocated to preferred trading partners and complex tariff schedules were simultaneously implemented through bilateral negotiations to protect the capital intensive sections of the value chain while allowing developed nations to outsource unskilled, labour intensive production to developing nations (USITC 2005: p.91; Kaplinsky 2005).

Since quotas were imposed discriminately rather than globally, differentials between countries in terms of product coverage and the degree of restrictiveness created a set of incentives whereby production concentrated in locations where quotas were least binding and particularly where production was geared to US and EU markets (Naumann 2006). When key manufacturers such as India and China reached their quota limits, they would negotiate bilateral agreements with countries holding excess quota allowances with established developed country access (Flanagan 2003a; Barnes and Esselaar 2005; Morris 2006a). In similar fashion, importers in developed countries engaged in "quota hopping", shifting low-skill minimal operation assembly tasks to low cost underutilised or quota free locations before

exporting the finished item to its final market[7] (UNCTAD 2005). Hence quotas created accidental beneficiaries by encouraging the spread of clothing production to countries where it had not previously, nor would likely have, occurred without the shield of quota protection (Kaplinsky 2005; Flanagan 2006a). Where quotas were particularly restrictive, and especially against China, third parties began to locate outside of China and establish strategic production and obligational sourcing partnerships[8] with countries with established international manufacturing economies with supply capabilities, such as Mauritius, who were able to offer investors quota and tariff-based preference margins vis-à-vis access to international markets that quota constrained countries did not have (Morris and Barnes 2008). In this manner, they controlled 'triangular production networks' i.e. production in developing countries was organised by firms in middle income countries with garments sold to final buyers in developed markets (Gereffi 1999; Morris 2006a). Many African countries in particular, notably Lesotho, Madagascar, Kenya and South Africa saw a revival of their clothing sectors owing to investments of this nature (Nauman 2006).

Outcomes of the MFA

MFA quotas led to diverse and largely unintended outcomes, driving a much broader worldwide diffusion and expansion of the sector than would otherwise have taken place and they materially contributed to the international fragmentation of the clothing supply chain (Naumann 2006; Morris 2007). At the same time, the removal of these trade restrictions catalysed significant modifications to the trade patterns that manifest in their presence. On 1 January 1995, the MFA was replaced by the Agreement on Textiles and Clothing Trade (ATC) which was entered as a compromise Agreement between developed (importing) countries who were pressing for a broadening of the MFA and developing (exporting) countries who were opposed to it. The ATC was a time-limited and thus self-destructing agreement, which set out a definitive plan for the structured removal[9] of all MFA-type quantitative restrictions on clothing

[7] The product range was also modified to move into sectors with unused quotas – for example T-shirts were lengthened and exported as tunics under a different tariff line.

[8] An obligational relationship is a mutually beneficial agreement where both intermediaries and manufacturers commit to a long-term commercial relationship. This encourages investment in new infrastructure and the implementation of world class manufacturing techniques due to the assurance that manufacturers have of future orders.

[9] The integration process occurred over four phases and involved 2 mechanisms: i) product integration and quota removal and ii) acceleration of growth rates of those still in effect in the transition period. The particular products retired in each stage were determined by the importing country[9] but had to i) include

by 1 January 2005. In addition to gradually removing quotas, the growth rates of remaining quotas were gradually increased; this was designed with a view to improving developing country access to developed country markets (Morris 2006a; Brambilla et al 2007).

Despite its promise of a steady liberalisation of trade, the practical implementation of the Agreement lagged its theoretical prescription since developed countries backloaded the most trade sensitive products to ensure a much slower delivery of effective trade liberalisation than anticipated and not least, intended (Nauman 2006). This was largely testimony to its flexible and non-prescriptive design. In 2004 the US maintained import quotas on textiles and apparel on 43 countries supplying 69% of US imports, with China by far the largest supplier. The EU demonstrated similar evasiveness; more than 70% of its clothing imports were still subject to quotas at this time (Kaplinsky and Morris 2006). The fact that the largest integration would take place at the end of the period portended significant market disruption in the immediate wake of quota removal (Brambilla et al 2007; Ikenson 2003).

As the final date for quota removal drew close, there was lively debate over the likely impact of liberalisation on global clothing markets and its implications for developing country growth. Universally, China was expected to be the major beneficiary of liberalisation, although other countries such as Vietnam, Bangladesh, Indonesia and India who have a similarly derived comparative advantage from access to low cost fabric and labour and whose imports were also constrained by quotas, were also expected to benefit[10]. Some predicted a 'big bang" effect with buyers sourcing solely from China, so flooding global markets with cheap Chinese garments (Morris and Barnes 2008). Some envisaged a more orderly and gradual change with large retailers consolidating and rationalising their purchases around a handful of politically and financially stable suppliers (UNCTAD 2004; Morris and Barnes 2008). Others were more

goods from all major textiles and clothing segments and; ii) comprise a set portion of the country's total clothing and textile imports by volume at each stage. Phase I, commencing 1 January 1995, countries had to integrate products that accounted for at least 16% of their 1990 textile and apparel import volumes; Phases II, and III commencing 1 January 1998 and 2002 respectively saw an additional 17% and 18% integrated respectively; or a total of 51% during the three stages. Finally, on 1 January 2005, Phase IV culminated with the integration of the remaining 49% of export volumes and all quotas were eliminated on trade in the goods subject to normal GATT rules. In addition to gradually removing quotas, the growth rates of remaining quotas were to be increased by 16% for major suppliers during Phase in 1995; 25% in Phase II; and 27% in Phase III[9].

[10] Conversely, countries which had effectively been protected by the quota system from more competitive suppliers, many of these African, were expected to be disadvantaged by quota removal (Minor 2002)

cautious in their predictions, and adopted a "wait and see" approach to decide how suppliers would react (Flanagan 2006a)

The implications of MFA quota removal for competitiveness

In the previous section I gave a broad overview of the literature on the developments and transformations in the global clothing industry over the past decade which exemplifies three phenomena; the development of buyer-driven global value chains, the emergence of large global buyers and the intensification of competition in the industry following MFA quota removal (Gereffi and Frederick 2010). I shall now tie these together with competitiveness and industrial policy.

Prior to 2005, the sourcing strategies of buyers in developed countries were conditioned by access to developed country markets in terms of the MFA (Kaplinsky and Morris 2006; Naumann 2006; Morris 2007). MFA quotas determined when the outward shift of production occurred, while preferential access to overseas markets through trade agreements determined where firms went (Gereffi 2002b; 2008). With the removal of MFA quotas, the competitiveness issue has increased in complexity.

Two key developments have shaped competitiveness in the post MFA era. Firstly, the rise of private label brands that are directly sourced by retailers from their suppliers; and secondly, the emergence of large organised buyers and more recently, of intermediaries and third party agents. In the first case, direct sourcing requires faster reaction times from manufacturers and better understanding of a retailer's particular needs i.e. culture, market orienation etc. In the second instance, organised buying and third-party sourcing increases the scale and flexibility of buying operations and enhances the negotiating power of retailers and their ability to drive prices down (Staritz 2011). Post MFA, these structural and organisational factors present more systematic and inherent barriers to entry than regulatory and institutional factors. The sourcing strategies and behavior of the large buyers that drive the value chains in the clothing sector strongly inform the nature and structure of operations and the development of the global clothing sector (Gereffi and Frederick 2010). Their considerable buying power and access to transparent, real time, truly global information flows has manifest in considerable change in the governance and coordination of the chain as well as the nature and structure of clothing

operations. On the demand-side, clothing products have become more specialised and differentiated, spanning a vast variety of styles but of smaller quantities; and private label brands have flourished and replaced many traditional branded products (Staritz 2011). On the supply side, many countries have upgraded their production capabilities to meet the new competitive challenges of fast fashion and quick response manufacturing which has eroded the possibilities for emerging countries to capitalise on their geographical and locational advantage.

Sustained competitiveness redefined

So what is sustained competitiveness in this new paradigm? In this new era of globalisation characterised by fast fashion and fast response production, whilst price, quality and proximity to market are still the main determinants of competitiveness, other factors have grown in importance; including labour productivity, quality and cost of fabric, lead times and services offered to apparel importers or brands. Import tariff rates and the cost of freight also play an important role (Morris and Reed 2008a; Emerging Textiles 2008a) and in developed economies, customers have grown increasingly aware of non-production factors like country of origin labeling, ethical sourcing and social compliance (Morris 2006a). Sourcing decisions are increasingly based on which factories can best meet these critical success factors (Gibbon 2002a; 2008)

Researchers note that buyers actively discriminate between suppliers who can provide real value to customers, not solely in terms of price, but also product quality and service, including speed to market, supply chain efficiency, reliability (Flanagan 2006a) and liability for risk (Scott and Lee 1991; Birnbaum 2002b; Flanagan 2003a). What is more, retailers are generally consolidating and rationalising their supply chain around a handful of large capable suppliers who are strategically located near major markets and able to supply a comprehensive range of clothing spanning several market segments; in effect, they want to "one stop shop" (Euromonitor 2009; Barrie & Ayling 2009 in Staritz 2011). Recently, a major driver of this trend has been the recession which has encouraged firms to 'cut the fat' and confine their supply relationships to their larger, reliable and more capable suppliers (Gereffi and Frederick 2010).

Although preferential trade agreements still provide tariff advantages, and according to Morris and Kaplinsky 2006, still extend considerable benefits to developing countries[11], empirical evidence on the impact of quota removal shows that developing countries who are able to offer full package capabilities have benefitted at the expense of those who can't. In other words, firms are only able to exploit their locational comparative advantage – speed to market and fast replenishment – if they are able to offer a high quality and comparable product at a competitive price to their foreign competitors. This suggests that sustained competitiveness in the new era of globalisation is not simply a wage game but lies in the ability to compete on price, flexibility, responsiveness and reliability (Morris and Barnes 2008). Whilst low price is still a necessary condition, it is no longer a sufficient condition for sustained competitiveness. In order to maintain their position in the value chain, firms need to constantly innovate and upgrade their capabilities to meet the demands of global buyers, undertaking the necessary technological and innovational changes required for the transition to World Class Manufacturing (Nordas 2004; Morris 2006). As Kaplinsky 2005 posits: In this new era of globalisation, you need to run faster just to remain in the same place. The prescriptive role for government and industrial policy is to champion the process of upgrading. So what is upgrading in the context of the clothing sector?

Functional and industrial upgrading in the clothing sector

Clothing production is organised under four prototypes, which are associated with different activities and embody varying potential for social learning for suppliers (Gereffi, Humphrey and Sturgeon 2005). These typologies describe the network of relationships linking suppliers in global value chains to lead firms. The relationships between lead firms and suppliers differ across sectors due to the particular characteristics of the production process and organisation of the sector, such as the sophistication and availability of technology involved, the absence or existence of technical and process standards and the extent to which rapid turnover time and speed to market is essential to competitiveness (Bair 2005). The most basic form of CMT production, which is essentially garment cutting and assembly of supplied components

[11] Some pundits contended that these would be less significant than quota benefits were with the average US duty on clothing items of 17 percent providing only a thin margin of preference over producers not receiving preferential access (Minor 2002).

according to customer's specifications, is associated with low levels of knowledge and learning and little social integration. There is little value added and the factory is simply paid a processing fee for the garment and uses fabric sourced by and owned by the buyer.

The second model, Own Equipment Manufacture (OEM) or full package production is a more domestically integrated, higher value added form of production done to the customer's specifications on design and raw material inputs but where the supplier is capable of sourcing and financing garment components and providing all production services, packaging and delivery of final product to the retailers "free on board" (FOB) i.e. all costs are included in the contractor's price except shipping. Full package production fundamentally changes the relationship between the buyer and supplier giving more autonomy to the supplier and creating more possibilities for innovation and learning about sourcing (although not design)(Gereffi and Memedovich 2003). The final and most "evolved" model, Original Brand manufacturing (OBM), focuses on branding rather than on design or manufacturing, which allows transition into the sale of own brand products. Functional upgrading in the paradigm of buyer driven global value chains occurs when firms move away from CMT to OEM (production contractor) to ODM (Full package production) and finally to OBM production.

Industrial upgrading occurs when countries change their roles in these export hierarchies as they develop and upgrade their manufacturing capabilities and progress from low to high value added segments of the chain in a sequential fashion over time, transitioning away from the production of mass produced standardised items for mass discount retailers toward the manufacture of higher value added and more complex garments to meet the more sophisticated demands of retailers servicing upmarket, fashion-oriented market segments (Gereffi and Frederick 2010)[12]. According to Gereffi (2002), the most successful countries are those who are experts in OEM supply, or those who are developing full-package capabilities. At the same time, a successful transition from CMT to OEM production hinges crucially on a country's ability to establish links with a wide range of lead firms in buyer-driven chains who

[12] Due to topic constraints, I have given a terse description of upgrading. For more detailed reading refer to Gereffi 2002.

are the primary sources of material inputs, technology transfer and knowledge[13] (Gereffi and Memedovich 2003).

The evolving role of industrial policy for the clothing sector

Whilst the shift to global sourcing and with it the allocation of clothing production to low wage, low cost countries, has been beneficial from a product-pricing perspective, it has had a deleterious impact on clothing production and employment in developed countries and has triggered consternation in advanced economies about job loss and the degradation of capabilities that could spell the disappearance of entire national industries (Gereffi 2005). It also sparked a debate about the benefits and costs of globalisation for developing countries. Some claim that it has been unproblematically beneficial, while others argue that global outsourcing has led to "immiserizing" growth and a "race to the bottom" for some developing countries as they compete with one another to offer transnational companies the lowest operating costs (Kaplinsky 2000; 2005; Morris 2007). The significant expansion of the global workforce from China's emergence in global value chains has led some to argue that the impacts of globalisation may reach even further and bid down the living standards, not only for unskilled work and primary products, but increasingly for skilled work and industrial products as well (Gereffi 2005).

Unlike the past, where growth of the Newly Industrialised Countries (NICS) came largely at the expense of clothing sectors in the developed world, this time round clothing sector expansion in the developing world is taking place differentially – to the benefit of China and Asia and at the expense of other less globally competitive developing country producers (Kaplinsky 2006). In short, the challenges confronting developing economy clothing industries are compounded by globalisation and the changing dynamics of global value chains. Whilst clothing has been the source of rapid export-led industrialisation in a number of countries and especially in East Asia (Gereffi and Memedovic 2003), and is generally regarded as the potential first step for developing countries embarking on an industrialisation path due their comparative low wage

[13] The move to global sourcing historically began in East Asia, mainly China, Hong Kong and Korea, but as wages in these areas rose, low wage assembly components of production were increasingly outsourced to other parts of Asia, as well as African and America (Gereffi 2003; Kaplinsky 2005). In this way, multilayered global sourcing networks developed.

advantage[14] and the low capital, technological and skill requirements for developing the industry, value chain theory argues that the greatest value is added in the design, marketing, branding and distribution of a product. Returns are greatest in these high value added segments which have the highest barriers to entry. Although participation in the global market guarantees gains for poor countries, they also risk becoming bogged down in the lower segments of the chain, and in competition with each other, are compelled to maintain their low wages to remain in the chain (Kaplinsky 2005; Kaplinsky and Morris 2006; Morris 2007). At the same time, firms from high wage developing economies are finding it increasingly difficult to retain a competitive edge in a progressively global market place. These firms have constantly to confront the competitive challenge from firms in low-wage, industrializing economies that are able to produce more cheaply (Morris and Barnes 2008).

The failure of 'neo-liberalist' policies[15] which prescribed one, fast dose of "stabilization, liberalization and privatization" (Rodrik 2006) to deliver universal success to (developing) countries who implemented various components of its reform proposals, saw the remnants of support for Washington Consensus-style policies crumble, thus ushering in renewed thinking on industrial policy. However, the various "do more" or "do less" prescriptions of modern practitioners of industrial policy hinge largely on their respective views about whether industrialisation and economic growth should be pursued by exploiting or by defying a country's comparative advantage. On one hand, proponents of the comparative advantage following (CAF) approach to growth, most notably Justin Lin[16], remain loyal to the Neo-classical paradigm of a "facilitating state" which nudges growth along an optimal path bounded by a country's capital, labour and natural resource endowments. Lin contends: "The facilitating state provides the necessary co-ordination to remove the barriers to the emergence of these firms and their related industries, and gives them a helping nudge to overcome externalities, but then is able to let them grow and advance organically because of their comparative

[14] Roberts and Thoburn 2003 note that the fact that the wage component makes up almost 80% of the cost of producing a garment

[15] These policies, which prescribed a strongly market-oriented approach i.e. increased reliance on free market forces, were formulated by John Williamson in 1989 and codified in terms of the Washington Consensus. For further reading ref to Rodrik 2006 and Stiglitz in http://en.wikipedia.org/wiki/Washington_Consensus)

[16] Justin Lin is Chief economist for the World Bank.

advantage." (Lin and Chang 2009). Economic growth achieved in this manner, Lin argues, is more gradual but also more sustainable compared with the rapid growth of the latter which allows countries to "leap onto the industrialisation ladder" but with uncertain outcomes. On the other hand, Ja-Hoon Chang supports a growth path that by its very nature implies a highly interventionist role for the state to support fledgling industries that have no proclivity for organic growth. Chang argues that it is precisely by removing the restraints encumbent on developing economies that rapid industrial growth can be achieved in leap frog fashion. This he dubbed "kicking away the ladder". In effect, by importing off the shelf technology and expertise, developing economies can be freed from endemic restraints on growth associated with their low capital and skill endowments.

However, whilst Lin and Chang map out the outer boundaries of the industrial policy space, there are many ways to approach industrial policy. In his seminal work, *Industrial Policy for the 21st Century*, Rodrik emphasised the importance of institutional reform[17] as a central plank of his theoretical policy architecture. This new archetype for industrial policy engenders an increasing recognition for the need to embed private initiatives in the framework of public action (Rodrik 2004; 2007a; 2007b) to address the binding constraints to economic growth that vary from country to country (Rodrik 2006). A prerequisite for a successful outcome to the process is the "right" institutional setting. Indeed, Rodrik argues that achieving the right institutional setting overshadows all other elements of policy design such that the policy process is fundamentally more important than the policy choice: "A first-best policy in the wrong institutional setting will do considerably less good than a second-best policy in an inappropriate institutional setting. Put differently, when it comes to industrial policy, specifying the process is more important than specifying the outcome." (Rodrik 2004: pp 18-19).

Rodrik (2007a) summed up his approach as one which strives to get the policy process right rather than achieve policy outcomes: "to design a setting in which private and public actors come together to solve problems in the productive sphere, each side learning about the opportunities and constraints faced by the other" (Rodrik 2007a). In this paradigm, industrial policy is a process designed to elicit areas where policy action is most likely to make a

[17] Rodrik argues that the failure of economic reform under Washington Consensus-style policies lies not with the policies themselves, but can be chalked up to the absence of institutional reform that was necessary to successfully drive these policies.

difference and to generate policy initiatives in response. Hence the idea of an autonomous "non learning" government that can internalise externalities with 1st best Pigouvian subsidies (Bair 2008) has widely been replaced by the paradigm of a "learning government" where industrial policy presents an opportunity for the government to interact with firms and industry and learn about the constraints that exist and the opportunities that are available with the objective of "uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them" (Rodrik 2007a).

Rodrik 2007 and Rodrik and Hausmann 2006 argue that there is a wide range of generic market failures and externalities – indeed a wider range with a more constraining impact on development than has hitherto been recognised. The location and magnitude of these failures is highly uncertain. Hence the argument for an active role for government is precisely because of the wide ranging extent of market failure. At the same time, industrial policy is bedeviled by two key issues (Rodrik 2004; 2007a; Hausmann and Rodrik 2006). One the one hand, the government is not omniscient, which implies that the policy setting must be one in which public officials are able to elicit information from the private sector on an ongoing basis about the constraints and opportunities that exist. The private sector is typically better informed about the existence and nature of co-ordination and information externalities than the public sector. For this reason, activities designed to address these externalities cannot be made at arms-length by bureaucrats to the exclusion of stakeholders and business, who are inherently in tune to business realities on the ground. On the other hand, Rodrik and Hausmann 2007 note, industrial policy is fallible to corruption and exploitation by unscrupulous stakeholders and self-interested bureaucrats. The critical institutional challenge is thus to find an intermediate position between stakeholders and government which guarantees a policy setting that does not alienate the policy process from its core objectives and goals whilst simultaneously avoiding an agenda that inherently biases a single social or national objective. In effect, it is a situation that fosters co-operation between stakeholders and government without bureaucrats landing up in business' pockets.

There are three cornerstones to sound industrial policy architecture: political leadership, private embeddedness and coordination; and transparency and accountability (Rodrik 2006; Hausmann and Rodrik 2007)

The three cornerstones of industrial policy architecture

1) Political leadership of the industrial policy by a cabinet-level politician, a vice-president or the president himself who has internalised the agenda of economic restructuring and has accepted responsibility for it. Cabinet-level (or above) political sanction raises the political profile of industrial policy and ensures that economic transformation is driven at the highest level of government. It protects the integrity of the industrial policy by providing oversight, co-ordination and monitoring for the bureaucrats and agencies entrusted with its execution and implementation, both guarding against self-interested behavior by the agency and protecting the agency from capture by private interests. Finally, it identifies a clear political figure as accountable for the consequences of the policy.

2) Establishment of a knowledge and feedback mechanism in the form a co-ordination and deliberation council that comprises representatives from all stakeholder groups through which information exchange and social learning discussed above can occur. This requires that the implementing agencies maintain communication channels with stakeholders to allow officials to have a good information base on business realities, which is fundamental for sound decision-making; and that the agent or agencies that are tasked with championing the policy have demonstrated competence, the location of which may pre-determine the tool used.

3) There must be mechanisms of transparency and accountability which ensure that the actions of co-ordination councils and agents are done in a transparent and accountable manner; that all stakeholders are included in deliberations; and that the decisions of the council reflect a collaborative solution between all stakeholders and government.

The key issue that institutional design has to grapple with is how to ensure that government can access and learn from the information possessed by the private sector. Simultaneously, the private sector needs to be well informed about government policies and limitations since government has an important impact on their behaviour. This is why institutional design which facilitates learning and information flow is so important for effective industrial policy and strategy. Organisations and processes which bring government and business into a dialogue have to be designed so that government can access information and to act effectively on it,

and, reciprocally so that business can have knowledge of governmental policies and capacities (Morris 2011). The ultimate aim of industrial policy is international competitiveness: i) to launch local firms onto a world class manufacturing (WCM) platform from which they can enter the upper segments of the value chain where returns are greatest; and ii) to increase the systemic efficiency of the clothing sector by fostering co-operational and obligational relationships between value chain constituents to enable industrial upgrading.

Recent times have seen a coincidental shift in approach to industrial policy for the clothing sector which is increasingly evaluated from the perspective of global value chains and the manner in which firms, regions and countries are linked to the global economy. This determines the possibilities for firms to become integrated into the global clothing value chain by upgrading their production capabilities to move from CMT (low value added) to OEM (higher value added) production (Kaplinsky and Morris 2000; Gereffi 2003). The global clothing market has undergone tremendous change over the past decade as a consequence of globalisation and MFA trade liberalisation. Three aspects of this transformation are exemplified. Firstly, the dynamic nature of buyer-driven value chains which underscores the need for firms in developing economies to transition away from low-wage derived competitiveness by constantly upgrading their design and marketing skills and demonstrating World Class Manufacturing capabilities (Barnes and Esselaar 2005) to avoid entrapment in low value-added segments of the chain where few opportunities exist for domestic integration and learning. Secondly, the power of global buyers who drive the value chain for clothing and whose sourcing strategies and practices strongly inform the spread and pattern of clothing production and global clothing trade and the development of their domestic clothing sectors. Thirdly, the dominance of China in these global clothing networks. Increasingly, focus has diverted away from demand-side macro policies to encompass a set of closely related proactive micro level initiatives that aim to 'strengthen the value chain' by fostering cooperation between multiple participants along the value chain (Morris and Levy 2011).

I shall revisit the industrial policy discussion more systematically in relation to the China quotas in Chapter 8 where I shall show that whilst acknowledging the various debates, the Rodrik-Hausmann approach resonates particularly well with the industrial policy discussion in this thesis. Rodrik and Hausmann 2007 move the discussion beyond the traditional – and stale –

debate over the good and bad of policy instruments, such as quotas, focusing instead on the importance of institutional reform. The argument that I shall make in Chapter 8 is that the fundamental flaw with the China quotas lay with the policy process rather than the intervention itself.

I shall now contextualise the whole “China problem”.

Chapter 3: Globalisation, China and safeguards

I have thus far has dealt with globalisation, value chains, protectionism and the liberalisation of the global clothing market due to MFA quota removal in a general sense. In this Chapter, I sharpen the discussion to China to focus more specially on the China-specific Textile Safeguards (mainly the in US) with the proposition that the precedent use of quotas to "fix" the problem of import competition may not bear up so well in the new era of globalisation, demand-driven clothing chains and hegemonic China. Part 1 gives an overview of China's historic rise in the global clothing market to demonstrate the dimension of China's growth in clothing exports to the world in the past two decades, and especially since 2005 when the most binding of MFA quotas were lifted. Some explanations for the extraordinary success of the Chinese clothing sector are also reviewed. In Part 2 the discussion turns to the particular impact of China on the US and EU clothing markets and their policy response to the problem – i.e. the China-specific safeguard action. I shall use conclusions from this analysis to infer possible outcomes for the South African China quotas, which are introduced in Chapter 4.

Part 1: An historical perspective on China

China's competitiveness explained

Whilst the lifting of restrictions in 2005 undoubtedly provided expedient passage to global clothing markets [18], the clothing industry was identified by China as an important industrialisation path as early as 1970 and was the main target of early economic reform. Between 1978 and 1995, the unit growth in clothing factory output increased by 1,339% (17% per annum compounded) and the contribution of clothing to China's textiles and clothing exports more than doubled in this period (Table 4).

[18] This said, Flanagan 2005a points out that the forecasted Chinese monopoly of global clothing markets following quota removal did not transpire. Whilst buyers did intend to increase their buying from China by 46.3% after quota abolition, this implied that China's sales to the US and EU – with no change in the market size – would lift its share to 19.3% (by volume) in 2005 from 13.7% in 2003. In fact, 63.6% of buyers intended increasing purchases from India, 36.4% from Bangladesh, 27.3% from Pakistan and 18.2% from Cambodia.

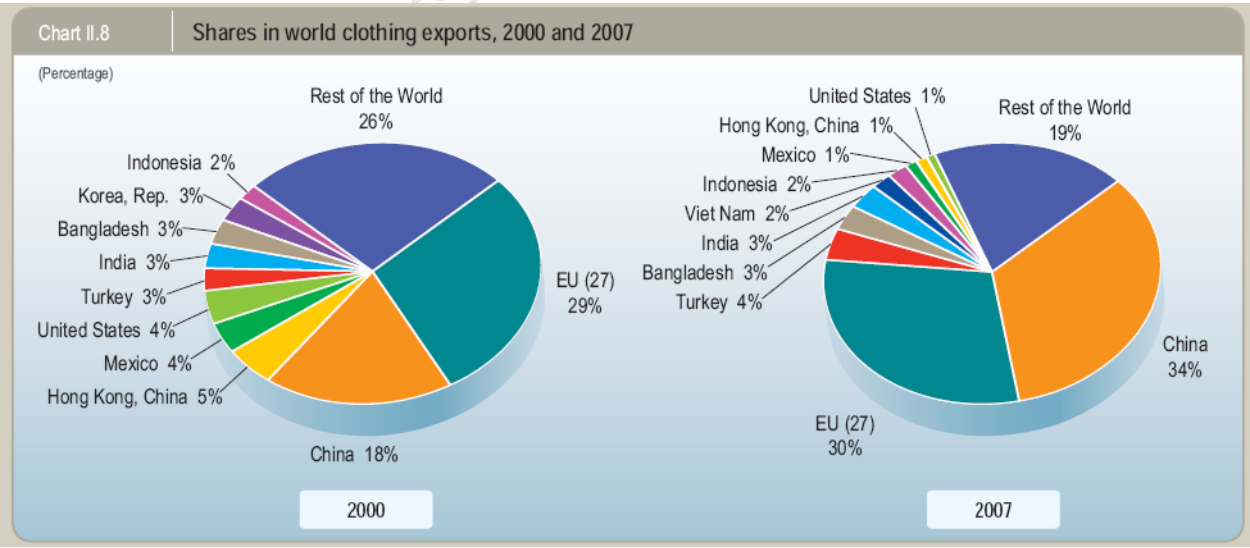
Table 4: China's apparel industry exports as a % of total textiles and apparel exports: 1978-1997

Year	Share%	Year	Share%
1978	29.1	1988	43.0
1979	31.7	1989	46.7
1980	37.5	1990	49.5
1981	41.0	1991	53.8
1982	43.8	1992	66.1
1983	41.5	1993	57.9
1984	41.8	1994	66.7
1985	38.7	1995	63.3
1986	40.9	1996	67.4
1987	39.3	1997	69.7

Source: China Textile Industry: Harvard Centre of Textile and Apparel research 1999)

By 1995, China had the largest clothing industry in the world with more than 3.9 million (m) workers employed in an estimated 47,000 establishments producing 6,685 billion (bn) units of garments. In US$ terms, exports grew from $9.7bn in 1990 to $115bn in 2007, an increase of 1,092% (World Trade Organisation 2008) and at an annualized compound rate of 18% between 2000 and 2007 (Figure 3).

Figure 3: Demonstration of China in world exports in 2000 and 2007



Source: WTO 2008

Figure 4 below illustrates China's dominance in almost every major clothing category in 2007 in which year it accounted for almost half of global clothing exports [19] (equivalent to US$108.64mn) (ITC 2008). More importantly, it shows the significant rates of growth that China has achieved over the past few years in categories where its share is still relatively small (6105 and 6106). Most of China's clothing exports are destined for the US, EU and Japan. In 2007, a third (33.6%; US$28,53bn) of all US and almost a fifth (19.8%) of all EU clothing imports came from China. In 2008, China exported US$113.37bn of clothing to the world and was the top supplier to Japan, the US and the EU (JUSEU) in this year with a 68% share of major garment export categories[20] to the region (Flanagan 2010; Birnbaum 2010). Between 1990 and 2007, US clothing imports grew by 214% from US$26.98bn to US$84.83bn (WTO 2008); a third (33.6% equivalent to US$28.53bn) of these came from China, from which imports grew at a compound rate of 18% between 2000 and 2007. Imports into Europe from China (EU27) grew at a similar compound rate of 21% p.a. between 2000 and 2007 to US$32.29bn, a share of 19.8% of total EU imports.

Figure 4: Demonstration of China's performance in global clothing imports in major clothing categories: 2007

HS Code	Product	China's exports to world by value in 2007 US$mn	Annual growth rate in value % p.a. 2003-2007	Share of China in World imports by value in 2007
	Knits			
6102	Women's overcoats	387.69	32	22.05
6107	Men's underpants and pyjamas	1,432.47	26	34.49
6103	Men's suits, jackets, trousers and shorts	7,602.28	38	73.75
6109	T-shirts and vests	8,481.10	31	25.16
6111	Babies' garments	2,043.65	23	38.12
6105	Men's shirts	1,535.79	84	19.87
6116	Gloves and mittens	946.19	19	42.69
6108	Women's panties and pyjamas	3,840.93	25	37.25
6110	Jerseys and cardigans	16,038.83	31	35.31
6104	Women's suits, jackets,dresses, skirts and shorts	11,132.56	32	55.00
6106	Women's blouses & shirts	1,161.29	98	13.88
6115	Panty hose, tights, stockings & other hosiery	2,885.01	34	30.69
6101	Men's overcoats, capes and windsheeters	320.70	20	24.54
6112	Track suits and swimwear	2,004.17	35	42.77
	Wovens			
6216	Gloves and mittens	281.88	12	45.18
6211	Track suits and swimwear	3,540.99	21	36.09
6213	Handkerchiefs	126.83	15	69.01
6212	Brassieres,girdles and corsets	1,983.82	29	22.49
6214	Shawls, scarves and mufflers	653.99	24	31.19
6204	Women's suits, jackets,dresses, skirts and shorts	13,439.34	19	25.32
6202	Women's overcoats	4,293.45	17	42.52
6207	Men's underpants and pyjamas	640.54	11	45.70
6209	Babies' garments and clothing accessories	872.18	15	35.16
6215	Ties, bow ties and cravats	385.49	21	32.45
6201	Men's overcoats, capes and windsheeters	3,442.43	14	41.27
6208	Women's slips, briefs and pyjamas	870.20	8	35.82
6203	Men's suits, jackets, trousers and shorts	8,515.52	19	22.45
6205	Men's shirts	3,123.42	13	24.38
	Total	108,641.66	25	33.37

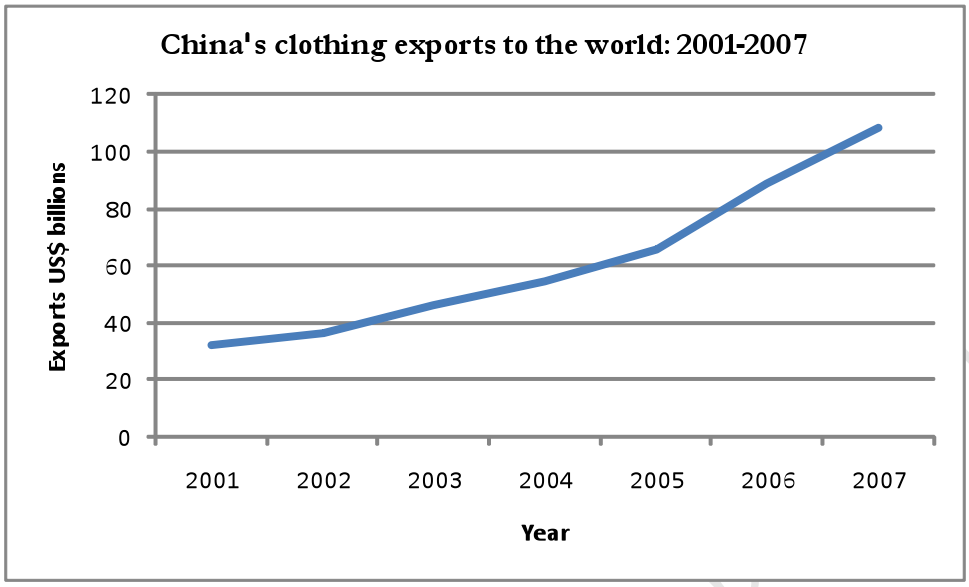
Data source: ITC Own calculations

[19] This includes Hong Kong's share of 8.34% (See previous section on Global Trade)

[20] Categories included are babies' wear, men's jackets, tracksuits, women's jackets, socks, tights, men's swimwear, women's swimwear, corsetry, knitted briefs, woven briefs, panties, slips and petticoats, women's nightwear, men's nightwear, women's knit blouses, men's knit shirts.

Figure 5 below demonstrates the accelerated growth in China's clothing exports to the world by value between 2001 and 2007 from US$32bn to US$108bn, an increase of 235% for the period.

Figure 5: Demonstration of China in global clothing imports: 2001-2007



Source: ITAC

The reasons behind China's extraordinary competitiveness have been resourcefully investigated but (especially current) information is limited. Ultimately China's numerous and varied strengths are tied to its considerable size and rapid growth, its government's long-term strategic vision and ability to orchestrate long-term plans; and its diligent investment in new technologies. It used foreign direct investment (FDI) to rapidly modernize its economy, which it secured through the lure of its large internal market and potential to serve as an export platform; and it used its integration in the global trade system to facilitate the rapid upgrading of its technology. It got modern technology embodied in capital goods and components and its export firms were forced to compete with the best (OECD 2002). China came to the realisation that employment and job creation was a priority and structured a development plan aimed solely at achieving this purpose. The plan had four legs: i) It identified labour intensive and mutually beneficial industries (clothing, footwear, luggage and toys) with complementary skills (stitching) and markets; ii) If the industry was export oriented, they were developed by a port; iii) Skills and people were concentrated to encourage specialisation reinforced through

specialised education systems and heavy investment in higher education[21] ; iv) A critical mass of clothing firms was achieved[22] off the back of which a viable textiles industry was developed and thereafter, in similar fashion, a clothing machine equipment manufacturing industry. Most importantly, as China achieved a critical mass, scale economies and productivity gains were accompanied by a simultaneous fall in prices.

China's initial comparative advantage derived principally from low wage costs. Figure 6 below demonstrates China's comparative wage advantage in 1995.

Figure 6: Country comparison: Production costs (China and selected countries)

(SAH = Standard allowed hour); Exchange rates as of October 1995

Clothing & Footwear	China	Hong Kong	Thai-land	South Korea	Mexico (U.S. Border)	Ger-many	UK	USA
Productivity	75%	90%	65%	65%	70%	100%	100%	90%
Absenteeism	7%	6%	10%	8%	15%	10%	9%	5%
Avg. Hourly Wages (including incentives) (in US$/hr)	0.43	4.18	0.92	0.54	0.48	12.51	6.04	6.00
Wages Plus Social Costs (in US$/hr)	0.47	4.81	1.06	0.62	0.79	22.77	7.49	8.70
Overhead costs per attended hr (in US$/hr)	0.63	2.14	0.83	0.44	0.67	2.22	1.68	1.49
Cost per SAH[66] Produced (in US$/ SAH)	5.99	13.6	8.48	10.82	7.64	31.64	14.54	17.75

Source: China Textile Industry: Harvard Centre of Textile and Apparel Research 1999

However, the lynchpin of China's success lies ultimately with its industrial policies which grew the Chinese apparel industry from being largely volume-driven to meet domestic demand in the 1960's to export-driven in the early 1990's to consumer-oriented in the late 1990's. Low barriers to entry in the apparel industry led to early entry by private investors in 1992 as reforms were expanded to allow entry into China for the first time. Clothing firms fall into one

[21] For example, women's wear in Hangzhou, men's wear in Wenzhou, socks in Ningbo, neckties in Chengzhou and knitted products in Zhangcha (Guangdong Province) (Zhang et al 2004)

[22] Clothing and textiles is a *numbers* game where *volumes* count. Consequently, the initial part of development focused solely on achieving a critical mass of clothing firms with up to 50% of all textile inputs imported in 2004. Currently China has 16 million employees in clothing and only 4 million in fabric. In South Africa these ratios are reversed.

of four broad categories: privately owned, collective (owned by a rural or urban township) (RT), state owned (SOE), foreign owned or jointly owned (JVE) by a foreigner and either an RT or SOE. RTs (pure or jointly as a JVE) are the largest clothing producers on almost every level in terms of number of enterprises, volume of product produced and exports. These comprised 91.21% of national clothing output in 1993 (China textile Industry: Harvard Centre of Textile and Apparel Research 1999). In the early 1990's the number of JVEs grew rapidly with 12,194 firms exporting US$7.68 billion clothing products in 1995. In 1996, RT output was estimated to be 80% of total clothing output with SOEs the second largest number of apparel establishments (Qi-liang et al. 1999). According to Chi Daily, Chinese purchases of textile machinery totaled nearly US$12bn between June 2000 and June 2003 with statistics reflecting a US$22bn investment in its textiles and clothing industries since 2001 (Table 5). Today China has a comparative advantage in fabric that is unequalled globally with a 15 million strong clothing and 2 million strong textiles industry. Before 2005, 50% of Chinese apparel was made from imported fabric, now it is closer to 90%.

Table 5: Textile machinery purchases in China

Major textile machinery imports		
Item	2000(in units)	% change from 2001
Automatic spooling	1,186	23.54%
Rapier looms	5,873	67.61%
Water jet looms	9,589	71.82%
Air-jet looms	14,963	108.31%
Washing, bleaching, dying machines	4,582	51.82%

Source: China National Textile Industry Council;

(ibid.http://otexa.ita.doc.gov/fr2004/Reapplication_Brassieres.pdf)

A combination of low interest, non-repayable loans and cash export incentives, coupled with an undervalued currency and most particularly, its exemption from social and institutional costs that obligates competitor countries, gives China a comparative advantage which WTO-

compliant countries cannot match [23]. The cornerstone of their policy is to target markets that they want i.e. the US, fix their currency against that particular market's currency to achieve a measure of undervaluation (which relative to the Dollar is about 40%), provide non-repayable loans at 1½% interest per annum and an export incentive of 18% per annum payable in cash, which is not WTA compliant. Furthermore, given that most of the enterprises are state-owned, there is no need to generate a profit. These factors combine to yield a benefit (of at least 48%) that far outweighs any of the usual factors that enhance a country's comparative advantage, such as proximity to markets, a stable business environment, market access and skilled labour. Given that the fabric cost of any garment is between 40% and 60%, being able to discount the price by 48% implies that it can be sold at less than cost[24]. This precludes any country from competing effectively with China off any other platform.

The argument that China does not play off a level field is not new but focus has recently diverted away from its undervalued currency and low labour costs and towards other factors. This shift occurred for two principle reasons: First, wages in China are no longer low relative to many Asian and SSA competitor countries; and second, labour is not the unique factor in sourcing (Gibbon 2008; Emerging Textiles 2008a; Morris and Reed 2008a). Labour productivity (which is now particularly high in China), quality and cost of fabric, lead times and services offered to apparel importers or brands also play an important role (Ref Chapter 2). Today China is recognised for its dexterity, versatility and flexibility; and its ability to make most textile and apparel products at any quality level at a competitive price (USITC Trade Report 2005 p.55).

China and MFA quota removal: Global impacts and consequences

After a decade of patiently positioning itself to "clothe the world", China's opportunity to unleash its extraordinary competitiveness on global clothing markets came in 2001 when it was granted access to the WTO. The real fillip to growth however, was the removal of MFA quotas. In 2006, when the final and most binding MFA quotas were lifted, Chinese made garments

[23] JTVs were given preferential tax treatments, paying lower and fewer taxes than other forms of ownership as well as being the recipients of preferential tax policies such as tax hikes for the initial two years of operation and the need to only pay half for three years (Note: This was cancelled for JVEs registered after Jan 1st 1996) (Qi-Liang et al, 1999)

[24] According to Kipling 2008, this is the equivalent of having the exchange rate at R13.00 to the dollar plus an 18% export subsidy

flooded into developed country markets bringing to fruition the prophecy of Chinese hegemony in a liberalised global clothing market (Salinger et al 1999; Morris 2007; Morris and Reed 2008a; Emerging Textiles 2008b). Without the added cost of quotas, China could finally compete solely on price and became "the supplier of choice" (USITC). Fueled by global buyers' penchant for offshore outsourcing and adroit use of its extensive global networks that it had established under the MFA system, China blanketed the globe with its clothing products. Whilst largely anticipated by major analysts and industry experts[25], the unprecedented scope, speed and scale of China's growth sparked renewed debate about its impact on and the (disastrous) implications of its growth for other developing supplier countries; and particularly for the "accidental beneficiaries" of quotas and countries who had developed their clothing markets through quota-derived rather than genuine comparative advantage (USITC 2006; Flanagan 2005a)[26].

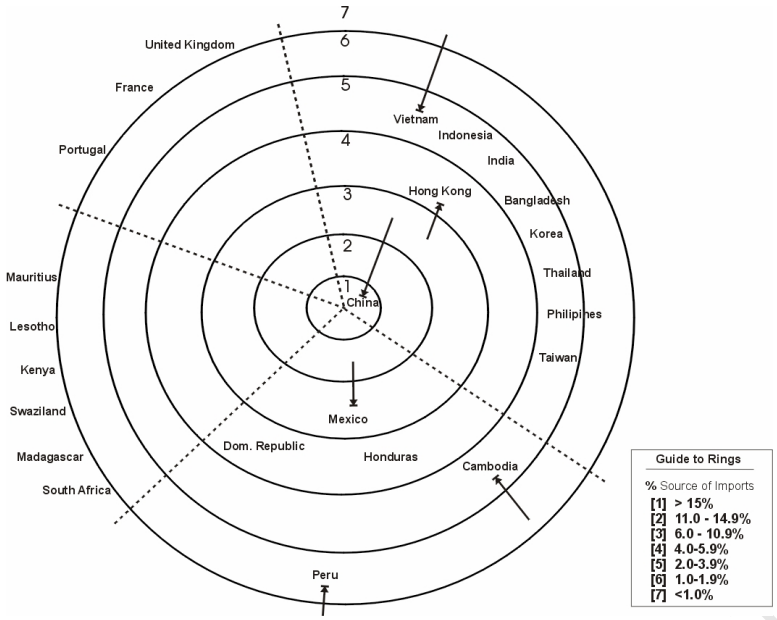
The greatest victim of China's liberalisation was the developed world and particularly the US and EU. In tandem with quota phase out, imports of clothing into the US recorded substantial growth from 1995 to 2003, rising from US$36bn in 1995 to US$63bn in 2003, an increase of 74%. Imports into the EU similarly rose from US$65bn to US$91bn, an increase of 40% for the same period. In 2003, the global imports of clothing amounted to US$226bn, an increase of 12% year on year of which the EU had the greatest share, accounting for 43% of the total, followed by the US with a share of 30% (Ref Chapter 2 section on global trade).

This is depicted graphically in Figure 7 which shows the locational demographics of suppliers of clothing to the US. It demonstrates the increasing dominance of China in US clothing markets as MFA quota removal progressed into the latter and more meaningful stages of liberalisation; between 2000 and 2004 China jumped two bands (from 10.5% to 16%) The picture was even more dire for the EU shown in Figure 8; in 2004 China accounted for over 20% of all EU imports, up from 14.5% in 2000.

[25] Some argue that China's preemptive response to trade liberalisation is a manifestation of the relatively more binding quotas placed on China than limits on other countries viz' the MFA; the slower growth rate of quotas on China; and finally, the relatively greater restrictions that were placed on China's ability to shift quota allocations across different categories of goods or across years (Brambilla et al 2007).

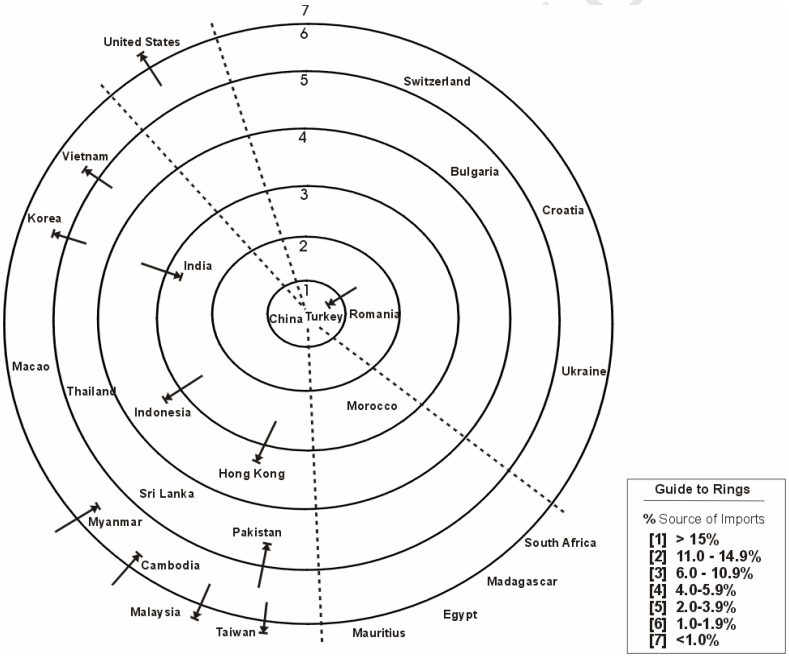
[26] This point cannot be expanded due to topic constraints but for further reading see Morris and Barnes 2006 and Flanagan 2003a; 2005a.

Figure 7: US sources of apparel imports : 2000-2004



Source: Naumann 2006

Figure 8: EU sources of apparel imports: 2000-2004

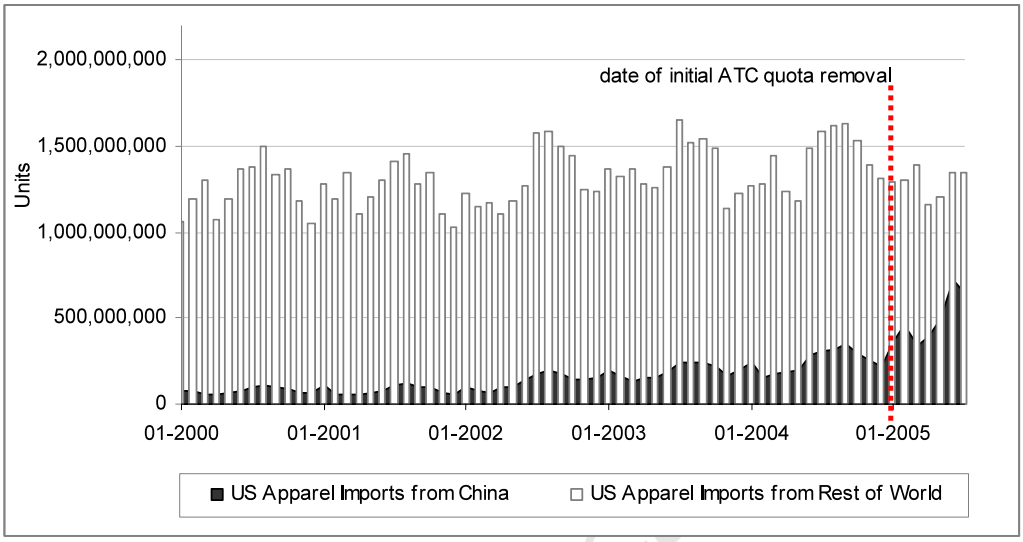


Source: Naumann 2006

This fact is further confirmed by imports recorded by quantity in Figure 9, which plots monthly clothing import quantities from January 2000 to July 2005 into the US and in Figure 10, which shows 2000 to 2005 trade of clothing imports into the EU, plotting the volume of imports in

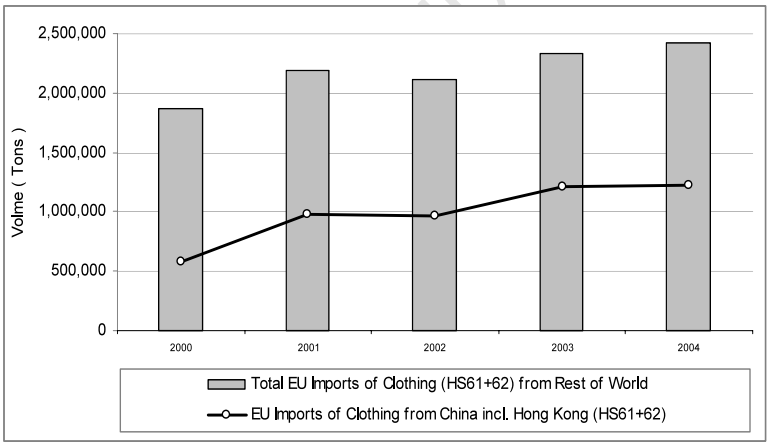
kilograms. Both diagrams clearly illustrate the surge in the volume of imports from China following the lifting of restrictions[27] and portray China's substantial share of clothing imports into both regions in relation to the rest of the world.

Figure 9: US imports of apparel form China and the Rest of the World: Jan 2000-July 2005 (monthly data)



Source: Naumann 2006

Figure 10: EU imports of apparel from China and Rest of World 2000-2004 (annual data)



Source: Naumann 2006

Once restrictions were lifted, imports from China into the US rocketed with apparel imports increasing by 279% in the first year following quota removal. Production of garments expanded

[27] The EU and US employ different classification systems with regard to the monitoring of textile and clothing imports and can therefore however not be directly compared.

by 50%, growing from 6.9bn pieces in 2000 to 10.3bn pieces in 2003 (www.ceicdata.com). In some categories, imports into the US spiked alarmingly upon MFA quota removal. Table 6 gives percentage changes in value and volume for imports in certain clothing categories into the US from China between the first quarter of 2001 and the comparable 2003 period. It also shows the percentage price change for each category in a similar comparison. Table 7 shows similar data for a broader set of clothing categories in the first half of 2005 on the comparable 2004 period.

Table 6: Imports in selected clothing categories following MFA quota removal

		Change q1'01-q1'03		
Category	**Units m)**	**Volume**	**Value**	**Price**
Brassieres	Doz	466%	383%	-15%
Dressing gowns	Doz	927%	431%	-48%
Socks	Pairs	3262%	164%	-48%

Source: OTEXA Own calculations

Table 7: Percentage change in imports in selected clothing categories from China into the US

	% Change Q2'04-Q2'05		
Item	Vol - SME	Value - USD	Price
All apparel	125%	97%	-13%
Cotton socks	1837%	731%	-57%
Sweaters	661%	449%	-28%
Womens' slacks	1328%	556%	-54%
Mens' trousers	1364%	667%	-48%
Womens' blouses	452%	241%	-38%
Nightwear	633%	351%	-38%
T-shirts	1272%	644%	-46%
Knit shirts	1005%	431%	-52%
Skirts	865%	350%	-53%
Brassieres	35.32%	39.13%	2.82%
Underwear	539%	218%	-50%

Source: OTEXA (Own calculations)

Trade figures released by the Chinese government at the end of January 2005 showed that Chinese imports of textiles and clothing into the US had jumped about 75%, rising from US$702m in January 2004 to more than US$1.2bn. In terms of product volume, imports of major clothing products from China leapt 546%. In January 2004, for example, China exported 941,000 cotton knit shirts under quota, whereas in January 2005 it shipped 18.2m, a rise of 1,836%. Similarly, imports of cotton knit trousers were up 1,332% year on year. Given that China ships a large part of its goods through Hong Kong, which would not be reflected in these figures, the real impact might well have been understated (Barboza and Becker 2005)

Data in Table 8 below tells a similar story for the EU. The data evidences the consistent rise in volumes into the EU and US across garment categories during quota phase-out as import limits were removed. The Dollar value of imports rose by 69.9% between 2004 and 2005 whilst the square metre equivalent rose by 98%.

Table 8: Growth rates of clothing imports from China into the EU: q1 05

Category	Description	Year-on-year growth (Imports from China)	Year on year growth (All other suppliers)	Average per unit price change (China)
4	T-shirts	199%	24%	-37%
5	Pullovers	530%	14%	-42%
6	Trousers	413%	18%	-14%
7	Blouses	256%	4%	-30%
26	Dresses	219%	1%	2%
31	Brassieres	110%	6%	-37%

Source: European Union / Commission Regulation (EC) No 1084/2005 (based on SIGL)[28]

More relevantly, the expansion in import volumes was accompanied by a significant fall in unit prices for imports from China. Imports from China into the US and the EU grew unabatedly partly due to the relaxation of limits on import volumes but mainly because prices from China had fallen dramatically in early 2005 to around 70% of the World average (Flanagan 2005b). For example, the price of bras from China fell to US$33.43/doz in 2003 compared with the global

[28] SIGL: EC DG Trade's integrated system for the management of licenses for imports of textiles, clothing, footwear and steel to the EU.

average of US$43.17; and the price of cotton trousers from China fell from US$154.53/doz in 2004 to US$66.64/doz in 2005 which was a third less than the global average of US$82.07/doz (Ref: http://otexa.ita.doc.gov/fr2005/347_348request.pdf). In US categories seeking protection, China dropped its prices by an average of 53% with the largest drop of 89% (wool hosiery) and the smallest of 4%. However, the category in which this small drop occurred was one in which China already had an 80% market share (silk gloves). In the category where the largest price drop was experienced, China increased its US market share from 4% to 48% in four years. This price deflation lies at the heart of the China story and has spawned much debate due the profound effect that cheap Chinese imports have on importing countries (Mc Carthy 2007; Edge 2006; Morris and Einhorn 2008). Neither has the picture changed much in recent times. Figure 11 below shows the steady rise in import penetration[29] by China in EU clothing markets between 2004 and 2007. Imports from China into the EU totaled US$32bn in 2007, an increase of more than 208% since 1999. In the third quarter of 2008 alone, imports from China totaled US$8.23bn, up 9.57% on imports in the comparable quarter in 2007.

Figure 11: Imports into the EU: Top 10 suppliers

TOP 10 EU-27 SUPPLIERS IN CLOTHING

N°	Origin	Euros (millions)				% Share 2007	% growth 2004/2007
		2004	2005	2006	2007		
	World	**45.052**	**49.305**	**55.491**	**58.079**	**100.0**	**28.9**
1	China	11.534	16.961	18.883	21.878	37.7	89.7
2	Turkey	7.747	8.098	8.238	8.937	15.4	15.4
3	Bangladesh	3.721	3.538	4.615	4.385	7.6	17.8
4	India	2.480	3.239	3.811	3.841	6.6	54.9
5	Tunisia	2.603	2.463	2.468	2.567	4.4	-1.4
6	Morocco	2.428	2.264	2.368	2.530	4.4	4.2
7	Hong Kong	1.965	1.705	2.511	1.683	2.9	-14.3
8	Indonesia	1.338	1.200	1.414	1.202	2.1	-10.2
9	Vietnam	635	690	1.024	1.122	1.9	76.8
10	Sri Lanka	814	797	969	1.041	1.8	27.9

Source: Eurostat database 2008

[29] Total import penetration in clothing was estimated at 40% in 2007 (European Commission 2009)

Import figures for the United States once again tell a similar story. Between 2003 and 2007, imports from China into the US grew by 154.76% from US$4,60bn to US$22.75bn. An analysis of data at the category level is even more informative.

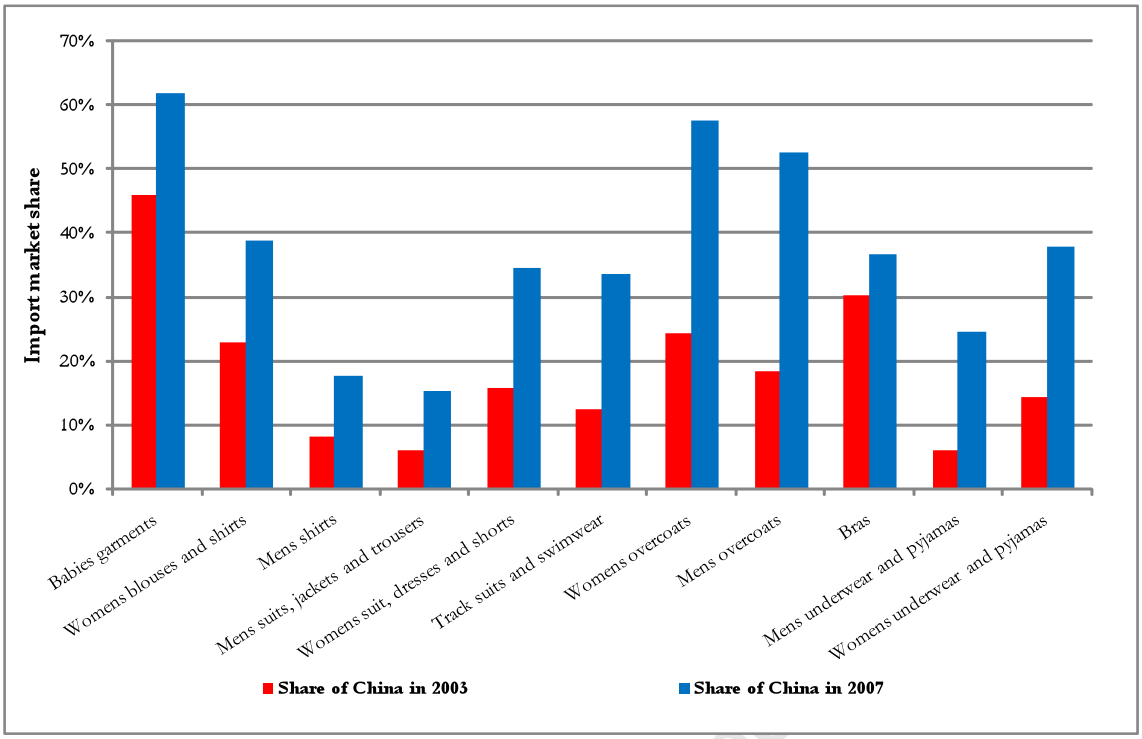
Figure 12 shows clothing imports into the US by value in 2007 in major clothing categories and cumulative growth rates in these categories between 2004 and 2007. Figure 13 then demonstrates China's share in total clothing imports into the US in the major categories as well as the US's share in China's exports in these categories. The former broadly confirms deeper penetration by China into US clothing markets. The latter however suggests that the US is losing importance as an import destination for China's clothing exports. Given the fact that China grew its net clothing exports in these categories by between 67% and 154%, this might point to China refocusing on alternative markets, principally in response to safeguards. Despite some indication that this trend in prices may have begun to reverse due to rising costs in China and weakness of major currencies, China's unit prices remain generally lower on average than unit prices from the rest of the world.

Figure 12: Demonstration of China in selected US clothing imports

Category	Value of imports from China in 2007 (US$ millions)	Cumulative growth 2003 - 2007
Babies garments	1,586.30	75%
Womens blouses and shirts	1,651.83	105%
Mens shirts	1,078.36	161%
Mens suits, jackets and trousers	1,464.48	188%
Womens suit, dresses and shorts	5,753.29	192%
Track suits and swimwear	751.02	253%
Womens overcoats	1,827.50	338%
Mens overcoats	1,380.41	303%
Bras	767.72	71%
Mens underwear and pyjamas	377.76	365%
Womens underwear and pyjamas	1,321.09	214%

Data source: ITC Own calculations

Figure 13: Change in China's share in US imports in selected clothing categories: 2003; 2007



Source: OTEXA Own calculations

The impact of China on employment and production in the US and EU

The dramatic flood of Chinese imports following ATC expiry was accompanied by a steep decline in employment and domestic production in the US and EU. The US and the EU, along with Japan are the largest consumers of clothing but the portion of domestic demand that is satisfied by imports has increased, whilst the portion fed by domestic production has declined. Between 1990 and 2006, US clothing imports rose by $59bn, an average annual growth rate of 14.2% (Morris and Barnes 2008). Overall, US exports fell by 45% while imports increased by 41% between 1999 and 2006 (OTEXA 2008). At the end of 2006, domestic production accounted for only 9% of the United States clothing market, with imports making up the remainder (des Marteau 2005). The EU, similar to the US, demonstrates a continued reliance on imports to feed domestic demand. In 2007 the EU(27) exported US$103.37bn of clothing[30] (29.9% of the world market). However, they imported US$162.81bn of clothing in the same

[30] 76% (US$78.63bn) of this comprised intra-EU trade; this share has remained relatively constant since 2000 (WTO 2008).

year[31]. This compares with exports of US$56.24bn and imports of US$8.18bn in 2000, which translates into an annual percentage growth of 9% and 10% respectively.

Given the labour-intensive nature of the clothing industry, its contribution to overall employment is significant, as were the associated losses from its decline (Morris and Barnes 2008). The job losses that accompanied the contraction in their own domestic clothing production following the implementation of the ATC presented a major political and economic challenge to authorities in developed countries and were a primary motivation behind the US clothing industry's petition to government for safeguards. Between 1995 and 2004, the US lost 595 000 clothing jobs[32] – more than five times the losses of the UK, which amounted to 109 000 over the same period[33]. In the first month after quotas were lifted, 12 200 jobs were lost in the US textiles and apparel industries (Barboza and Becker 2005). Employment data for the EU shows that whilst it was not as hard hit as the US and has managed retain a sizeable clothing industry consisting of 175 830 firms employing 2 474 932 people with a turnover of $211.3bn in 2007[34] (European Commission 2009)[35], neither has it escaped unscathed.

[31] 52% (US$84.20bn) was intra-EU trade.

[32] United States clothing employment totaled 1.4 million in 1970 (Heron 2002: p. 755), but by 1995 it had already dropped to 814,000, falling by a further 73% to only 219,000 in 2004. During 2001 alone, 344,000 jobs in the US clothing industry were lost (Flanagan 2003b), in 2003 another 50,00032 (Heron 2002) and between February 2004 and February 2007 another 67,500 (Employment Statistics Survey, 2007).

33 In the UK, employment decreased by 29%, from 154 000 in 1995 to 45000 in 2004 (Morris and Barnes 2008).

34 This figure is for EU-27 countries.

35 This data is available at http://ec.europa.eu/enterprise/textile/statistics.htm; accessed on 8 Oct 2009

Part 2: Lessons from Safeguards in the United States and EU[36]

The incidence of safeguards in the US and EU

The developed country response to the negative impacts from China's liberalisation was to seek renewed restrictions on imports from China through WTO safeguard provisions, which allowed member states to take trade-restricting action against any surge in textile and clothing imports from China that threatened market disruptions and the orderly development of trade (USITC 2005)[37]. WTO safeguard provisions allow imports to be restricted to a maximum of 7.5% above the previous year's quantity (USITC 2006). The months following final expiry of the ATC saw a number of these measures implemented by countries affected by the surge in imports, and particularly where China's rapid increase in market share in response to the relaxation of quotas came at the expense of domestic manufacturers and developed countries' other trading partners.

Whilst some relatively small importers, namely Peru, Turkey and Brazil invoked the safeguard provisions against China in terms of its WTO Accession Agreement[38] (Flanagan 2006a), the US was the first major importer that made use of the 'China safeguards'[39] (Ref Footnote 36) (Naumann 2006).

36 The imposition of safeguards resulted from the post MFA impact of Chinese imports in 2005. The surge in imports from China to South Africa started in 2002 and had totally different causes (Morris and Einhorn 2008).

37 Chinese textiles and clothing were subject to a special textiles safeguard provision until 31 December 2008 in terms of China's Accession treaty, which was far less prescriptive than the standard WTO procedure. Whereas WTO compliance requires proof of actual damage (to the domestic market), the China Accession Agreement allowed action to be taken against perceived damage and threat of disruption due to imports from China (WTO 2001). Consequently, most of the safeguard action against China concentrated in the China safeguard actions under China's accession treaty rather than the more lengthy WTO compliant route (Flanagan 2005b).

38 This allowed them to set limits of 7.5 % annual growth on imports from China of some clothing categories for a period of one year

39 Flanagan 2006b points out that this is most likely because WTO compliance requires proof of below-cost selling, which would be hard to demonstrate since clothing prices from China were roughly the same on average as prices from Bangladesh,

Figure 14: Schedule of safeguards imposed by US on China during ATC expiry

Code		New safeguard 1 (actual threat)	New safeguard 1 (threat based)	New safeguard 2 (threat based)	New safeguard 3 MOU
647	M/B MMF trousers, breeches, shorts				
341 641	Cotton and MMF shirts and blouses, not knit				Cosideration term
342 642	Cotton and MMF skirts				Cosideration term
351 651	Cotton and MMF pyjamas				Cosideration term
345 645 646	Cotton sweatersand MMF sweaters		05/04/2005		1//1/06-31/12/08
347 348	Cotton trousers		11/04-11/05		1//1/06-31/12/08
349 649	Cotton and MMF Bras	12/03-12/04		11/04-11/05	1//1/06-31/12/08
350 650	Cotton and MMF dressing gowns and robes	12/03-12/04		11/04-11/05	Cosideration term
352 652	Cotton and MMF underwear		11/04-11/05		1//1/06-31/12/08
647 648	MMF trousers		05/04/2005		1//1/06-31/12/08
332 432 632 pt	Cotton hoisery/wool hoisery/MMF hoisery	10/04-10/05		11/04-11/05	1//1/06-31/12/08
338 339	Cotton knit shirts and blouses		11/04-11/05		1//1/06-31/12/08
340 640	Mens' & boys cotton and MMF shirts, not knit		05/04/2005		1//1/06-31/12/08
638 639	MMF knit shirts and blouses		05/04/2005		1//1/06-31/12/08
359-S/659-S	Cotton and MMF swimwear				1//1/06-31/12/08
443	Mens & boys' wool suits				1//1/06-31/12/08
447	Mens & boys wool trousers				1//1/06-31/12/08
634 635	Other M&B and W&G MMF coats				Cosideration term
	All of these categories has applications lodged for safeguards.				
	These categories received safeguards.				

Source: OTEXA database

In January 2006 the US government set renewed limits on a range of textile and apparel products deemed "quota-free" since China's accession into the WTO covering 34 categories of textiles and apparel into the US for 2006, 2007 and 2008, including the 19 categories subject to import limits under the "textile-specific safeguard" clause in China's WTO accession treaty (Figure 14 above). These limits, listed in Table 9, remained effective until the end of 2008.

The decision to proceed with safeguards culminated two years of investigation and consultation by the USITC into allegations that items in the restricted categories were being imported from China into the US in such increased quantities, or under such conditions, so as to cause, or threaten to cause, market disruption to the domestic producers operating in the US of like or directly competitive products (http://www.usitc.gov/trade_remedy/safeguards). This move was unprecedented and ran very much against the spirit of liberalised trade, which motivated the dissolution of the MFA in 2003. The EU took similar action against China, although, in an effort to maintain good relations with China, and unlike the US, it chose the WTO compliant route to act. In 2005 it requested formal consultations at the WTO and held bilateral negotiations with China within the framework of Article 242 of the WTO rules in terms of which imports from China would be limited to 7.5% above imports in the preceding twelve-month period. The resulting Memorandum of Understanding (MoU) signed in June 2005

covered 6 clothing categories consisting of T-shirts, pullovers, dresses and bras that were threatened by prodigious imports from China which set specific quantitative limits for 2005 based on the growth rates between January and April 2005. Six of the covered categories had been subject to investigations launched by the EU on 24 April, after data showed substantial rises in exports from China.

Table 9: Quota limits set by US on clothing imports from China

MFA Category	Unit	2004 quota	2005 exports	2006 quota	2007 quota	2008 quota
332/432/632 Hoisery[a]	DPR	42,433,990	58,230,777	na	na	na
332/432/632-B Baby socks[a]	DPR	-	-	61,146,461	71,724,800	80,866,195
332/432/632-T Baby socks[a]	DPR	-	-	64,386,841	75,443,136	85,058,437
338/339 Cotton knit shirts	DOZ	2,523,532	20,624,490	20,822,222	23,893,373	26,938,606
340/640 Mens woven shirts	DOZ	2,345,946	6,173,242	6,743,644	7,738,332	8,724,590
345/645/646 Sweaters	DOZ	1,030,348	7,850,557	8,179,211	9,477,660	10,581,854
347/348 Cotton trousers	DOZ	2,421,922	18,379,651	19,666,049	22,566,791	25,442,951
349/649 Brassieres	DOZ	17,729,479	20,717,107	22,785,906	26,146,827	29,479,266
352/652 Underwear	DOZ	5,276,745	18,175,964	18,948,937	21,957,081	24,302,011
359-S/659-S Swimwear	KG	750,959	5,951,219	4,590,626	5,267,743	5,990,767
443 Mens wool suits	NO	140,015	1,613,356	1,346,082	1,544,629	1,756,637
447 Mens wool trousers	DOZ	76,352	203,332	215,004	246,718	280,581
638/639 MMF knt shirts	DOZ	2,712,680	3,762,225	8,060,063	9,248,922	10,427,707
647/648 MMF trousers	DOZ	2,974,238	6,490,061	7,960,355	9,134,507	10,298,709
847 Silk & veg fibre trousers	DOZ	-	15,714,461	17,647,255	20,250,255	23,029,668

Notes: The table reports the safeguards imposed on clothing categories for imports from China in 2005. Quotas were imposed on group 332/432/632 in 2004 and in 2006 on two new group categories 332/432/632-B and 332/432/632-T. The figures reported for 332/432/632-B and 332/432/632-T are those in the official OTEXA database for 2006-2008 but due to a lack of aggregation for the 2004-2006 period, the values for this period are recorded as n/a. 2005 exports of 332,432 and 632 are aggregate data for these categories according to the trade data.

Source: OTEXA database (Own calculations)

The relief afforded by safeguards was intended as temporary and for the purpose of providing time for the industry to adjust to import competition. By inference, the China safeguards were supposed to i) reduce reliance on imports to meet domestic demand by rejuvenating local

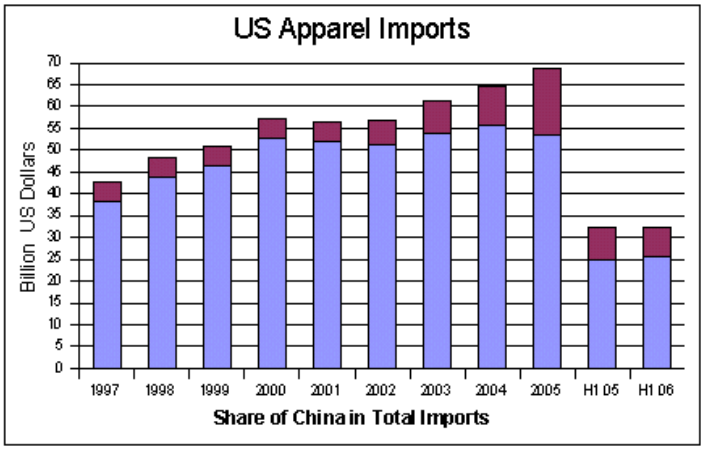
manufacturing output and ii) improve employment levels in the sector, which had fallen consistently since January 2001. They were also supposed to introduce predictability and certainty back into domestic clothing markets in the US and EU by regulating the pace of foreign import penetration, mitigating employment losses and boosting local supply in the host country.

In this section I shall analyse whether they were successful in achieving these objectives. My analysis draws on opinions from industry experts, reports from the USITC and firsthand analysis of trade data from OTEXA to investigate changes in trade flows between the US and its major trading partners, and in particular China, and the market shares of these countries viz-a-viz US apparel imports. Similar analysis is done for the EU albeit on a more circumscribed database from the EU Trade department. My main objective is to establish the effectiveness of safeguards in the US and data-permitting, the EU, to address unemployment and insulate the domestic market from Chinese competition.

Macro trade effects: Import diversion and transshipment

In their immediate wake, safeguards did successfully reduce imports from China into the US, which fell by 14.64% and 10.67% in volume and value terms for the first six months of 2006. Almost all of the decreases occurred in restricted categories. China's share in total imports fell accordingly as shown in Figure 15 below. What is more, aggregate US imports fell in both volume and value terms by 2.36% and 0.46% respectively in the first six months after imposition of the new restrictions.

Figure 15: Chinas share of US apparel imports: 1997-2006



Source: OTEXA (Own calculations)

The impact of safeguards in the immediate aftermath of their imposition primarily stemmed from the uncertainty surrounding the process of their implementation. The Memorandum of Understanding (MOU) was only signed in mid-November 2005. So for most of 2005, the safeguards were applied on a piecemeal basis because the visa system was not yet in place. Hence firms had no guarantee that they would actually receive ordered product. Firms operate with extended lead times of about six months from date of placing their orders. So, although the firms placing orders would have guaranteed access to quota, in order to ensure guaranteed access to actual product, many of them had already switched to alternative country suppliers. Table 10 shows that there was virtually no growth in US imports (2005-06) for safeguard items. Furthermore the quotas were not fully utilized in 2006. However, once a stable system was in place in 2007 (January to November), US imports in the quota categories from China actually increased by 12%. This was because the MOU created stability that made it "safe" to increase sourcing again from China.

Table 10: US General Imports from China in Square Meters, millions 2004 -2007

				YTD	YTD
	2004	2005	2006	Nov/2006	Nov/2007
Total all products	11,662.2	16,763.0	18,613.5	17,111.7	19,879.2
Subtotal safeguard categories	4,913.9	7,322.4	7,367.8	6,755.6	7,574.7
Subtotal non-safeguard categories	6,748.4	9,440.6	11,245.7	10,356.1	12,304.5
		39.9%	19.1%	-7.9%	18.8%

Source: USITC personal communication

However, once started, import diversion also became stabilised. The initial beneficiaries of the 2006 US safeguards were Bangladesh, Vietnam, Indonesia and Cambodia (Figure 16 below). Vietnam gradually strengthened its foothold in the US apparel import market once safeguards were initiated with shipments from this region surging 33.44% in US$ and 35.24% in volume terms compared with same period in 2006[40] (Emerging Textiles 2007a; OTEXA 2008). At the end of 2007, Vietnam lay in third place (behind Mexico) with a 5.90% market share equivalent to US$4.36bn; this was despite quotas on Vietnamese garments. Shipments from Bangladesh also surged; in 2007 its import share was 4.20% (US$3.10bn) (Emerging Textiles 2007a; 2007b). Bangladesh was the clear winner in the immediate quota period (Emerging Textiles 2007a).

[40] A relocation of some Chinese clothing companies to this region may also explain such a trend (Emerging Textiles 2008b).

Total imports from China fell 15% in December 2007, which confirmed a sourcing shift in the near term.

Figure 16: US apparel imports: January to June 2006 – value and volume change

	Ist half 2006 Value (US$m)	2005 Vol change	1st half 2006 Vol change	2005 Val change	1st half 2006 Value change
World	32,208.56	10.32%	-2.36%	6.09%	-0.46%
China	6,612.80	97.93%	-14.64%	69.61%	-10.67%
Mexico	2,640.17	-10.17%	-13.76%	-9.07%	-13.89%
Bangladesh	1,333.79	19.45%	19.62%	19.93%	26.54%
Honduras	1,157.66	4.03%	-12.03%	-1.91%	-12.64%
Indonesia	1,694.59	17.07%	19.92%	19.67%	27.37%
India	1,810.50	29.68%	13.71%	34.24%	17.75%
Vietnam	1,541.36	3.13%	27.40%	6.33%	30.40%
Cambodia	950,02	11.87%	31.22%	19.86%	29.93%
El Salvador	620,93	1.57%	-26.20%	-5.88%	-24.06%
Pakistan	622,75	11.28%	21.01%	10.65%	12.89%
Philippines	955,75	1.00%	27.88%	2.51%	17.61%
Dominican Rep	757,81	-6.04%	-20.35%	-10.18%	-18.98%
Thailand	888,58	0.69%	11.31%	0.47%	5.73%
Hong Kong	1,386.10	-19.27%	24.66%	-8.79%	24.22%
Vol in square metre equivalents; Value in US$; Unit value is US$ per SME; sorted on Vol Jan-June 2006					

Source: OTEXA (Own calculations)

However, not all of these initial gains were sustained by all countries over the longer term (Emerging Textiles 2008d). Analysis for the full safeguard period (2006-2008) shows that imports into the US overall fell by 0.09% in value from US$71.63bn to US$71.57bn and grew by just 0.69% in volume terms; and imports in the 13 quota categories sampled fell by 0.76% and 0.43% by value and volume.

Aggregate clothing imports from China grew by 23.79% in value and by 19.71% in volume terms between 2006 and 2008, and quota imports by 37.10% (value) and 24.33% (volume), although

the growth between periods was very uneven. Following robust value and volume increases of 22.29% and 10.58% in 2006 and 22.83% and 23.48% (volume) in 2007, import (total) growth from China moderated sharply in 2008 to 0.78% in value terms and actually turned negative in volume terms, shrinking by 3.05%. Import growth from China in quota categories showed a similar trend, slowing from 31.74% in 2007 to just 4.07% in 2008 by value and from 25.51% to 0.94% by volume. Restrictions did dramatically reduce imports in some individual categories (Table 11).

Table 11: Import volumes from China in selected quota categories

Category	Import volume (sme)					
	2005	2006	2007	2008	2006-2008	2009
ALL QUOTA	97.93	10.58	23.48	-3.05	19.17	10.72
332/432/632-T Baby socks[a]	10.05	-20.75	-51.92	9.19	22.63	22.63
338/339 Cotton knit shirts	674.08	68.81	41.20	5.94	49.59	78.23
340/640 M&B woven shirts	149.73	-27.33	68.50	5.89	78.42	19.70
345/645/646 Sweaters	631.51	-34.48	73.23	-16.13	45.28	46.27
347/348 Cotton trousers	1606.03	-20.99	0.94	16.84	17.94	244.33
349/649 Brassieres	16.76	-8.99	20.37	6.76	28.50	6.63
352/652 Underwear	230.94	-24.12	66.63	-0.59	65.64	52.29
359-S/659-S Swimwear	569.99	-22.61	6.47	3.60	10.30	59.67
443 M&bB wool suits	957.76	-18.02	-1.36	14.43	12.87	7.09
447 M&B wool trousers	205.53	-27.20	19.31	-17.01	-0.99	72.67
638/639 MMF knit shirts	443.03	236.67	43.09	1.20	44.82	11.21
647/648 MMF trousers	164.35	-15.53	45.68	-5.39	37.83	27.84
847 Silk trousers	-10.77	-5.89	-13.97	-5.02	-18.29	-44.16

Source: Otexa (Own calculations)

Furthermore, although imports in non quota categories increased throughout the safeguard period, despite safeguards, US importers still increased the proportion of quota imports to non quota imports (by value) from China, which expanded in 2007 by over 2% to almost 38% (Table 12).

Table 12: Decomposition of imports from China into quota and non-quota categories

	2003	2004	2005	2006	2007	2008	2009	2010
Total imports US$m	**7 257,59**	**8 927,86**	**15 142,87**	**18 517,64**	**22 745,02**	**22 922,61**	**23 503,01**	**27 974,92**
year on year growth		*23,01%*	*69,61%*	*22,29%*	*22,83%*	*0,78%*	*2,53%*	*19,03%*
Quota imports US$m	**1 947,93**	**2 638,68**	**4 783,60**	**6 547,24**	**8 623,65**	**9 028,91**	**11 249,15**	**13 824,88**
Year on year growth		*35,46%*	*81,29%*	*36,87%*	*31,71%*	*4,70%*	*24,59%*	*22,90%*
% Total imports	27%	30%	32%	35%	38%	39%	48%	49%
Non quota imports US$m	**5 309,66**	**6 289,19**	**10 359,27**	**11 970,40**	**14 121,37**	**13 893,71**	**12 253,86**	**14 150,03**
Year on year growth		*18,45%*	*64,72%*	*15,55%*	*17,97%*	*-1,61%*	*-11,80%*	*15,47%*
% Total imports	73%	70%	68%	65%	62%	61%	52%	51%
Quota: Non quota	***0,37***	***0,42***	***0,46***	***0,55***	***0,61***	***0,65***	***0,92***	***0,98***

In sum, imports from China contracted significantly in the latter quota period but import diversion also became stabilized with only a few countries extending their gains through 2007 and 2008, specifically, Vietnam, Indonesia and Bangladesh (OTEXA 2008). Furthermore, once restrictions were lifted at the end of 2008, albeit with a lag in 2009[41], imports from China rebounded by 35.34% and 22.99% in volume and value terms respectively between 2008 and 2010.

In 2010, China commandeered nearly 40% of all clothing imports into the US by value (Figure 17) and a third (29.94%) of imports in categories previously restricted by safeguards (Figure 18).

[41] This dip is attributed to the economic downturn since imports from most countries fell in 2009.

Figure 17: Demonstration of China's share in US clothing imports: 2000-2010

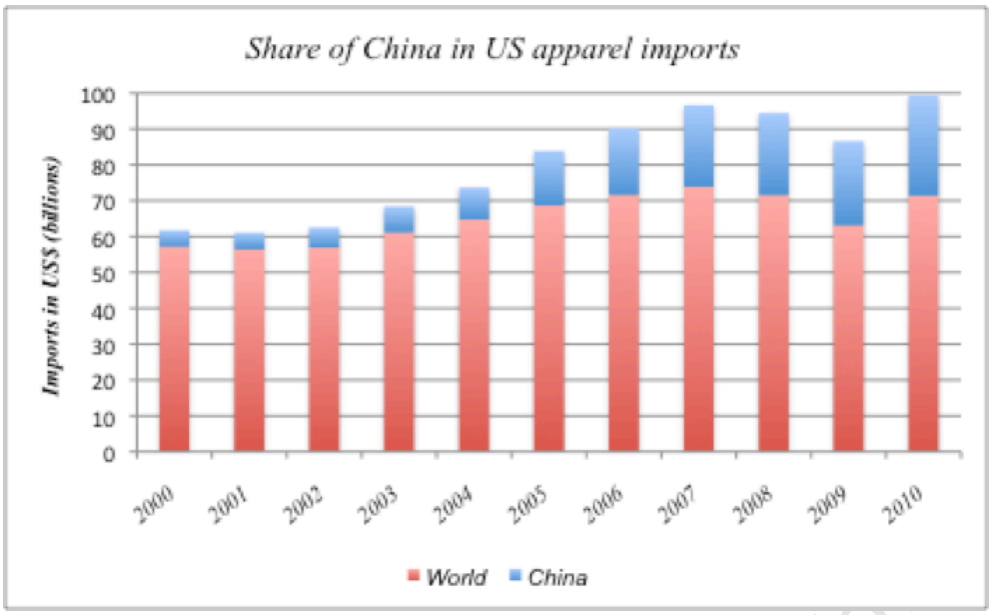
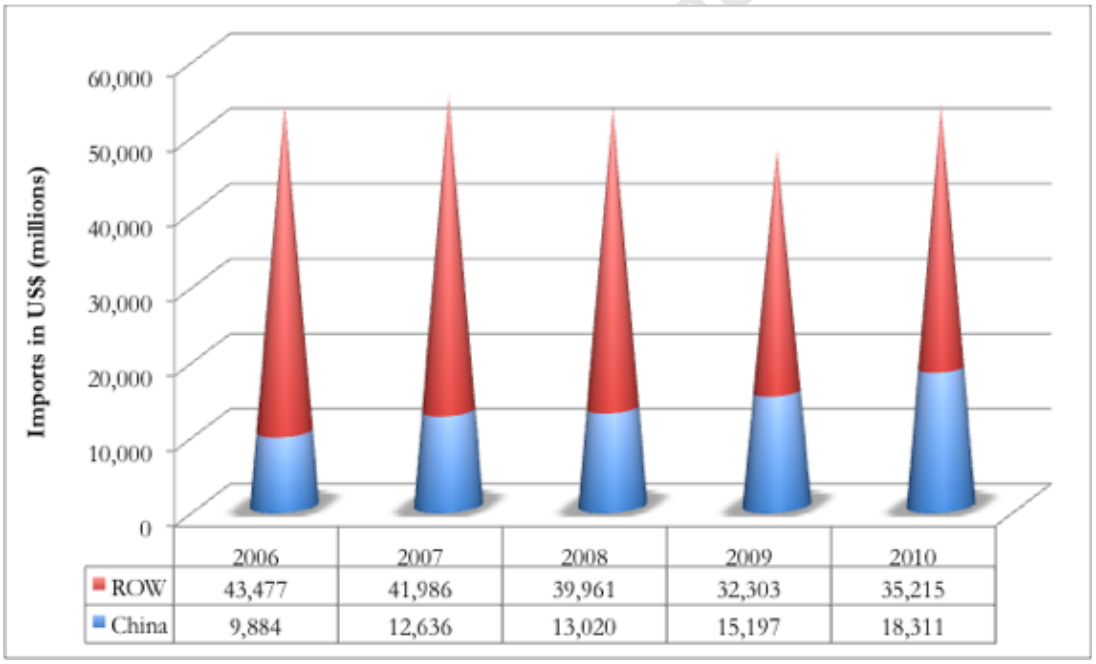


Figure 18: Demonstration of China in US quota imports: 2006-2010



	2006	2007	2008	2009	2010
ROW	43,477	41,986	39,961	32,303	35,215
China	9,884	12,636	13,020	15,197	18,311

Note: Slight statistical variations obtain from non-aggregation at the part category level.

Source (both figs): OTEXA (Own calculations)

Table 13 demonstrates China's performance in selected US quota imports (shown as a percentage change on the comparable period) for the period of quota operations and the post quota period and these two periods combined. It shows that import growth across all quota categories climbed sharply after quota removal both by volume (69.19%) and value (41.41%), an increase of 110% and 93% on the pre-quota levels.

Table 13: Demonstration of China's performance in individual US quota categories: 2006-2008; 2008-2010; 2006-2010

		'06-'08 Volume change (%)	'06-'08 Value change (%)	'08-'10 Volume change (%)	'08-'10 Value change (%)	'06-'10 Volume change	'06-'10 Value change
All quota		24.33	37.10	69.19	41.41	110.35	93.88
332/432/632part	Socks	-47.50	-37.24	52.5	33.37	-19.93	-16.29
338/339	Cotton knit shirts	49.59	73.76	132.82	80.60	248.26	213.80
340/640	M/B woven shirts	78.42	118.77	59.74	49.64	185.01	227.37
347/348	Cotton trousers	17.94	16.72	445.64	295.32	543.54	361.42
349/649	Brassieres	28.50	19.09	32.10	20.83	69.75	43.90
352/652	Underwear	65.64	84.61	128.15	73.17	277.91	219.68
359/659part	Swimwear	10.30	60.55	122.58	24.19	145.50	99.39
443	Wool suits	12.87	35.85	41.63	35.44	59.86	83.99
447	Wool trousers	-0.99	32.37	140.16	86.62	137.79	147.03
638/639	MMF knit shirts	44.82	24.66	33.39	30.81	93.18	63.07
345/645/646	Sweaters	45.28	74.68	60.92	47.74	133.79	158.07
647/648part	Trousers	37.83	24.66	77.25	30.81	144.31	63.07
847	Silk & veg trousrs	-18.29	-20.26	-52.52	-51.27	-61.20	-61.14

Source: OTEXA (Own calculations)

However, even more relevant was the change in unit prices (Table 14), which was a major bone of contention pre-quotas. In the period following safeguard removal, unit prices from China declined on average by 15.6% and in some categories, such as bras and trousers, by significantly more. These declines were notably significantly smaller in magnitude than those between 2004 and 2005. Furthermore, qualitative evidence suggests that prices are unlikely to breach these low levels again due to general inflation in China (Emerging Textiles 2008b).

Table 14: Comparison of change in unit import price for China

		2005/04	2008/06	2010/08	2010/06
		CHANGE IN UNIT IMPORT PRICE (%)			
All apparel		*-14.3*	*3.4*	*-8.5*	*-5.4*
All quota		*-32.2*	*12.7*	*-15.6*	*-4.8*
332/432/632part	Socks	-9.3	19.6	-12.6	4.5
338/339	Cotton knit shirts	-56.7	16.2	-22.4	-9.9
340/640	M/B woven shirts	-26.3	22.6	-6.3	14.9
347/348	Cotton trousers	-39.4	20.2	-8.2	10.4
349/649	Brassieres	-68.2	-1.0	-27.6	-28.3
352/652	Underwear	-1.0	-7.3	-8.5	-15.2
359/659part	Swimwear	-51.8	11.4	-24.1	-15.4
443	Wool suits	-61.3	45.6	-44.2	-18.8
447	Wool trousers	-4.5	20.4	-4.4	15.1
638/639	MMF knit shirts	-15.2	33.7	-22.3	3.9
345/645/646	Sweaters	-46.0	-2.9	-8.2	-10.9
647/648part	Trousers	-44.4	-9.6	-26.2	-33.3
847	Silk & veg trousers	-0.4	-2.4	2.7	0.2

Source: OTEXA (Own calculations)

Supply from a handful of the alternative locations, which became established during the quota period also endured beyond safeguards. Bangladesh[42], Vietnam[43], Indonesia and India continued to show robust growth between 2008 and 2010, growing their respective shares of the market to 8.23%, 6.20%, 5.50% and 4.36% (Table 15 below). This confirms predictions by some pundits that the sourcing of imports from alternative low cost countries to China, mainly in response to limitations on Chinese products[44], was likely to be a permanent phenomenon rather than a knee-jerk reaction by US importers. Anecdotal evidence from large US apparel importers reveals that they actively seek alternatives to China to balance risks and costs[45] (Flanagan 2006a; 2010; Emerging Textiles 2008a; 2008b). Interviews with large US retailers

[42] In categories 345/645/646 (sweaters) and 347/348 (cotton trousers) Bangladesh was the 2nd largest supplier behind China in 2010.

[43] In category 347/348 (cotton trousers), Vietnam was the 4th largest supplier to the US behind China, Bangladesh and Mexico.

[44] Although a rapidly rising Yuan and increasing production costs are also having an impact.

[45] We are grateful for input and the data in Table 8 from Robert Koopman and Kimberlie Freund of the USITC. In 2005 Nathan and Associates interviewed the main US retailers in respect of sourcing from AGOA exporters as an alternative to China (Morris and Reed 2008a). The importance of spreading risk in their sourcing decisions was a clear critical success factor (Kaplinsky and Morris 2006).

confirmed the emergence of Bangladesh as a key supplier to the US market after positioning itself to cater for large runs of one product with minimal styling. Figure 19 demonstrates the increased importance of quota imports and particularly cotton products, to Bangladesh and Vietnam over the past decade[46].

Figure 19: Performance of Bangladesh and Vietnam in US quota imports

BANGLADESH	2005	2006	2008	2010	Ranking in
	US imports in US$(millions)				category 2010
Trousers	130,4	136,9	133,6	127,8	5
Cotton knit shirts	96,2	285,2	375,1	400,6	13
MMF knit shirts	11,9	45,1	48,0	47,3	17
Woven shirts	381,5	417,6	373,8	463,5	2
Socks	0,6	0,8	0,5	0,5	19
Sweaters	53,2	58,5	78,1	69,8	2
Cotton trousers	524,5	878,0	1301,7	1523,1	2
Bras	16,0	36,6	50,8	56,1	8
Suits and trousers	12,1	12,8	25,0	29,4	9
Underwear	123,4	146,4	200,8	194,8	6
Swimwear	57,7	54,0	52,1	44,7	6
Total quota	*1407,5*	*2071,9*	*2639,5*	*2957,7*	
% in US quota imports	3,81%	4,38%	5,66%	6,41%	
% quota (excl China)	4,37%	5,08%	7,01%	9,14%	
% quota in total country imports	59,35%	71,10%	76,69%	75,25%	
VIETNAM	2005	2006	2008	2010	
	US imports in US$(millions)				Ranking in 2010
Trousers	119,9	166,5	276,6	346,6	2
Cotton knit shirts	266,2	774,9	1447,9	1542,9	2
MMF knit shirts	36,0	95,8	391,4	491,2	2
Socks	0,5	1,4	4,0	0,5	4
Sweaters	13,0	14,0	7,4	8,6	8
Cotton trousers	476,7	611,1	891,5	910,6	4
Bras	2,7	6,4	8,8	10,1	18
Suits and trousers	45,9	56,5	53,5	46,0	5
Underwear	20,7	28,2	78,4	209,4	5
Swimwear	21,2	24,0	50,6	61,0	4
Total quota	*1002,8*	*1778,9*	*3210,2*	*3626,8*	
% in US quota imports	2,71%	3,76%	6,88%	7,85%	
% in US quota (excl China)	3,12%	4,36%	8,53%	11,21%	
% quota in total country imports	36,81%	55,21%	61,46%	61,71%	

Source: OTEXA (Own calculations)

[46] Flanagan 2006b observes that these countries, and in particular Bangladesh, have achieved success through low prices (viz low wage costs) but that this strategy is likely to face headwinds in the longer term given uncompetitive high freight and port costs relative to China and India, high levels of corruption and more recently, considerable labour unrest, all of which may bid up prices.

A less intuitive outcome in this respect was the loss of importance of Honduras[47] and El Salvador as suppliers to the US market once restrictions were lifted. Despite bilateral trade agreements with the US and their proximity to this market, imports from both these countries fell in value and volume terms after quota dissolution, reversing many of the gains achieved off the back of safeguards. Similarly, imports from Mexico lagged those from Asia, falling 24.21% and 29.92% by value and volume between 2006 and 2008, and by 15% in 2007 alone (Morris and Barnes 2008). Although these losses moderated, imports from Mexico fell by a further 11.79% (value) and 8% (volume) between 2008 and 2010, which implies a loss of nearly 2.5% of US market share since 2006 (from 7.4% to 4.96%). The analysis also throws up evidence of the (much anticipated) incidence of trans-shipping through Hong Kong and Macau. The significant drop in value and volume imports from both regions (of over 80%) after safeguard expiry suggests that the magnitude of this activity was considerable.

Table 15: Comparative change in US imports of top suppliers to US: Quota vs post quota period

		% change in import volume				% change in import value		share of US market		
		2006-2008	2008-2010			2006-2008	2008-2010	2006	2008	2010
	World	*0,69%*	*9,03%*		*World*	*-0,09%*	*-0,24%*			
1	China	19,71%	33,36%	1	China	23,79%	22,04%	25,85%	32,03%	39,18%
2	Vietnam	61,26%	25,05%	2	Vietnam	62,12%	12,51%	4,50%	7,30%	8,23%
3	Bangladesh	9,89%	11,83%	3	Indonesia	9,76%	9,82%	5,12%	5,63%	6,20%
4	Honduras	17,16%	-4,45%	4	Bangladesh	18,10%	14,20%	4,07%	4,81%	5,50%
5	Indonesia	8,50%	14,79%	5	Mexico	-24,21%	-11,79%	7,40%	5,61%	4,96%
6	India	5,05%	10,01%	6	India	-3,56%	1,25%	4,45%	4,29%	4,36%
7	Mexico	-29,92%	-8,00%	7	Honduras	6,71%	-7,31%	3,41%	3,64%	3,38%
8	Cambodia	5,42%	6,61%	8	Cambodia	11,22%	-6,46%	2,98%	3,32%	3,11%
9	El Salvador	15,84%	-1,93%	9	El Salvador	8,94%	6,83%	1,97%	2,14%	2,29%
10	Pakistan	3,00%	0,72%	10	Pakistan	5,49%	0,20%	1,97%	2,08%	2,09%
11	Thailand	-13,35%	-5,94%	11	Thailand	-9,34%	-21,75%	2,57%	2,33%	1,83%
12	Philippines	-34,38%	-9,42%	12	Sri Lanka	-12,81%	-16,59%	2,35%	2,05%	1,71%
13	Sri Lanka	-15,77%	-16,41%	13	Philippines	-31,97%	-25,30%	2,80%	1,90%	1,43%
14	Dom Rep	-38,42%	-34,36%	14	Dom Rep	-45,69%	-25,54%	2,16%	1,17%	0,88%
15	Malaysia	-1,76%	-46,42%	15	Canada	-40,10%	-28,24%	1,63%	0,98%	0,70%
16	Costa Rica	-37,07%	-52,49%	16	Malaysia	-6,91%	-29,47%	0,96%	0,89%	0,63%
17	Canada	-52,73%	-28,87%	17	Colombia	-32,35%	-24,61%	0,71%	0,48%	0,36%
18	Colombia	-40,99%	-18,14%	18	Hong Kong	-44,75%	-88,31%	3,92%	2,17%	0,25%
19	Hong Kong	-50,67%	-85,34%	19	Costa Rica	-34,82%	-44,44%	0,65%	0,42%	0,24%
20	Macau	-33,30%	-88,02%	20	Macau	-27,91%	-89,95%	1,62%	1,17%	0,12%
21	Brazil	-57,56%	-60,86%	21	Brazil	-63,54%	-53,47%	0,12%	0,04%	0,02%

Source: (OTEXA) Own calculations

47 Although imports from this region fell on net, it outperformed in category 332/432/632 (socks) in the post quota period; imports in this category increased from US$46,4m in 2008 to US$69,83m making Honduras the top supplier to the US in this category in 2010. Although at the same time, an argument could be made on this basis about the downgrading of its export basket toward low margin basics.

In 2007, six countries, namely China, Mexico[48], Vietnam, Indonesia, India and Bangladesh accounted for 56.67% of all clothing imports into the US. In 2010 this share increased to 64.07%. Theories about supply chain rationalization thus appear to have been realised at the macro trade level. In respect of the EU safeguards, analysis of import values suggests that safeguards were ineffective in limiting imports from China. Despite the intervention, Chinese exports of clothing and textiles to the region grew by 30% in the 2005-2007 period, with a particularly large increase in woven fabric (470%) (Eurostat 2008). In 2008, imports into the EU from China stood at US$69.77bn, which was a 57% increase on 2006 levels of US$27.96bn (ITC 2010). In the third quarter of 2008 alone, imports from China totaled 8.23bn, up 9.57% on imports in the comparable quarter in 2007. Table 16 below demonstrates the significant growth rates of Chinese imports during the period that restrictions were in place in the EU in some clothing categories. Chinese imports showed robust growth through 2008 despite safeguards whilst Vietnam outperformed all other emerging suppliers with growth of almost 30% in the first three quarters of 2008 alone (Emerging Textiles 2009c).

Table 16: Change in clothing imports by value into the EU (27) from China in selected HS categories

HS Category	Product description	% value change '06-'08
6204	Women's suits, dresses & skirts	52%
6110	Jerseys and pullovers	185%
6203	Men's suits, jackets & trousers	88%
6202	Women's overcoats	39%
6109	T-shirts, knitted	94%
6201	Men's overcoats	32%
6210	Other garmets	33%
6104	Women's suits, dresses & skirts, knitted	70%
6108	Women's underwear, knitted	36%
6111	Babies' garments, knitted	33%
6212	Brassieres	80%
6205	Men's shirts	47%
6211	Track suits	29%
6206	Women's blouses & shirts	93%
6112	Track suits, knitted	17%
6115	Panty hose, tights & stockings, knitted	80%
6107	Men's underwear	42%
6209	Babies' garments	18%
6105	Men's shirts, knitted	161%
6106	Women's blouses & shirts, knitted	128%
6102	Women's overcoats, knitted	115%
6103	Men's suits, jackets & trousers, knitted	29%
6101	Men's overcoats, knitted	111%

Source: ITC (Own calculations)

[48] Morris & Barnes (2008) note that despite bilateral trade agreements with the US, imports from Mexico have lagged those from Asia, falling 8% between 2000 and 2007 and 15% in 2007 alone.

Import price inflation and downgrading of the domestic value chain

A detailed analysis of unit values in quota categories shows that import prices increased during the safeguard period, which confirms predictions about price inflation and may evidence upgrading of the import basket (or downgrading of the local manufacturing base), i.e. a shift in imports in the direction of higher value-added, higher quality products (Table 17). This happens because importers striving to maximise profits drop low-margin items first when they are forced to reduce consignments (Edwards et al 2006). The corollary to this is that domestic manufacturers are forced toward low cost basic items whilst importers fill the demand at the high end of the market[49]. Unit values of apparel imports into the US for the first half of 2006 rose by 1.95% on aggregate whilst those from China rose by 4.65% (Emerging Textiles 2007b). These price movements persisted for the full 2006 period; the aggregate unit value for imports in quota categories from China rose sharply in 2006 by 44.77%, compared with the broad-based price deflation of 23% for the comparable 2005 period, which largely motivated petitions for safeguard protection in the first instance. Unit values for imports from China in general also rose by 10.58%, compared with a fall of 14.31% in 2005.

Price inflation is also evident in quota categories at the aggregate level; unit values for US quota imports on net increased by 11.52% in 2006, largely reversing the deflationary trend in the comparable 2005 period, during which prices for these categories fell on average by 2.81%. Overall US import values grew at a smaller rate of 1.8% but this nevertheless again saw a reversal of the deflation in 2005 prices of 3.83%. Unit values for imports in quota categories from China and the World increased by 12.41% and 0.94% respectively during the safeguard period (2006-2008), compared with price movements of 3.40% (China) and 0.77% (World) at the aggregate level. In ten of the thirteen quota categories, unit values from China increased by between 2006 and 2008 and in particular in the most sensitive categories (those with high fill rates) (OTEXA). Where unit values from China fell during the safeguard period, for instance in the case of brassieres, this may have been due to excess supply in China from US buyers

[49] This is a cautious observation. Given that only a small share of US clothing consumption is produced locally, a direct link between the Chinese safeguards and rise in unit import values might be a bit questionable and the effect on US manufacturers requires qualitative validation which is beyond the scope of this thesis.

switching to alternative sources as a result of safeguards, in this case, Bangladesh (Emerging Textiles 2008b; Emerging Textiles 2009b).

Table 17: Comparison of price for quota imports from China pre, during and post restrictions

		'04-'05 change (%)	'05-'06 change (%)	'06-'08 change (%)	'08-'10 change (%)
All quota		*-23.00*	*47.76*	*12.40*	*-18.94*
345/645/646	Sweaters	-39.44	26.68	20.23	-8.19
347/348	Cotton trousers	-53.35	28.54	8.13	-25.59
349/649	Brassieres	-0.99	44.51	-7.33	-8.53
352/652	Underwear	-51.78	19.10	11.45	-24.10
647/648part	Trousers	-44.43	32.28	-9.55	-26.20
332/432/632part	Socks incl. baby socks	-9.34	38.78	19.55	-12.55
338/339part	Cotton knit shirts	-56.73	106.12	16.16	-22.43
340/640	Woven shirts	-26.35	32.61	22.61	-6.32
638/639	MMF knit shirts	-53.86	64.86	6.10	-8.23
443	Wool suits	-4.55	16.50	20.35	-4.37
447	Wool trousers	-15.24	15.30	33.69	-22.29
359/659part	Swimwear	-61.29	51.22	45.55	-44.20
847	Silk & veg trousers	-0.41	11.21	-2.41	2.68

Data source: OTEXA Own calculations)

(Statistical variations from Table 12 obtain from aggregations of part categories)

Aggregate price increases were evident for most emerging supplier countries as well for the safeguard period; such as Bangladesh (5.79%), Indonesia (6.21%) and Vietnam (2.39%) as well as India (3.56%) (Emerging Textiles 2008c). Full year increases of between a half and 10% were recorded for nine of the twelve alternative sourcing locations in 2008 (Table 18) (OTEXA), which implies that US manufacturers were generally being forced toward production of basic, low unit value items. This may be evidence of product downgrading although this requires qualitative validation. In 2008, further increases or marginal decreases were recorded for seven of these locations. India, Cambodia and Indonesia registered large price falls in 2008, which may reflect some rationalization of the supply base around a few alternative supply locations such as Vietnam and Bangladesh (although again, the depressive effect of the global economic downturn is likely also a factor here). Notably, Honduras and El Salvador, who recorded progressively negative price movements between 2005 and 2008 are participants in production-sharing agreements with the US where inputs are supplied by the US at cost and

the final garment is re-imported under special arrangement and usually at a preferential tariff rate (Morris and Barnes 2008).

When restrictions were lifted, prices for quota and aggregate imports from China fell by 18.95% and 8.49% respectively between 2009 and 2010, as did prices for US imports in general by 7.76% (quota) and 8.50% (overall). In some individual categories, the price movements for quota imports between the pre and post quota period are very significant, ranging from 4% to 44%.

Table 18: Demonstration of aggregate unit import values for the top twelve supply countries into the US in 2008 (sorted on 2008 import value)

AGGREGATE UNIT VALUES FOR IMPORTS INTO THE US										
COUNTRY	2003	2005	2007	2008	2010	% CHANGE '05-'06	% CHANGE '06-'07	% CHANGE '07-'08	% CHANGE '06-'08	% CHANGE '08-'10
World	3.24	3.12	3.17	3.15	2.89	1.80	-0.31	-0.46	-0.77	-8.50
China	3.17	2.57	2.83	2.94	2.69	10.58	-0.53	3.95	3.40	-8.93
Vietnam	3.21	3.40	3.42	3.42	3.08	0.03	0.62	-0.09	0.53	-10.03
Indonesia	3.49	3.49	3.74	3.66	3.51	3.74	3.26	-2.03	1.16	-4.33
Mexico	3.49	3.57	3.74	3.88	3.72	0.50	4.21	3.78	8.15	-4.11
Bangladesh	2.02-	2.11	2.30	2.40	2.45	5.75	2.96	4.38	7.47	2.12
India	3.76	3.77	3.65	3.48	3.20	0.70	-3.69	-4.68	-8.20	-7.96
Honduras	2.17	2.10	2.05	1.96	1.90	2.12	-4.40	-4.73	-8.92	-2.99
Cambodia	2.35	2.41	2.80	2.67	2.35	5.06	10.40	-4.43	5.51	-12.26
Thailand	3.45	3.37	3.38	3.40	2.83	-3.56	3.98	0.62	4.63	-17.53
Hong Kong	4.71	5.88	5.68	6.02	4.80	-8.72	5.76	5.90	12.00	-20.29
El Salvador	2.01	1.87	1.83	1.83	2.00	4.33	-5.94	-0.02	-5.96	8.93
Pakistan	2.29	2.18	2.15	2.15	2.14	-3.66	2.65	-0.23	2.42	-0.52
Sri Lanka	3.63	3.64	3.85	3.87	3.86	2.68	3.03	0.47	3.52	-0.22
Philippines		3.53	3.76	3.52	2.91	-3.66	10.63	-6.29	3.68	-17.53
Macau		4.11	4.33	4.53	3.80	2.17	3.12	4.82	8.09	-16.10
Malaysia		3.21	2.89	2.67	3.52	-12.01	2.53	-7.58	-5.24	31.63

Source: OTEXA (Own calculations)

Unit price data for the post safeguard period 2008-2010 also provides corroborative evidence of illegal and irregular import activity. In particular, the erratic price movements for some countries in the wake of quota removal, notably, Hong Kong, Macau and the Philippines confirmed previous suspicions about round-tripping and transshipment activity through these regions. The results for Bangladesh, El Salvador and Malaysia, rising unit values accompanying shrinking import volumes deserve particular comment. These could be interpreted either as genuine competence to supply the high end of the US market post quotas or alternatively, as evidence of under-declared import values during the safeguard period. In the case of Malaysia, there is significant reason to believe the latter (Emerging Textiles 2009b).

In 2010 most supplier countries to the US saw a pullback in clothing prices relative to 2009 (with China being no exception) due in principle to the global economic downturn. However, despite general consensus of inflation in China fuelled by higher labour and production costs, some pundits cautioned against misinterpreting China's apparent pullback in some categories, and most notably cotton T-shirts and trousers, as a sign of weakness. They propose that China has simply transgressed to higher segments of the global market leaving other exporting countries to fight over less profitable basics (Flanagan 2010; Birnbaum 2011).

A similar trend is evident in data for the EU. Table 19 shows import prices from China into the EU in clothing categories in Q3 2008 compared with the same period the previous year. This shows that China's prices into the EU began declining less sharply during 2008 due to rising unit values in some categories, particularly for wovens (HS62). For instance, the prices of babies' garments under HS6111 actually rose in the third quarter after falling in the first and second quarters of 2008 by 2.6% and 1.1% (not shown). Similarly, prices in category HS6205 (men's shirts) surged 16% in the third quarter after rising only 3.3% and 8.3% in the previous two quarters. And in Chapter 6208 (women's underwear and pyjamas) unit prices from China gained 11.2% after falling 13.8% and 22.4% in the first and second quarters respectively

This notwithstanding, China's unit prices remained generally lower on average than unit prices from the rest of the world (ROW in the table). However the gap between import prices from China and ROW reduced for certain categories; for example, whereas import values from China for woven shirts were 37% below ROW unit price in the second quarter, this gap narrowed to

31% in the third quarter. On the other hand, whereas unit prices for T-shirts from China were the same as those from ROW, Chinese prices rebounded 9% in the second quarter.[50] The volume of imports also fell in some categories; T-shirts for instance fell 4% in the third quarter of 2008 after rising nearly 18% in the second quarter (not shown).

Table 19: Demonstration of changes in clothing import prices from China into the EU: Q3 07 vs Q3 08.

EU's Clothing Imports from China in First Three Quarters of 2008						
Import Prices: China vs Rest of World						
		Q3 08	Q3 08	Q3 08	Q3 08	Q3 08
	Category	China	China	China	China	China vs ROW
		Value	Value	Unit value	Unit value	Unit value
		Euros	Change	E/Kilo	Change	
6101	Mens overcoats	42,929,822	38.62%	7.37	-20.94%	55
6102	Womens overcoats	99,316,509	56.36%	9.73	-14.82%	69
6103	Mens suits, trousers	67,613,997	-4.74%	5.32	19.00%	47
6104	Womens suits, dresses	289,086,377	25.95%	8.98	36.08%	59
6105	Mens shirts	53,184,463	4.40%	11.97	-19.96%	105
6106	Womens blouses	64,685,493	67.72%	15.10	-11.49%	96
6107	Mens underpants	14,368,097	5.00%	7.40	3.44%	66
6108	Womens pyjamas, slips	280,589,329	0.72%	8.77	4.24%	63
6109	T-shirts	341,369,579	-3.97%	12.42	-9.55%	109
6110	Pullovers	1,657,098,623	91.52%	15.15	-22.85%	117
6111	Babies garments	269,723,854	-2.22%	12.00	8.22%	91
6112	Tracksuits	98,995,426	-19.66%	7.45	25.60%	58
6113	Coated knit. Garments	17,768,304	-18.02%	10.46	-2.06%	54
6114	Special garments	66,127,947	-18.21%	10.27	-2.67%	56
6115	pantyhose, tights	153,642,055	12.77%	6.33	9.83%	69
6116	Gloves and mittens	85,740,545	15.85%	6.62	10.67%	68
6201	Mens overcoats	610,511,219	2.91%	10.81	8.94%	53
6202	Womens overcoats	947,106,574	5.96%	11.83	11.53%	54
6203	Mens suits, trousers	626,221,756	12.18%	10.74	-1.76%	75
6204	Womens suits, trousers	959,326,670	7.51%	11.87	-8.67%	63
6205	Mens shirts	197,431,091	-7.87%	11.51	16.11%	69
6204	Womens blouses	168,726,609	27.07%	23.37	4.07%	96
6207	Mens underwear, pyjamas	31,535,990	-6.89%	6.73	-3.47%	84
6208	Womens underwear, pyjamas	58,952,997	-7.03%	7.10	11.23%	68
6209	Babies garments	127,104,886	-2.92%	12.69	4.32%	80
6210	Non woven felt	356,118,952	5.21%	10.64	-1.67%	53
6211	Tracksuits, ski suits	216,678,848	6.73%	8.40	5.56%	61
6212	Brassieres	190,470,066	3.37%	23.86	-3.66%	55
6213	Handkerchiefs	3,275,772	7.47%	6.55	-16.12%	53
6214	Scarves and shawls	51,628,817	31.32%	9.46	-2.75%	45
6215	Ties and bow ties	24,644,200	-8.80%	17.48	-0.73%	26
6216	Gloves and mittens	33,793,108	-8.73%	11.14	11.56%	67
6217	Made up accessories	20,717,400	-3.72%	8.91	-6.83%	47

Source: Emerging Textiles 2011

[50] China's prices on T-shirts were 24% above the ROW import price in the second quarter of 2007 when quotas were maintained on Chinese imports..

Prices of clothing from China into the EU began to fall almost immediately upon the lifting of restrictions in 2009, which offered China greater competitiveness over quota emergent EU suppliers, a trend which persisted into 2010. In the first quarter of 2010, prices from China fell in 20 of 23 clothing categories and especially in quota-sensitive categories such as men's knit shirts (16%), women's knit and woven blouses (18.66% and 18.22%), brassieres (19.08%) and men's underwear (26.20%) (Emerging Textiles 2011). In nearly all product categories, prices from China were 10% - 25% below its competitors in the first part of 2010. However, rather than competitiveness gains, these price movements are more likely a reversal of the product degrading which notoriously accompanies quantitative restrictions. With quotas gone, importers are no longer compelled to pursue high margin products and attack low-end segments of the market. Hence lower unit values since 2008 probably more likely reflect shipments of lower quality products.

Faulty quota mechanisms

CASE STUDY: RESTRICTIONS ON IMPORTS OF "BABY SOCKS FROM CHINA INO THE UNITED STATES

Objections against quantitative restrictions on imports of certain baby socks and booties in terms of quotas on hosiery (category 332/432/632) prompted an investigation by the UITC into the probable effect of their removal. The report concluded that the removal of BSB1- socks with bulky embellishments which preclude them from being worn as footwear - from the quota would likely have a negligible effect on the level of imports of baby socks and booties from China on total US imports of baby socks and booties and on domestic producers of baby socks and booties. This is because the product imported under this definition constituted a product for which there was no US production. With respect to BSB2 - socks with embellishments - the commission upheld the restrictions despite significant qualitative evidence that the quotas had simply led to higher unit prices with no increase in domestic orders. This is because importers had either procured additional quota early when quota costs were at their highest or switched to higher cost foreign suppliers including South Korea, Taiwan and Cambodia.

Justification for safeguards: Removal of these articles from quota could result in declining import prices and an increase in the total volume of US imports.

Import restraints therefore remained despite evidence that i) increased costs associated with purchasing quota or changing suppliers are passed onto consumers and ii) any domestic loss in sales of BSB2 would likely affect sales of other baby socks since BSB2 are mostly sold as part of an assortment that includes other baby socks even though they alone account for a relatively small share of total imports of baby socks.

Source: United States Trade Commission 2005

Another policy lesson is drawn from a case study of restrictions on imports of baby socks which demonstrates the inherent problem with interventions that paint with a broad brush. Firstly, the quota net may be cast too wide with the result that it catches products that do not require restrictions but whose limitation disrupts the local market. Government officials are often incapable of appreciating the broader supply chain effects of restrictions on product categories. More importantly, it also demonstrates that quotas may not altruistically benefit local manufacturers but will more likely lead to supplier substitution where the product is sourced from alternative foreign locations at a higher cost.

Domestic production and employment

Figure 20 below summarises the trend in US domestic production and import penetration in 9 of the 12 categories that petitioned for protection after the expiration of MFA quotas. It shows that the share of US manufacturers in the domestic market dwindled from almost 16½% in 2003 to a pitiful 4¼% in 2009.

Figure 20: Demonstration of trends in US production in selected clothing categories: 2003;2005;2007; 2009

*YTD June 2009	2003	2005	2007	2009*
Category	Domestic production in total domestic demand (%)			
Average across all quota categories	*16.49*	*11.63*	*5.14*	*4.24*
338/339 Cotton knit shirts	18.8	11.2	4.8	13.8
345/645/646 Cotton and MMF sweaters	12.2	13.3	6.3	5.2
349/649 Cotton and MMF bras	23.6	19.3	6.1	0.4
638/639 MMF knit shirts and blouses	11.5	5.9	3.5	4.2
647/648 MMF trousers	17.6	10.5	6.8	5.4
352/652 Cotton and MMF underwear	18.4	11.4	7.1	0.9
347/348 Cotton trousers	19.0	12.6	3.2	1.2
340/640 Cotton and MMF shirts and blouses	10.8	8.8	3.3	2.8

Source: USITC 2010

US production in all categories declined steadily between 2003 and 2010, averaged across all 12 quota categories. Furthermore, import penetration rocketed during the 2007 to 2009 period despite the imposition of safeguards on 9 of these categories. Along with declines in domestic production, employment levels in the US and EU continued to hemorrhage through the quota period. In 2007 US clothing output fell by 40% and clothing employment by 8.3% (Textiles Intelligence 2008). Similar to the US, EU production declined during the quota period with nearly a 6.4% decrease in employment in 2007 alone (European Commission 2008).

Policy lessons from safeguards in the US and EU

The findings presented for the US and EU come with the caveat that a full impact analysis of these particular cases of safeguards are not the objective of this research. It is conducted to infer outcomes for safeguards in South Africa and to offer guidelines for policy making with regard to protectionism in the clothing sector. I fully acknowledge that in many areas my analysis is only partial.

Safeguards in the US and EU were intended as a temporary measure, afforded with the express purpose of providing the industry with some time to adjust to import competition. A statement on the EU accord noted that: “(It) offers a fair deal for China while giving respite and much-needed breathing space to textiles industries in Europe and developing countries. (...) It proves the virtue of free trade, but also the necessity to intervene to soften phases of transition and economic changes, particularly on the social side.” The EU statement further noted Europe "respects China’s right to benefit from trade liberalization" and that it will provide a "window for adaptation" for producers in developing countries whose exports to the EU have been displaced by increased Chinese exports (i.BRIDGES Weekly 15 June 2005).

By inference, quotas were intended to generate greater levels of local sourcing to rejuvenate local manufacturing output and raise employment levels in the sector, which have fallen consistently since January 2001 in ATC countries. The qualitative evidence on the US and EU safeguards is largely contraindicative to their prescribed outcomes. Safeguards led to i) import diversion, ii) suppression of domestic prices and iii) possible downgrading in the local supply chain. Two immediate concerns of industry over the imposition of restrictions on imports from China were that i) importers would simply source product from alternative locations with no

net impact on imports overall and ii) provide added impetus to transshipment practices which were already believed to be at high level, particularly through Indonesia and certain African countries receiving preferential treatment under AGOA.

An analysis of macro-trade and economic data suggests that, whilst quotas were effective in reducing imports from China, they did not generate a commensurate drop in overall clothing imports into the US. Since restrictions were specific to China, importers were not inhibited in their ability to source from alternative low cost suppliers such as Bangladesh and Vietnam, who were either unconstrained by quotas or whose quotas were less binding than China's. US buyers indicated that these new suppliers were likely to be of even greater benefit into the future than China who does not have unlimited production capacity and is switching focus increasingly to its own domestic market. There are already signs of a trade off between its supply to US and EU markets, with the latter taking preference (Flanagan 2005a; 2006a; 2010). In sum, safeguards, at best, slowed the rate of imports from China, and this only temporarily; they also encouraged importers to prematurely identify alternative foreign sources of clothing, the effect of which endured beyond the restrictions. What is clearly indicated in the US price data, however, is that there was significant trans-shipment and other irregular import activity during the safeguard period, as was widely anticipated by commentators and analysts.

From an output perspective, safeguards did not present any observable stimulus to domestic output or employment, both of which continued to decline for the duration of the intervention. There was little or no evidence from the employment or domestic production data that orders reverted to local US manufacturers to fill the void in supply that was created by the restrictions. This was largely forecasted by industry; as one pundit argued: "This (the safeguards) does not solve the problem. It only pushes the danger from China farther off," (http://ictsd.net/i/news/bridgesweekly/6224/). Furthermore, higher unit import values suggest that quantitative restrictions may have pushed domestic manufacturers toward low-cost, basic items by encouraging importers to upgrade their import basket.

Finally, an important policy lesson that emerged from the US and EU is the considerable uncertainty that is created when policies are poorly defined and implemented. In both the US and EU cases, this stemmed from the flawed policy process. US officials did not consult with

business before implementing the restrictions and were ignorant about the unintended consequences of the intervention. The sharp pullback in imports from China and the low utilisation rate of quotas in the immediate aftermath of their imposition in the US primarily stemmed from the uncertainty surrounding the process of their implementation. In the case of babysocks for instance, the overly broad scope of the intervention led to the inclusion of products that domestic producers were unable to produce. This happens when governments are not fully informed and are thus inherently incapable of appreciating the consequences of their actions. If distortions are to be minimised, policies must be formulated in close collaboration and consultation with industry who have the detailed knowledge necessary to appreciate the potential distortions that an intervention may create.

The significant supply bottlenecks and disruptions to supply in the EU as millions of units of bras were impounded at EU customs elucidate this point. [51] This was caused by the swift re-introduction of quotas in June 2005, which specified new limits on import quantities and whose implementation did not allow importers sufficient time to adjust their import quantities to comply with the new restrictions. Importers argued that the new restrictions had been imposed retroactively to their announcement date (June 10), rather than to the date of their actual implementation (July 12), by which time quota limits had already been filled. The renegotiation of the safeguards to allow half of the 2006 quota to count toward 2005 limits resolved the immediate problem but the industry issued warnings about future supply shortages and price increases for consumers.

It is within this broad framework of policy-making, having observed the impacts and implications of similar interventions imposed in other countries, that I shall now investigate the China quotas.

[51] This was dubbed the “Bra wars” by the British Press.

Chapter 4: The South African clothing industry

I shall start my analysis by contextualizing the China quotas within the geography of specific economic and political developments in the South African clothing sector in the relevant period preceding its (it being "the China quotas") imposition. My primary aim is to convey the complex and multi-dimensional nature of the China quotas, which should not, and for that matter *canno*t, be seen as an isolated execution of industrial policy. It must be viewed in its entirety and in the context of the many other political and economic events that both preceded and played alongside it. To draw an analogy, the China quotas were simply the head of a very large boil that had been festering beneath the skin of the clothing sector for almost a decade before finally bursting in 2006.

Globalisation and the South African clothing industry

South Africa has a mature and expanding domestic market, which services a diverse consumer base characterised by large income and cultural differences. The South African clothing value chain is domestically oriented and local production is geared almost exclusively around supply to the domestic market. This differentiates it from its Sub Saharan African (SSA) counterparts, who have small domestic clothing markets with clothing production mainly geared towards exports, and here mainly to the US and EU markets, and where domestic demand is small and not as diverse (Morris and Einhorn 2008).

The domestic focus of the South African clothing industry is largely a legacy of the Apartheid and sanctions era, during which time state intervention to promote the industry occurred within an import substituting industrialisation (ISI) paradigm that biased the sourcing of local inputs. High levels of protection (import duties were 100% plus) suppressed the need for innovation and investment, whilst small economies of scale from orientation around a small and culturally coherent consumer base led to low levels of market specialisation, coupled with high levels of product diversification covering the full range of demand and high levels of firm-level functional diversification (Gibbon 2002b; 2008). The domestically owned and entrenched clothing and textiles value chain was governed by the textiles producers, who were the main

(and arguably sole) beneficiaries of the various government policies (local content requirements and import duties) and who extracted significant political economy leverage from their position as leaders of the South African value chain. This culminated in a clothing and textiles sector plagued with inefficiencies, inherently limited in capacity and infrastructure and most importantly, by and large uncompetitive without the productivity to significantly drive large export volumes. In combination, these factors intensified the sector's dependence on skilled labour and product diversification[52]. However, this was unimportant in an import substitution economy that continued to operate through difficult economic conditions through established and historically entrenched local networks, which shielded it from the changes that clothing markets worldwide were experiencing (Barnes 2004).

However, this all changed at the turn of the millennium. In 2001 the Rand plummeted to around R12.00 to 1$US (from R6.00=1$US in 1999) and AGOA buyers, primarily from the US, flocked to South Africa to buy clothing, which at the prevailing exchange rate was attractively priced. Local manufacturers signed up numerous export orders, but had insufficient capacity to simultaneously supply both export and domestic markets and consequently reneged on their orders to domestic retailers.[53][54] This left domestic retailers scrambling to find stock. They were compelled to seek alternative (foreign) suppliers; and this at a very unpropitious time for them when the exchange rate was R13:USD1. The inflection point for the local clothing industry came in 2003 which saw a complete reversal of this scenario. The strengthening of the Rand to around US$1=R6 and the economic boom, coinciding with the indirect impact of global Chinese clothing exports (and competition from falling prices) following China's 2001 WTO accession, afforded local retailers greater buying power in international markets (Morris and Einhorn 2008). Global sourcing was further augmented by a coincidental radical simplification of the tariff schedule that removed minimum specific duties, lowered average excise duty to 40%; and removed rebates on fabric, thus opening the market to competition from which it had

[52] This was the opinion of one interviewee in 2011 who expressed the view that the Rand needs to be at R12:1US$ before SA is competitive from a price point of view.

[53] Jack Kipling of Clotrade also observes that there were large-scale fabric shortages and not all exporters were proficient although on the plus side, 12000 new jobs were created.

[54] Manufacturers offer a contradictory version of these events, namely, that the expansion in demand afforded them greater bargaining power in price negotiations with retailers who rebelled against higher price demands for local output.

previously been protected (Cassim, Oyango and Van Deventer 2004). The combined result was easier access to the domestic market for importers on one hand and diminishing export opportunities for manufacturers – due to a stronger Rand and higher fabric prices[55] - on the other. Given the constraints that South African clothing manufacturers faced with the AGOA rules of origin, and the South African government's reluctance to extend the Duty Credit Certificate Scheme (DCCS) that subsidised exports, the capacity of domestic exporters was radically limited (Morris and Einhorn 2008). Imports grew expediently whilst exports collapsed. Chinese imports moved from 16.5% of total Rand value clothing imports in 1995 to 74.2% in 2005, an increase of 450% by value. Adding Hong Kong, combined Chinese clothing imports jumped to 78.8% of total clothing imports in 2005 (Morris and Einhorn 2008). Local manufacturers sought vainly to return to their previous customers, the local retail chains, but the domestic value chain had radically restructured; large scale imports of cheap clothing from China became entrenched. This chain of events marked a paradigm shift in mindset where the industry went from blinkered to global and South Africa transformed from being a net earner of foreign currency to a net user[56].

Greater integration into the global economy, coupled with rapid social and political transformation in the post-Apartheid years encouraged vibrant growth in consumer demand for clothing. Since imports generally offered better value and variety for price-conscious customers hungry for new and diverse fashions, local suppliers increasingly favoured imports. What this implied for local clothing manufacturers, who were by and large globally uncompetitive without the fillip of Rand weakness and thus remained exclusively focused domestically, is that they faced a diminishing market share as import competition from China intensified. South African exporters were globally uncompetitive for a number of reasons including the rapid appreciation of the Rand, AGOA's unfavourable rules of origin specifications for South Africa (Morris 2006a), the inability of domestic fabric manufacturers to adequately supply local exporters, paralysis of industrial policy to support the industry, high comparative labour costs, skill shortages, and the inability to move rapidly enough onto a World Class Manufacturing (WCM) production platform. As a result, the clothing sector remained very

[55] The removal of rebates on fabric effectively increased fabric prices by 20% (Jack Kipling 2011)

[56] This is Jack Kipling's view, given during an interview in July 2008.

dependent on the domestic market and gradually sank under the competitive pressure from rising Asian global dominance.

The most important change that transpired from this confluence of events was the change of guard at the top of the South African clothing value chain. Similar to developed countries, the South African clothing retail market is characterised by a high concentration of buying power in the hands of a few large retailers[57] who yield considerable influence over the value chain. In 1999, the top five retailers accounted for over 70% of formal clothing sales in South Africa (Salinger et al, 1999: 16). In contrast to the supply-end of the chain, which struggled to shed the shackles of the past and remained significantly hamstrung by the numerous infrastructural and physical constraints of a usufruct economy, the buyer-end rapidly matured into a globally defined face. Augmented sourcing capabilities enhanced the buying power of local retailers and strengthened their position in the local value chain, which transformed from being supply driven to buyer driven. This allowed local retailers to mimic their global contemporaries in their role as drivers of the chain; to wield ad nauseam power over local manufacturers; to insist on lower prices which were benchmarked against Chinese imports; to negotiate more favourable supply and delivery terms; to stipulate exacting quality and design specifications; and to shift the costs and burden of inventory control onto their suppliers.

I shall now exemplify the impact of these developments on the local clothing industry by analyzing some of the major performance indicators up to the point of the China quotas.

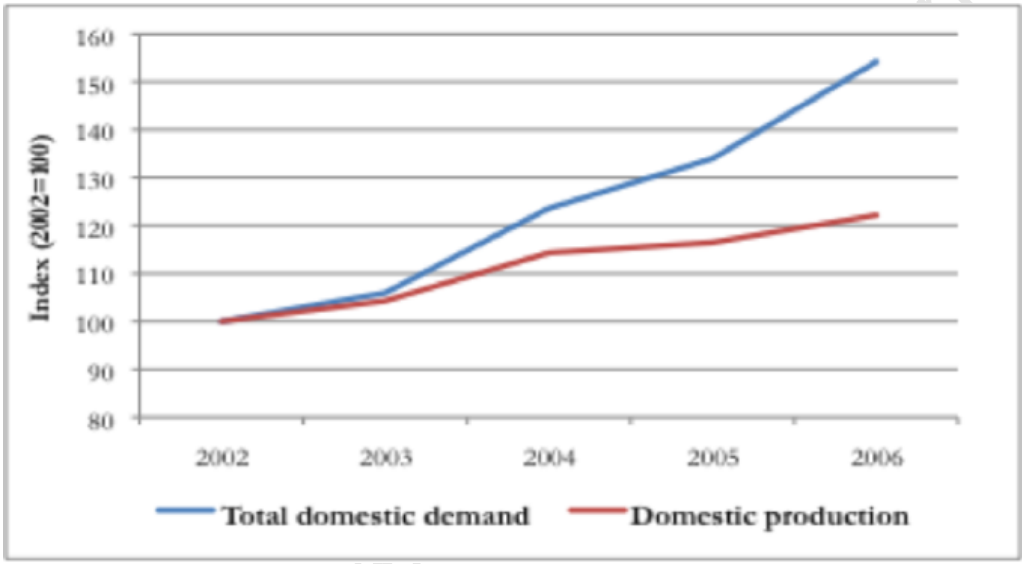
[57] The majority of these retailers' head offices are located in Cape Town, which used to provide clothing manufacturers in the Western Cape with a comparative advantage. However due to advancements in telecommunications, regional proximity advantages have largely been eroded. Although advantages in terms of easier delivery, speeding up of purchasing processes and ease of dealing with problems still remain, most retailers now source from firms across the country with price and the quality of service obviously playing a pivotal role.

Performance of the South African clothing industry in the run up to quotas

Domestic sales and production

The domestic market for clothing grew substantially between 2001 and 2006, by R8,061.17m from R14,885.25m to R22,946.43m, an increase of 35.13% (Figure 21 below). In comparison, domestic production grew by only 18.14% or R2,749.50m over the same period; this implies that growth in demand was increasingly satisfied by imports. At the end of 2006 the domestic share in the clothing market was just 66.07% compared with 83.38% in 2002.

Figure 21: Domestic demand for clothing versus domestic production of clothing



Source: Stats SA (Own calculations)

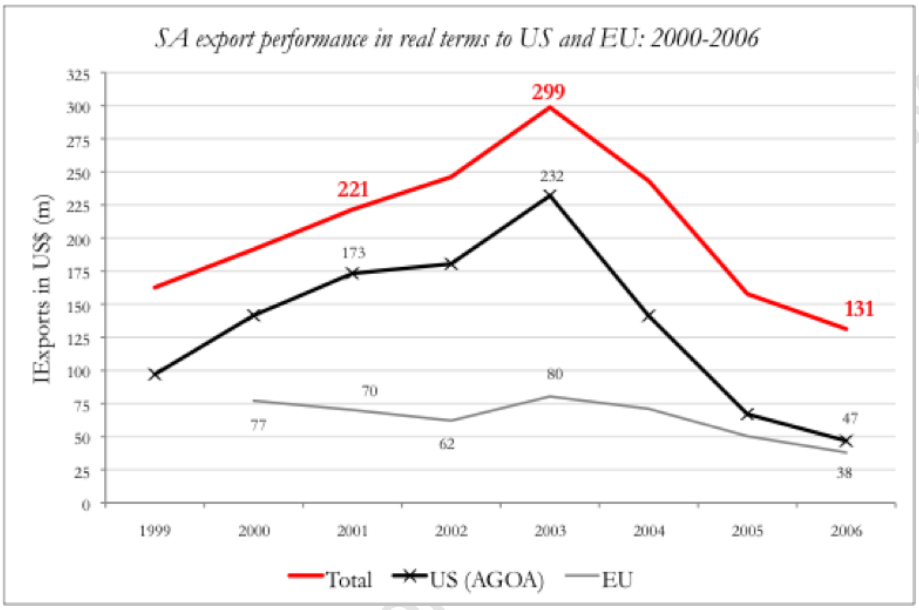
International trade: Clothing exports and imports

The dynamics behind the brief flourish of exports in response to temporary Rand weakness in 2001, followed by their drastic decline in 2003, has already been discussed but is illustrated below in the broader context of export performance leading up to the China quotas. Nominal clothing exports jumped by 160.29% from R995.15m in 1999 to R2,590.27m in 2002, before plummeting 67.71% to R836.5m by 2006, which was below 1999 levels. This was primarily due to a collapse in AGOA exports to the US, which fell precipitously by 84.29% (in nominal terms) between 2001 and 2006, from R1,899.63m to R298.48m (Figure 21 above). The stimulus for the export collapse was primarily exogenous, driven by the strengthening Rand, which appreciated

by 50.62% between January 2002 from R11.61 to the US$ to R5.73 by November 2004, thus raising the international price of South African tradable goods (Figure 22).

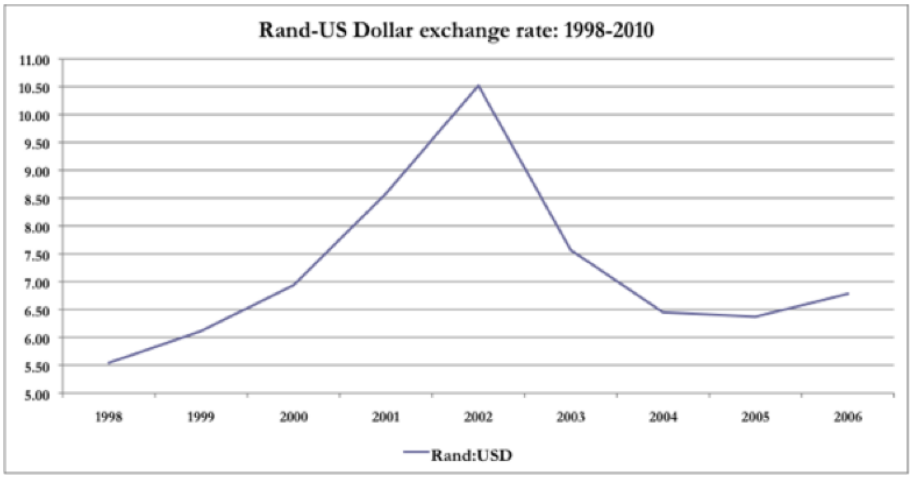
Although exports to the EU had traditionally been South Africa's bread and butter (albeit on a much smaller scale than the US), they also responded to the currency strength and fell by 63% in nominal terms (53% in real terms) to a mere R190.21m (US$83m) in 2006 from R653.90m in 2001 (Figure 23).

Figure 22: South Africa's exports to US (via AGOA) and EU



Data source: Comtrade (Own calculations)

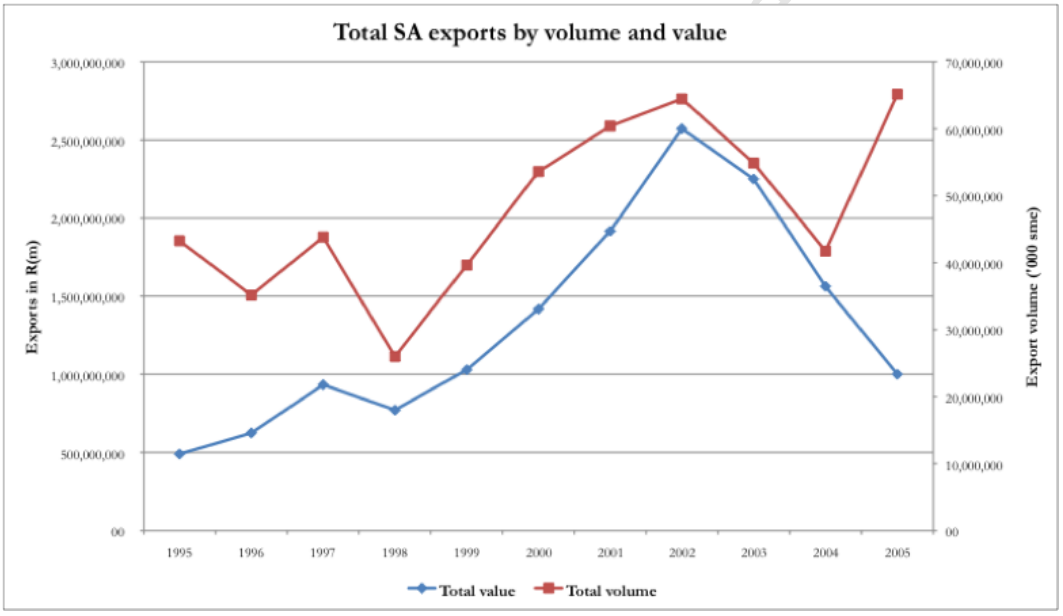
Figure 23: Rand-dollar exchange rate: 1998-2006



Data source: Stats SA (Own calculations)

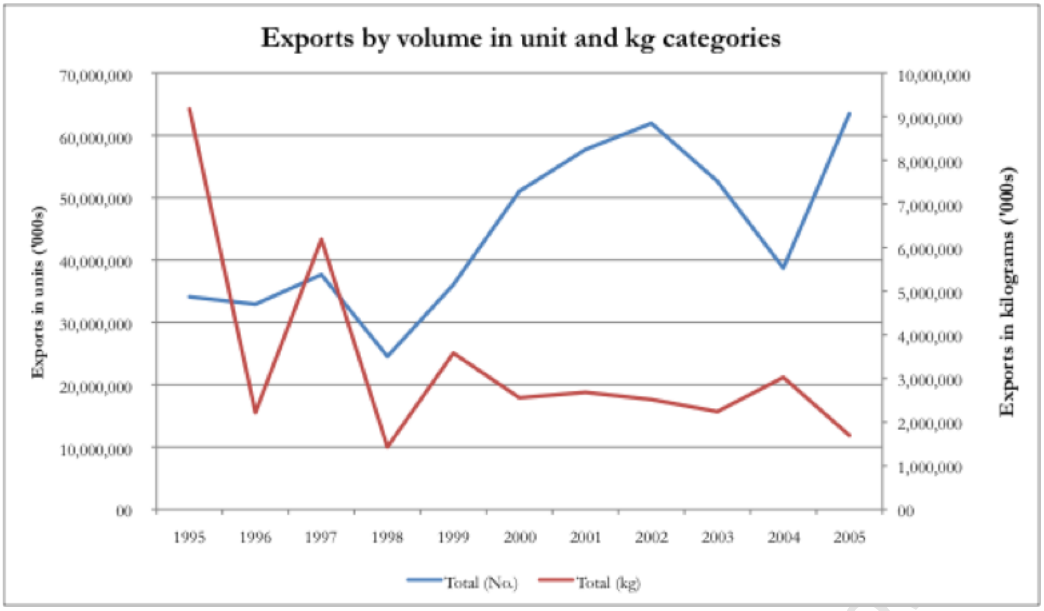
However, the export value data does not tell the whole story either; from 2005, exports recorded by volume, both on aggregate and in unit categories jumped up, although by value they continued to trend downward (Figure 24, Figure 25 and Figure 26). This implied that prices for exports in unit categories and overall started to fall from 2005. Despite the fact that South Africa was exporting greater volumes of product, the earnings from those exports were being eroded by lower prices. Since this point coincides almost perfectly with the final MFA quota phase-out, the sudden price deflation in global export markets was likely the "China effect". In conclusion, whilst South Africa was not affected by the ATC expiry in the same manner that many other countries were, since it did not impose import quotas on China, it was nevertheless still impacted by China's liberalisation through the general deflation in global export prices after 2005.

Figure 24: Total South African exports by volume and value



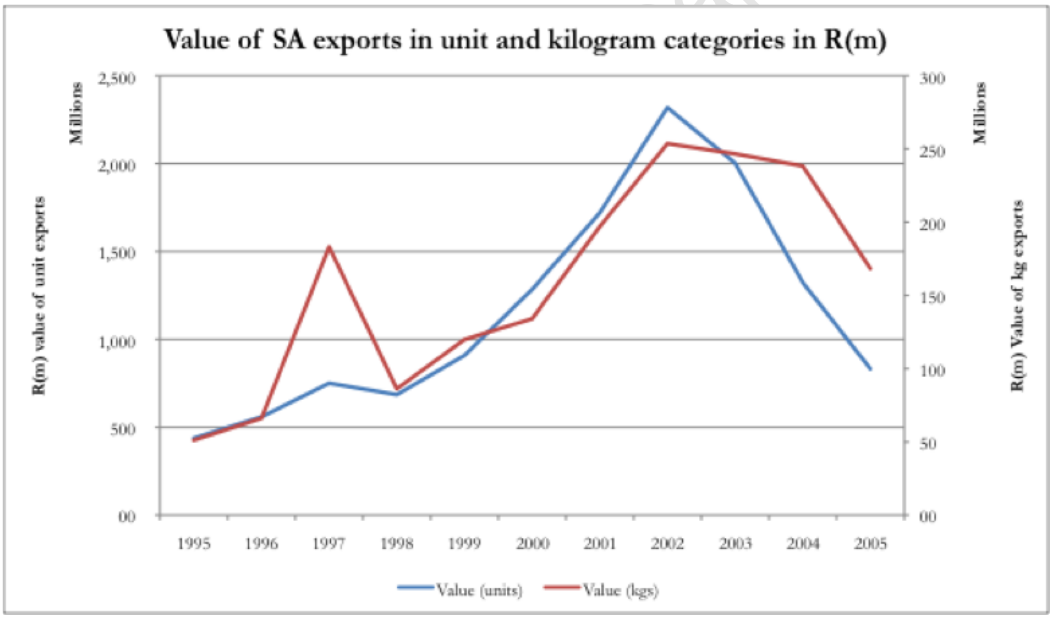
Source: Clotrade 2006 (Own calculations)

Figure 25: South African exports in unit and kilogram categories by volume



Source: Clotrade 2006 (Own calculations)

Figure 26: South African exports in unit and kilogram categories by value



Source: Clotrade 2006 (Own calculations)

In 2001, clothing comprised 18.7% of manufactured output and 1.6% of total exports (the DTI 2001). As of 2006, clothing exports were no longer a significant part of the South African clothing industry (Morris and Barnes 2008). However the dramatic rise in imports did more damage to the trade balance than poor export performance (Table 20). Again, the dynamics behind the initial spur to imports at this time have been explained and are not repeated here

but the numbers elucidate the magnitude of the problem. Between 2000 and 2006, the import value of garments jumped fourfold from R1,337.10m to R6,491.83m with the real acceleration to imports coming in 2003; between 2003 and 2006, nominal clothing imports jumped by 180.94%, compared with a fall of 63% for exports during the same period.

Table 20: Imports and exports matrix for clothing 2000-2006

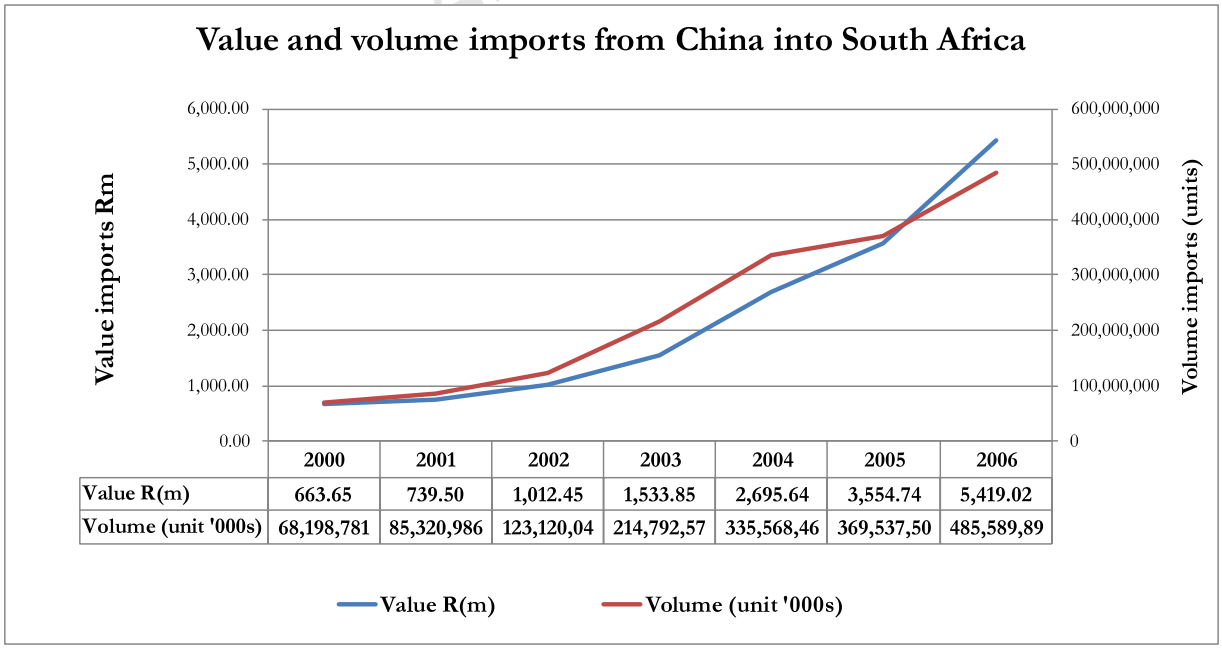
	Imports R(m)	Year on Year Growth (%)	Exports R(m)	Year on Year Growth (%)
2000	**1 337,10**		**1 328,41**	
2001	**1 457,37**	**9%**	**1 901,11**	**43%**
2002	**1 858,75**	**28%**	**2 590,27**	**36%**
2003	**2 310,77**	**24%**	**2 260,87**	**-13%**
2004	**3 625,43**	**57%**	**1 568,81**	**-31%**
2005	**4 789,00**	**32%**	**1 005,42**	**-36%**
2006	**6 491,83**	**36%**	**836,50**	**-17%**

Source: Import data – Clotrade Statistical database; Export data – Quantec statistical database

Note: The figures for 2006 and 2007 imports have been adjusted for forward purchasing by retailers in anticipation of the China quotas

These clothing and fabric imports emanated primarily from China (Einhorn 2006; Morris 2007) whose value share of the South African domestic clothing market expanded from 57.83% to 88.30% over the same period, increasing by 717% and 612% by value and volume respectively (Figure 27).

Figure 27: Demonstration of China in total value and volume clothing imports into SA

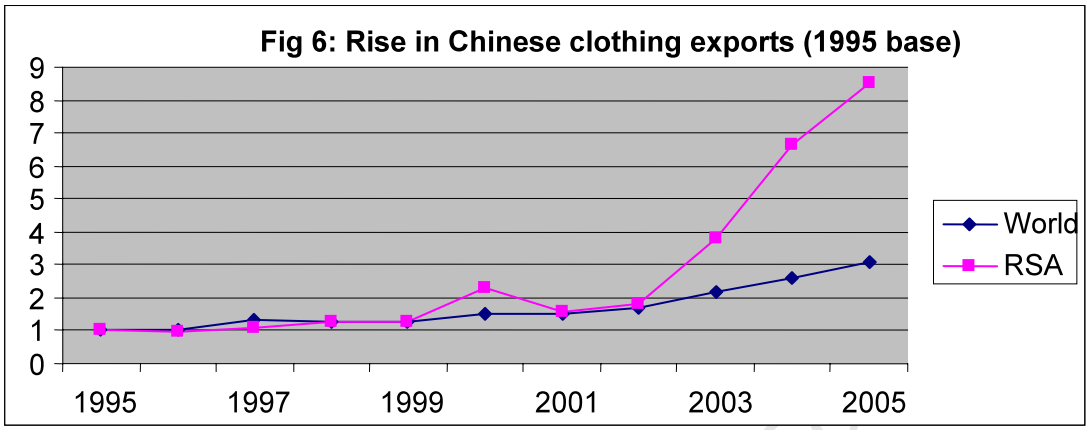


	2000	2001	2002	2003	2004	2005	2006
Value R(m)	663.65	739.50	1,012.45	1,533.85	2,695.64	3,554.74	5,419.02
Volume (unit '000s)	68,198,781	85,320,986	123,120,04	214,792,57	335,568,46	369,537,50	485,589,89

Source: Clotrade (Own calculations)

Whilst this problem was being experienced worldwide, South Africa was particularly hard hit. Between 1995 and 2005, the average cumulative growth rate of Chinese clothing exports to the world was 11.3% compared with 21.4% to South Africa over the same period.

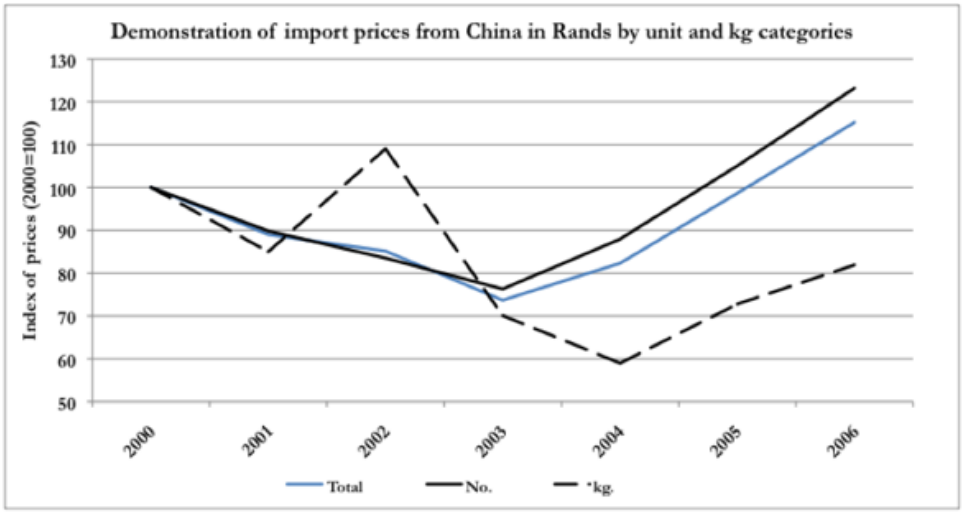
Figure 28: Comparison of Chinese clothing exports into SA vs the World: 1995-2005



Source: Sandrey 2006

In effect, China's clothing exports to South Africa in 2005 were over eight times more than in 1995, whilst its global exports in 2005 were only three times their 1995 levels (Sandrey 2006). Figure 28 above illustrates the problem; the galloping line of the relative rise in clothing exports to South Africa between 2003 and 2006, and in particular after 2005 when MFA quotas ended (Sandrey 2006). Furthermore, as evidenced in the US and EU, this surge in imports was accompanied by a sharp drop (of around 30%) in unit fob import values from China (Figure 29).

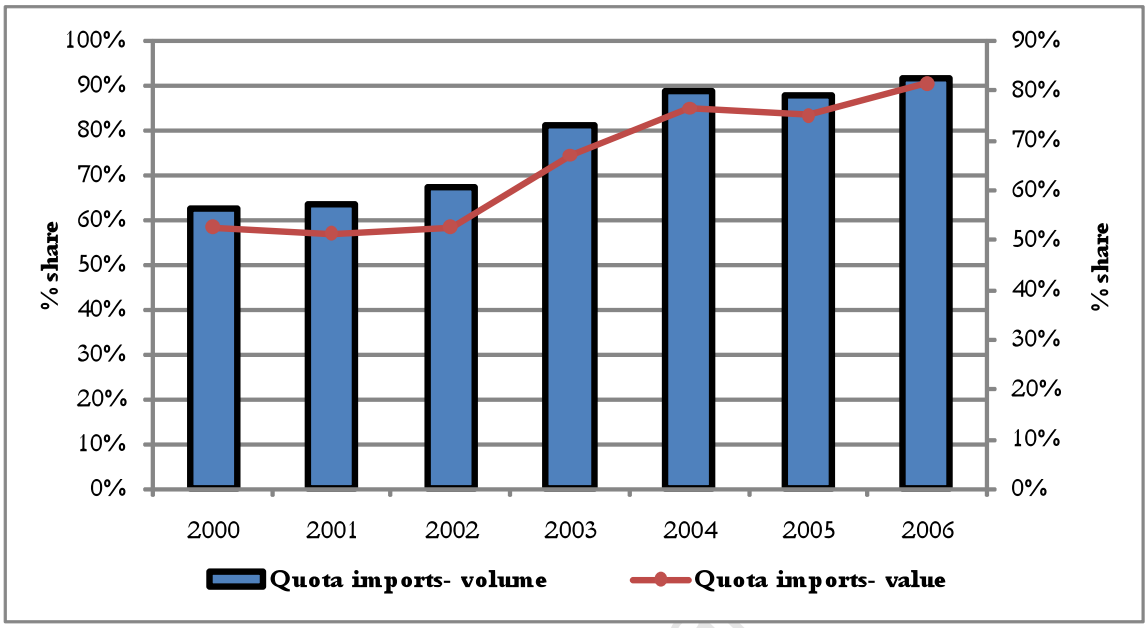
Figure 29: Divergence of value and volume imports from China in unit and kilogram categories: 2000-2006



Source: Clotrade (Own calculations)

Almost all of China's growth occurred in categories that were earmarked for safeguards (henceforth referred as quota categories)(Figure 30).

Figure 30: Demonstration of China in quota imports by value and volume: 2000-2006

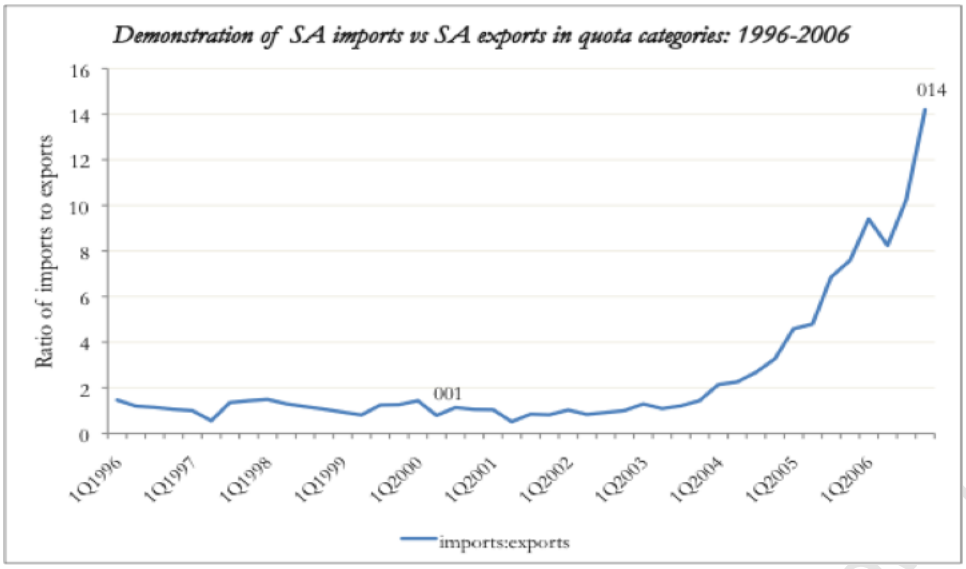


Source: Clotrade Own calculations

Between 2000 and 2006 China grew its share in quota categories from 52.52% to 81.35% by value and from 62.33% to 87.60% by volume. Unit import prices in these categories fell by around 20% in nominal terms, and by an even larger 30% in real terms between 2001 and 2003 (after falling by 35% in real terms between 2000 and 2002).

The net impact of the rise in imports and collapse in exports is clearly illustrated below (Figure 31) which gives the ratio of imports to exports in quota categories. South Africa moved from an import:export ratio of 0.79 (i.e. for every one Rand of exports it imported just 79c of imports) in 2000 to 14.20 (i.e. for every R1 of clothing exported it imported R14) in 2006.

Figure 31: SA clothing imports vs exports in quota categories

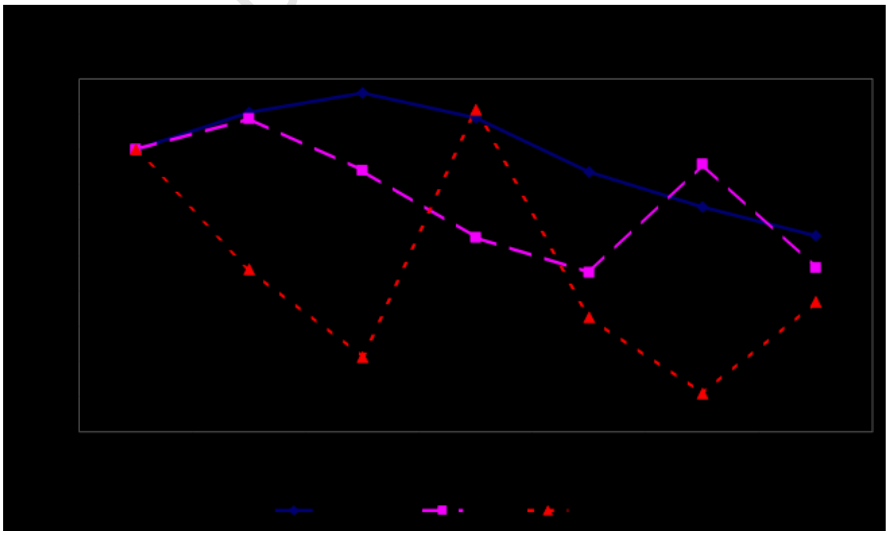


Source: Quantec Statistical Database (1996-2001); Clotrade (2002-2006) (Own calculations)

Capital expenditure

Data on capital expenditure is no longer captured by Statistics South Africa (having been discontinued in 2001), thus making a comprehensive analysis of the sector's recent capital upgrading position difficult. This is just one example of the general apathy toward the clothing sector on behalf of authorities. As is apparent from Figure 32, capital expenditure for clothing has historically been extremely erratic when compared to manufacturing as a whole, with clothing firms spending only a small proportion of their sales on new capital goods.

Figure 32: Capital Expenditure 1995 -2001



Source: Stats SA

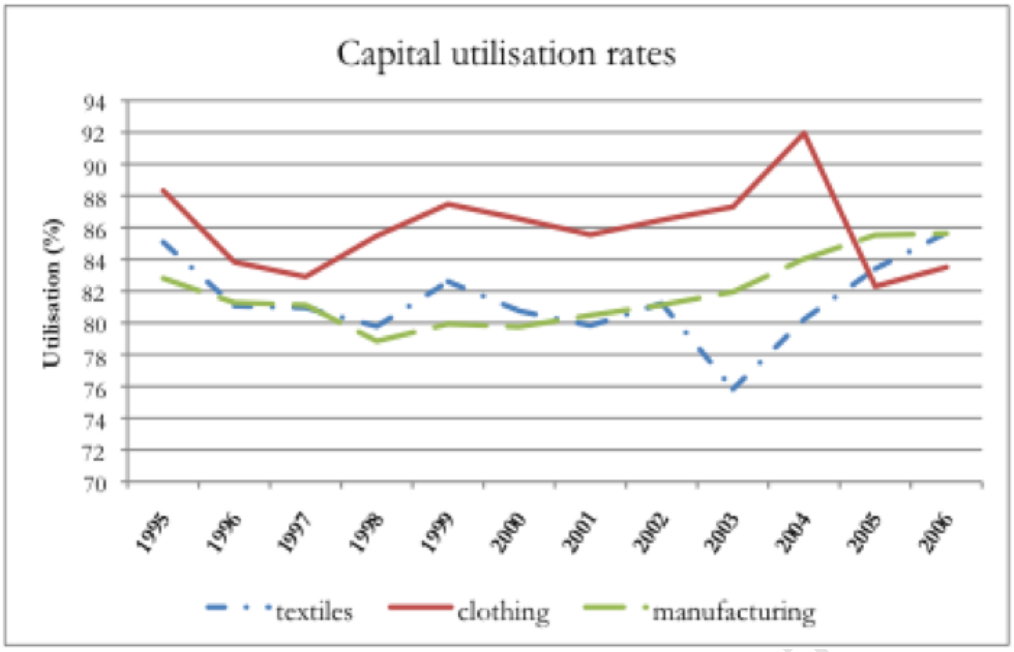
A read on trends post 2003 are given by firm level benchmarking data and the CTFL Skills Audit. Although 41% of apparel firms surveyed for the CTFL audit in 2004 reported that they had invested in capital over the previous 12 months, firm level data from the Western Cape[58] showed that capital expenditure remained at a low 2.7% through 2004 (declining fractionally from 2.8% in 2003). Qualitative evidence suggests that capital expenditure declined at an accelerated pace in the five years preceding the China quotas given the uncertainty surrounding the government's policy stance regarding the sector and the low levels of profitability (Morris and Reed 2008b). Firm-level benchmarking data showed that 41% of firms in the clothing industry in 2004 had capital equipment with an average age of more than 10 years (Benchmarking and Manufacturing Analysts).

Capacity utilization

Figure 33 shows the percentage utilisation of production capacity for manufacturing, clothing and textiles from 1995 to 2006. Although volatile, utilisation of capacity in the clothing industry compared favourably to both manufacturing and textiles. The clothing industry consistently operated at a utilisation level above 82% of its capacity until 2003, whilst manufacturing was only able to achieve this once between 1995 and 2003, with this occurring in 1995. However, after peaking at 92% in 2004, capital utilisation in the clothing industry fell sharply to 82%, where it more or less remained from 2005 through 2006. Figure 34 shows that from 2002, in tandem with the collapse in exports and the subsequent surge in imports, lack of demand for local output was a major constraint on local production.

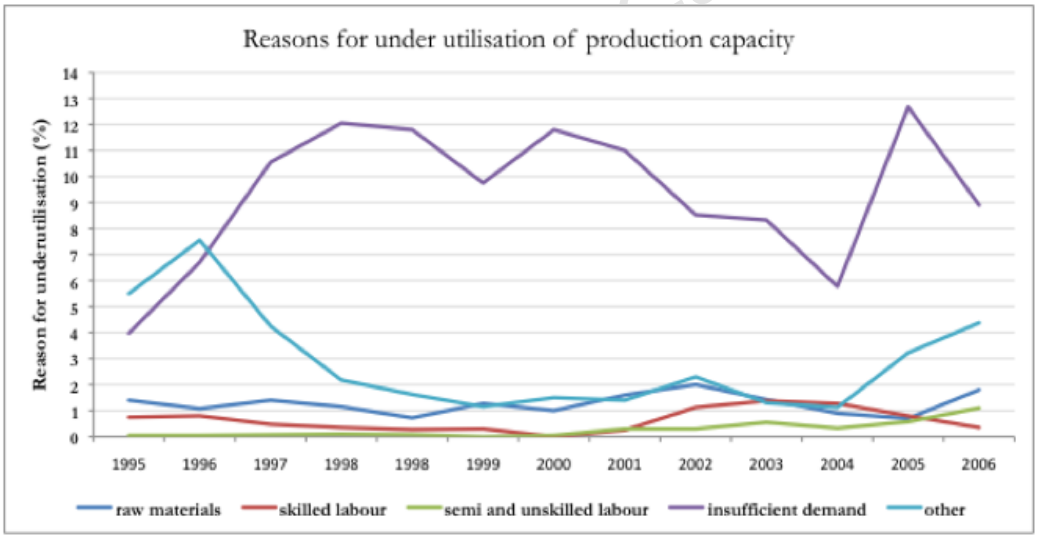
[58] This data is from Benchmarking Analysts (BMA)

Figure 33: Capital Utilisation 1995-2006



Source: Stats SA accessed on 25 June 2011 (Own calculations)

Figure 34: Explanations for under-utiisation of production capacity



Source: Stats SA accessed on 25 June 2011 (Own calculations)

Employment and industry strengths

Employment in the clothing sector declined dramatically from 2004. Table 21 indicates that the number of clothing workers employed in the formal sector and registered with the Bargaining Council declined by 24% (23,412) between December 2004 and 2006, although the number of firms only declined by 12% over the same period. Bargaining Council employment was roughly evenly split between KwaZulu-Natal (KZN) and the Western Cape (WC) with 30,147 and 28,541 workers, representing 40.44% and 38.29% respectively of total Bargaining Council employment of 74,546 in December 2006. These two cohorts also hemorrhaged the most in terms of employment between 2003 and 2006, each shedding around 20% (6000 employees) of their workforce.

However, this data only reflects employment in formal sector firms, which makes it difficult to accurately calculate employment figures for reasons that shall become clear later.

Table 21: Clothing manufacturing industry employment and strength, 2003 – 2006

As at	Firms	Workers
31.12.1998	834	**80,635**
31.12.1999	784	**78,711**
31.12.2000	702	**69,954**
01.01.2002[59]	651	**62,712**
31.12.2002	672	**65,585**
31.12.2003[60]	1,090	**95,187**
31.12.2004	1,169	**97,958**
31.12.2005	1,138	**83,081**
31.12.2006	1,048	**74,456**

Source: National Bargaining Council

[59] Figures for 31/12/2001 are not available so the next best 31/1/2002 was used.

[60] From 25/07/2003 a Collective Agreement was published for the Non-Metro areas. The figures reflected before this date, therefore, are only in respect of "Metro" areas

Wage rates and Bargaining Council compliance

Wages in the clothing industry are governed by national collective agreements negotiated between employers and employees. In terms of this agreement a wage differential exists between firms located in metro areas and firms located in non-metro areas, with firms in non-metro areas subject to lower wage rates. The wage rates that were applicable to metro and non-metro areas in 2006 are presented in Table 22 and Table 23.

Table 22: Metro areas collective wage agreements 2007

Category	**Industry wage**
Head Cutter	R1, 134.30
Sewing Machinist*	R701.45
Mechanic	R1,134.30
Clerk	R772.59
Foreperson	R643.94
Pattern Grader	R915.35

Table 23: Non-Metro areas collective wage agreements August 2007

	Area 1		**Area 2**	
Descriptions	**New**	**Established**	**New**	**Established**
Category A	R348.50	R387.50	R287.00	R316.00
Category B	R352.00 - R407.00	R443.50	R289.50 - R329.00	R354.00
Category C	R387.50- R525.50	R571.50	R315.50-R414.50	R449.50
Category D	R387.50 - R490.00	R561.00	R315.50-R387.00	R441.50
Category E	R411.00- R587.50	R653.50	R331.50-R462.00	R512.00
Band Knife Cutter	R370.00 - R474.00	R529.50	R303.00-375.50	R417.50
Clerical	R381.00 - R459.50	R538.50	R311.00-R365.50	R424.00
Assistant Head Cutter		R632.00		R496.00
Head Cutter		R778.50	R560.00	R608.00
Foreperson		R690.50	R426.15	R560.00
Driver (1-4)		R 432.00- R640.00		R346.50 - R502.00

Notes: Wage rate applicable for the period 1 September 2007 to 30 August 2008
Wage rates reflect a year-on-year increase of 5% across the board
KwaZulu-Natal = Grade 1 employees
Western Cape = Grade B employees
Area 1 consists of the magisterial districts of Camperdown, Umzinto, Paarl, Stellenbosch, Uitenhage, Area 2 consists of the rest of the non-metro areas.
New = employer of 24 months or less, Established = employer of more than 24 months

Source (both tables): National Bargaining Council

Table 24 shows the massive level of non-compliance in the industry in respect of Bargaining Council regulations leading up to the China quotas. KZN was by far the most non compliant with 86% of known firms non-compliant, followed by the Western Cape with 32%. Furthermore, levels of non-compliance remained consistently high through 2006, as demonstrated in Table 25.

Nearly all instances of non-compliance were due to non-payment of Bargaining Council wage rates rather than non-payment of levies. The vast majority were small firms and CMTs.

Table 24: Non-compliance by clothing firms 2004-2007 (%)

	Percentage non-compliant firms		
Chamber	**2004 Sep**	**2006 May**	**2007 Aug**
W Cape	28%	34%	32%
KZN	84%	92%	86%
Northern	57%	60%	49%
E Cape	24%	25%	16%
TOTALS	**55%**	**66%**	**57%**

Source: National Bargaining Council

Table 25: Non-Metro areas wage collective agreements 2005

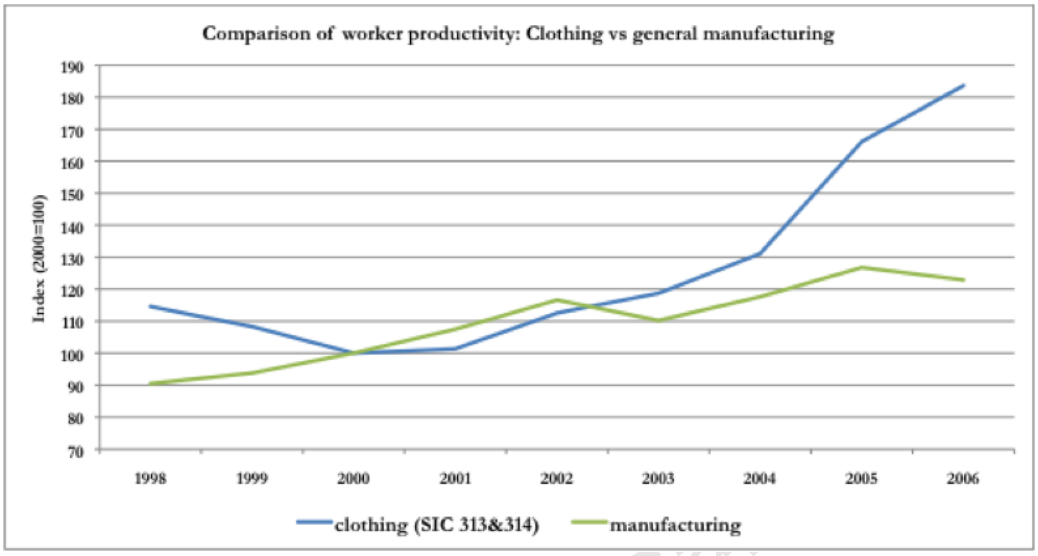
Chamber		Registered employers	Known unreg. employers	TOTAL employers	No. non-compliant	% non-compliant
W Cape	**Sub-total**	**307**	**13**	**320**	**102**	**32%**
	Metro	295	13	308	99	32%
	Non-metro	12	0	12	3	25%
KZN	**Sub-total**	**345**	**123**	**468**	**402**	**86%**
	Metro	206	107	313	301	96%
	Non-metro	139	16	155	101	65%
Northern	**Sub-total**	310	85	395	193	**49%**
	Metro	224	24	248	76	31%
	Non metro	86	61	155	101	65%
E Cape	**Sub-total**	48	1	49	8	**16%**
	Metro	41	1	42	5	43%
	Non metro	7	0	0	3	16.33%
TOTALS		**1010**	**222**	**1232**	**705**	**57%**

Source: National Bargaining Council

Worker productivity

The indexed output per employee data calculated using inflation-adjusted sales figures divided by the number of employees (official estimate) is represented in Figure 35 below.

Figure 35: Productivity per worker: Clothing versus manufacturing



Source: Stats SA (Own calculations)

Nominal output per employee for total manufacturing increased from R356.72 thousand in 1998 to R783.99 thousand in 2006, which represented an improvement of 32.39% in real terms, although 2003 output levels did decline in nominal terms for the first time since 1995 (Barnes and Esselaar 2005). Nominal output per employee for the clothing sector fell between 1998 and 2000 from R100.67 thousand to R94.40 thousand, which showed a fall in real terms of 13.21%. However, between 2001 and 2006, output per employee increased by 71% in real terms in the context of a lower rate of growth in output, which led to lower employment.

Firm-level competitiveness

Benchmarking studies conducted for the Western Cape and KZN clothing clusters showed that between 2004 and 2006 significant progress (especially in the Western Cape) was made toward upgrading the operational performance of clothing firms in the clusters in respect of some key performance indicators – principally inventory holding, internal reject rates, lead times, and absenteeism (Table 26).

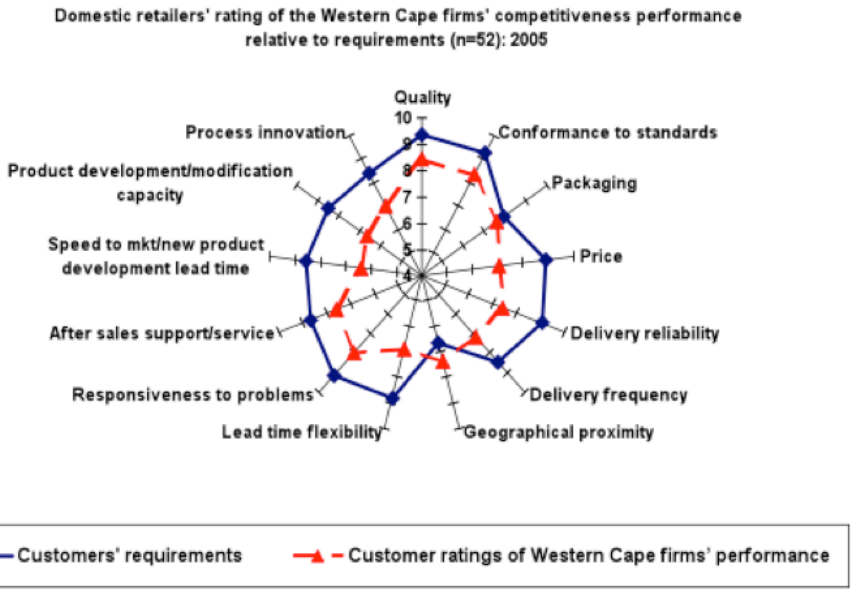
Table 26: Operational performance of clothing firms (Manufacturers + CMTs)

Market Driver	Key Performance Indicators	KwaZulu-Natal n	KwaZulu-Natal 2004	KwaZulu-Natal 2006	KwaZulu-Natal % Change	Western Cape n	Western Cape 2004	Western Cape 2006	Western Cape % Change
Cost Control	Raw Material (Days)	15	16.5	15.2	8.0	16	21.7	18.4	14.8
	Work in Progress (Days)	15	7.6	6.9	8.9	16	10.4	9.4	9.3
	Finished Goods (Days)	15	13.7	16.0	-16.7	16	13.5	13.3	1.1
	Total Inventory (Days)	15	37.8	38.0	-0.8	16	45.5	41.2	9.5
Quality	Customer Return Rate (%)	15	1.1	0.7	-36.6	16	0.4	0.2	-42.4
	Internal Reject Rate (%)	16	4.5	4.7	-4.8	16	2.5	2.1	15.6
Flexibility	Lead time ex prod (Domestic - Days)	6	44.7	23.8	46.6	8	64.3	24.4	62.1
	Lead time ex prod (Global - Days)	5	69.0	64.7	6.2	6	79.4	63.3	20.3
Capacity to change	Training spend as a % of total remuneration	15	3.30	2.8	-15.8	14	2.6	3.3	26.8
	Absenteeism (%)	16	7.9	7.4	7.9	17	7.0	6.9	1.2
	Off line training (Days)	10	0.7	1.2	63.4	13	1.9	1.4	-26.3

Source: Benchmarking and Manufacturing Analysts

However, a smaller study in 2005 revealed that local firms still had some way to go in meeting domestic retailers' demands (Figure 36).

Figure 36: WCM conversion efficiences in Western Cape firms



Source: Benchmarking and Manufacturing Analysts

By all accounts, the South African clothing manufacturing industry was "on the skids" for some time before the China quotas. This is evident in respect of all the major performance indicators analysed in the run up period to the China quotas which show poor and deteriorating export performance, high - and rising - levels of import penetration, low levels of capital investment, falling domestic output and employment levels. Furthermore, the South African clothing industry lagged behind its international counterparts in respect of conversion efficiencies and other key indicators of WCM. I shall now draw the political economy into this picture.

The socio-political context of the China quotas

With relatively stable politics, no effective import competition, a domestically entrenched value chain and an expanding domestic market, 2001 to 2006 should have been a period of significant growth for the South African clothing and textiles sector. The analysis above showed that reality ran in the opposite direction. I shall now situate the clothing sector's poor performance within the broader political context of events that culminated in the imposition of the China quotas. Although the serious problems only began to show themselves in 2003, the period between 1997 and 2002 was a period of lost opportunity for the growth of the clothing and textiles sector. The constant reshuffling and reorganization of the DTI[61] resulted in a policy void and this at a critical time for the clothing sector, which labored under political baggage from a checkered past with key officials who were tasked with championing transformation in the sector. The strained relationship between business and government saw the plight of the clothing industry repeatedly marginalized at cabinet level with the result that rhetoric in policy briefs did not translate into concrete policy action.

The negative ramifications of political vacillation and recurrent tension between industry and government on the South African clothing sector were profound. The policies that emerged from the political muddle prematurely exposed the clothing sector to competitive global pressures that it was ill equipped to deal with. On one hand, the DTI went beyond WTO requirements and embarked on a series of duty phase-downs and tariff book simplifications[62],

[61] According to one commentator, the constant reorganisation of key officials at the DTI's clothing and textiles desk, the change of ministers, change of staff and deployment of menial persons into high-level positions became a "standard SA joke."

[62] The industry saw the elimination of import quotas, a movement to a more uniform tariff structure, and then a halving of nominal tariffs on textile products, a 20 percentage point decline (from 35 to 15 percent) and 28

whilst on the other, they were ineffective in their attempts to improve access for South African exports into the EU via the FTA and the US by negotiating better Rules of Origin (RoO) under AGOA. South Africa faced a triple stage transformation rule compared with the single stage transformation rule for other SSA countries, affording the latter a significant competitive advantage (Morris 2006a; 2007). Nor was there any concerted effort to address the cost rigidities from infrastructural and capacity constraints and most particularly, high raw material costs due to shortages of local fabric – which actually increased due to the removal of rebates – and high labour costs which were buoyed up by union strength.

The cost increases in labour and fabric without productivity growth, export stagnation as the reality of RoO set in and the surge of imports from China all created the conditions for the problems that developed and started to show themselves in 2003. Again at a critical time for the local industry, when imports started to pour alarmingly into South Africa's newly liberalized clothing market[63] and at a crucial stage for addressing the crisis of job losses in the sector[64], the DTI experienced more change and yet another reorganisation[65]. The DTI sector directorate, which until the 1990s had been fairly substantial and dynamic in assisting the industry to adjust to the new demands of global competition, was reduced to an empty shell (Morris and Levy 2011).

Apart from the disintegration of the DTI directorate and the associated decline in government assistance, there were two other important dynamics that severely constrained firms' adjustment to the new competitiveness demands from increasing globalisation and trade liberalisation. The first was a change to the institutional framework that governed the clothing sector and the second, the lack of co-ordination between clothing and textiles industries and of value chain cohesion between these sectors. In respect of the first point, concerned about their

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percentage point decline (from 50 to 22 percent) in tariffs on yarn and fabrics respectively, and a 30 percentage point decline (from 60 to 30 percent) in tariffs on made-up household textiles (Roberts and Thoburn, 2004: p127). By 2001, tariffs on textiles were down to 28% and tariffs on clothing down to 40%, both from over 100% (ibid Morris and Levy 2011)

[63] This is the view a former key representative of the clothing manufacturing sector interviewed in September 2011

[64] A discussion had been initiated in this respect under the council of Minister Alec Erwin

[65] Minister Alec Erwin left, handing over the desk to Minister Mandisi Mphlawa. Dr Alistair Ruiters remained as Director General but the working relationship was not effective.

rapidly falling membership arising from formal sector job losses, the clothing workers union (SACTWU) moved from a regionalised based bargaining council to a centrally based bargaining council. This wage agreement operated on the basis that the negotiated wage was the legislated maximum wage payable by firms and all concessions to pay less than this amount had to be granted by the Bargaining Council. The system was further complicated by the alliance between large textile players and the union which ensured adjustment of wages to the highest denominator, that being textiles firms for whom labour was a relatively low cost compared with clothing firms. Statutory compliance with minimum wages and metro redefinition had a major impact on smaller clothing firms who were penalised for non-compliance within the legal framework of the new Bargaining Council. Rather than work cooperatively with clothing firms to raise competitiveness in the industry, SACTWU tried to gain control of the industrial policy terrain of the value chain and sector activity (Morris and Levy 2011).

The second constraint on the ability of the clothing industry to harness the benefits of flexibility and speed to market was the lack of coordination between firms within the South African clothing and textiles industries. The institutionally rigid labour market system that obtained from the new statutory wage legislation inherently disadvantaged clothing firms, further frustrating their efforts to align themselves with global competition. The lack of coordinated output plans and obligational relationships between textiles and clothing firms culminated in fabric shortages and the once dominant textiles firms slowly lost their grip on the industry as local clothing firms turned increasingly to imports. As firms closed down, retrenched or disappeared under the radar of the Bargaining Council, SACTWU attempted to shore up its eroding position by commencing socio-economic industrial action against domestic retailers under a Section 77 Application[66] through Nedlac to force retailers to commit to sourcing 90% of their goods locally (http://www.nedlac.org.za/section-77/archived-notices/media-statement.aspx.).

[66] Section 77 of the Labour Relations Act gives workers the right to take part in protest action to promote or defend their socio-economic interest and be protected against dismissal and other disciplinary action. It gives Nedlac, as a policy-making body made up of Government, Business, Labour and the Community, the task of bringing the parties together to attempt to resolve the reasons for the protest action (http://www.nedlac.org.za/section-77/archived-notices.aspx)

The Nedlac application failed and tensions in the sector peaked. This appeared to finally rouse government to the crying need for swift and radical policy action to avert the crisis that threatened to engulf the sector. Beginning in late-2003, a series of determined efforts were made at public and private, national and provincial levels to address the challenges confronting the clothing industry (Morris and Levy 2011). To combat the problem of imports (not the volume but the low declared import values), Clotrade was open to any measure that was compliant with the WTO and World Customs Organisation - such as import tariffs or a combination of ad valorum and minimum specific duties – provided this was accompanied by more effective action by ITAC. In 2003 Clotrade submitted a full proposal informing government of the numerous challenges that the sector was facing and the need for some urgent preventative action in the form of safeguards. The proposal was summarily dismissed by government as special pleading[67].

By 2005, a number of factors, social forces and organisations – national and local government initiatives, private sector organisations, industry associations, and trade unions - had coalesced to produce two distinct policies and strategies to change the structural situation of the clothing and textiles industry. These initially worked in tandem reinforcing each other's efficacy but ultimately, due mainly to the illegitimate abuse of predatory power and lack of political will to counter this, ran in contradictory directions to produce conflicting, unproductive and unintended consequences (Morris 2011). In 2003 with the initial success of exports under AGOA and the Rand depreciation, the DTI's chief economist commissioned a US consultant to survey US clothing buyers so as to assess what restructuring of the domestic industry would facilitate a strengthening of purchases from South Africa. US buyers overwhelmingly identified the need for introducing flexible labour conditions to align with competitors from East Asian economies. The Minister refused to discuss the report, and reassured SACTWU that this would not be entertained (Morris and Levy 2011).

At the private level, the industry mobilized its own response to the problem. In late 2004, the Cape Clothing Cluster (later renamed the Cape Clothing and Textile Cluster (CCTC) after textiles firms were invited to join the Cluster) was launched with financial and institutional assistance

[67] This was established during an interview with Jack Kipling in 2011

from Provincial government[68]. This was followed by the launch of a similar cluster in KwaZulu-Natal. In 2004, the DTI initiated a process of producing Customised Sector Plans (Programmes) (CSP) for a variety of targeted sectors. In the case of the clothing and textiles sector, the DTI contracted the same consultants that had overseen the inception of the clusters to formulate a coordinated strategy to raise competitiveness, exports and investment, as well as address employment and equity in the clothing and textiles sectors. An immediate challenge was to get the two sectors to work together: their interests were different, and they had a long history of being unable to agree on a common set of policy initiatives to support the industry. The consultant brought on board to facilitate the CSP process had, however, been working with both sectors (as part of the cluster development process) and was able to move relatively seamlessly between them (Morris and Levy 2011). Over the following months, this consultant engaged in an intensive process of meeting with representative stakeholders in the clothing and textiles industries – identifying obstacles and constraints and challenges, as well as testing strategies to overcome them. Despite repeated attempts to engage SACTWU, the union declined participation in the policy formulation process.

The Customised Sector Programme (CSP)

At the heart of the proposed CSP was a public private partnership institution – the Textile and Clothing Development Council (TCDC) - bringing together all industry and government stakeholders to advise, develop, and ensure implementation of a series of proposed interventions deemed necessary to bolster the performance of the industry (Morris 2011). The CSP was offered on the basis of "continuing to forge constructive engagement with stakeholders" who were on the ground and thus inherently tuned into the complexities of the industry. It aimed to translate the strategic position of the clothing and textiles industries into discrete action via seven Strategic Themes and 25 associated Key Action Programs (KAPS). The KAPS laid out a substantive plan of action detailing necessary interventions.

[68] The Western Cape Provincial Department of Economic Development and Tourism provided funding and institutional support for the CCTC; in KwaZulu-Natal, support came from both the Durban metropolitan government and the provincial government.

Whilst shying away from strictly protectionist "solutions based on attempts to defend the economy from fair competitive pressures through restriction on trading with the World or subsidies to domestic companies" (CSP 2004) that aimed simply and temporarily, to defend the status quo, the CSP acknowledged a growing consensus that focused trade remedies, such as safeguards, to address the surge in imports of certain textiles and clothing products into the South African market were required to enable the clothing industry to restructure for long-term competitiveness. However, it warned about the temporary nature of such measures: "Notwithstanding the solid arguments for trade remedy measures, which are supported, they are at best a temporary shield for industry for a limited period in order to allow for restructuring in accordance with the Key Action Programs (KAPs)."(CSP 2004)

The finalization of the CSP in late 2005 looked to be a major achievement for government and industrial policy having successfully navigated the antagonistic relationships between clothing and textiles firms to produce more coordinated and cooperative output plans between the two sectors. However, the CSP process had two fundamental weaknesses. Firstly it was sectorally based rather than value chain driven. It implicitly assumed global value chains were driving the industry and hence implied that the key to achieving international competitiveness was successful exporting (Morris 2011). However, the most salient point about the local industry was that it was no longer (and was unlikely to be for the foreseeable future) an export-based industry. Instead it was primarily oriented to the domestic market and driven by the domestic retail chains. And here lay the second process weakness of the CSP. The drivers of the domestic clothing and textiles value chain – the six major clothing retail chain stores who controlled 70% of domestic sales - were only weakly represented in the CSP process. This was a crucial flaw since the entire orientation of the industry had shifted toward the domestic market (Morris 2011).

The buy-in by retailers into the cooperation process was crucial to the successful implementation of the CSP and was addressed immediately after the CSP was presented to government in mid 2005. The retailers' involvement was not voluntary, but was achieved iteratively through a series of discussions on value chain cooperation culminating in a workshop

hosted by the CTCC and held between private participants (to exclusion of government).[69] The subsequent commitment of these retailers to the development of the local industry was a major and indeed historical step forward in terms of value chain cooperation. In October 2005, a Clothing and Textiles Business Alliance was established, encompassing the associations from all three parts of the value chain. By 2006, all the major retailers had joined the Cape and KZN clothing clusters. The retailers both paid special membership fees, and created a new fund for achieving alignment in the supply chain and upgrading the clothing and textiles manufacturers (Morris and Levy 2011).

The firms and associations comprising the value chain believed that the CSP proposals presented to the DTI heralded a new era and would deliver the much-needed lifeline to the flailing industry. However, the successful implementation of the KAPS depended crucially on the determination of government and its institutions to drive and co-ordinate the process and to reinforce efforts by business to bring about these transformations. However, the requisite national level governmental support was not forthcoming. Instead (at the request of SACTWU) the DTI initiated a re-negotiation of the terms of the CSP which resulted in a tortuous and frustrating process for the industry associations in the Business Alliance. By the middle of 2006, when the new CSP was finally concluded, most sector participants had lost faith in its ability to bring about the necessary unity within the industry. Furthermore, the CSP was never implemented. Instead, in September 2006, the government dropped its bombshell on the industry with the announcement of its "China quota" plan. Having been finalized without any stakeholder participation (with the exception of SACTWU), the quota proposals came as a *fait accomplit* to the industry since they would go ahead in the form presented to industry whether they drew support or not[70].

At the public level, Clotrade and the retailers unanimously rejected the China quota proposal, lodging objections on three main grounds: i) Some manufacturers had, in the absence of any meaningful reaction from government over the precedent three years, restructured their business and had themselves begun to import garments and garment components to cross

[69] The most important of which was hosted by the CTCC and opened by the Deputy Minister of the DTI in September 2005 (Morris and Levy 2011)

[70] Industry was given 24 hours to respond to the proposals.

subsidise their business and would also be hurt by quotas. ii) The China quotas presented a threat to the retailer-manufacturer alliance, since it would upset the retailers. iii) Finally, it could derail, or at best seriously delay the implementation of the Customised Sector Program (CSP), which had a few KAP's that, if introduced swiftly, might have made a material difference to the clothing and textiles sector.

Behind this rejection however, the industry response to government's resolute championing of the quota initiative was divided. The textile association eschewed openly condemning the China quotas. Some clothing manufacturers felt uncomfortable about Clotrade's rejection on the basis that they themselves had initially requested safeguards, whilst the majority wanted to distance themselves totally from the proposal on the grounds that it was largely a product of SACTWU politics. Retailers were also divided in terms of translating their rejection into practical mechanisms between those who proposed publicly legal action and others who felt this was politically unwise. Eventually the latter response won the day and each retailer retreated into highly individualistic strategic responses. In the end the net effect was a fracturing of the hard won, but fragile, internal unity of the Business Alliance and the dissipation of the joint industry wide industrial policy so painstakingly created over the past couple of years. Each association went its own way, and retailers adopted a pragmatic approach to the government and union control of the China quotas, whilst actively seeking alternative sources of supply from other low cost global producers.

The question for business was why the DTI opted to unilaterally impose quotas despite cognizance by government for the need of the cooperative solution formulated in terms of the CSP? As far as they were concerned, the DTI's U-turn was politically driven; SACTWU had opted out of participation in the CSP[71] and government it seemed, lacked the political will[72] to pioneer the process without union support[73].

[71] According to one interviewee, this went beyond an attempt to railroad the CSP: "When SACTWU realised that the CSP would go ahead, their nose was in a knot and they attempted to develop a strategy to compete with the CSP."

[72] The exact reasons for this are open to speculation. One view is that it was no coincidence that business was continuously stonewalled in their efforts to call government to action and that all the parties in key decision-making positions came with a history - their mothers worked in the clothing sector - and a chip on their shoulder, which made them anti-business from the start.

[73] There were also suggestions that South Africa had granted China market economy status in return for the safeguard deal (Business Day 2007)

As one key official concluded:

> "We were told to see the China quotas as a political decision and we decided to heed advice to "get over it and make the best of it."[74]

What the China quotas were supposed to do…

The China quotas had three explicit aims: Firstly, reduce clothing imports from China; secondly, raise employment levels in the industry - and more than this, create (55 000) jobs; and thirdly, provide the local industry with a two year period of relief from import competition to restructure and become globally competitive by encouraging local retailers to source from local manufacturers" *(Ibrahim Patel. General Secretary of SACTWU 2006)*. Restrictions were imposed on 31 tariff lines with 82 product categories affected: 11 at the HS4, 63 at the HS6 and 8 at the HS8 level. Not all were in the generally recognised clothing categories of Chapters HS61 and HS62, but also in fabrics (HS52, 55 and 60) and one in curtains (HS63). These lines accounted for 65.81% of 2007 aggregate clothing imports. The criteria governing the selection of these exact lines were far from clear. However Sandrey and Jansen 2007 concluded that since only six of the lines that received quotas showed growth rates that exceeded the growth of clothing imports from China overall, growth alone was not the selection criterion.

What industry said would happen…

At the time of implementation, industry emphatically rejected the DTI's proposal that quotas would promote employment and encourage firms to commit to and engage in meaningful reform. Instead a series of quite contrary outcomes were anticipated. To put the quotas into context, Clotrade (2007) observed that without making provision for growth in demand, the shortfall between 2006 imports in restricted categories and the 2007 quota implied that 172.9 million garments and 5.6 million kilos of wearing apparel[75] had to be sourced from local manufacturers or alternative countries to China at short notice. If this quantity were produced locally, 60,000 additional jobs would be created, which given the 2006 level of 74 600

[74] These were the words of a high level official to a Clotrade representative when he was challenged about the credibility of the claim that 55000 jobs would be created.

[75] In January to December 2006, 345.1 million garments (71% of total unit imports from China) and 9.4 million kilos (48% of total kilo imports from China) were imported in restricted categories. The 2007 quotas in these tariff lines are 172.2 million units and 3.8 million kilograms respectively.

employees, meant that the industry would have to double its capacity and rejuvenate the skills pool which has been haemorrhaging since 2003.

The industry anticipated a series of quite contrary outcomes; that the China quotas would:

- Lead to import diversion and the premature discovery of alternative, and possibly lower cost suppliers to China whilst providing little stimulus to local output (Brink 2006)
- Encourage trans-border shipments, illegal activities and increase the number of imports declared under incorrect codes (Bisseker 2006a; Sandrey 2006)
- Push local manufacturers down the value chain toward low value-added goods (Bisseker 2006b; 2007a; le Roux 2007).
- Cause supply shortages and supply chain bottlenecks
- Be ineffective as an intervention to promote the competitiveness of the industry.
- Fail to create jobs and sustainably raise employment in the industry (Edwards and Morris 2007)
- Create welfare problems by raising the cost of clothing which reduces the disposable income of the poor (Bisseker 2006b; 2007b; Hazelhurst 2006a; Morris and Einhorn 2008)
- Disrupt value chain alignment by driving a wedge between both textile and clothing manufacturers and clothing manufacturers and retailers (Morris in Bisseker 2007b).

Based on the preliminary research, I postulated four main hypotheses in regard to the impact of the China quotas on the South African clothing industry.

- ***Hypothesis 1:*** **Quotas would lead to import diversion and would fail to encourage greater levels of local sourcing.**

- ***Hypothesis 2:*** **Quotas would push manufacturers down the value chain and would not stimulate domestic output.**

- ***Hypothesis 3:*** **Quotas would fail to create jobs or sustainably raise employment**.

- ***Hypothesis 4:*** **Quotas would lower the disposable income and utility of South African consumers by raising garment prices and restricting access to quality affordable clothing.**

A synthetic framework for the evaluation of the China quotas

Sustainable industrial policy should aim to secure two agenda; competitiveness and welfare. Morris 2006 posits that the effectiveness of any particular industrial policy intervention should be tested against how it meets and balances these needs. Competitiveness concerns the long term sustainability of the sector and has two broad aims; a) to raise the production capabilities of individual enterprises by raising internal operational performance and upgrading technological and management functions; and b) to achieve systemic efficiency of the value chain by aligning the interests of manufacturers with downstream (textiles manufacturers) and upstream (retailers) actors. Morris 2011 observes that the former can be tackled at the firm level, but one cannot be an island of competitiveness in a sea of inefficiency. Hence ultimately international competitiveness has to be grounded in both building firm level capability and systemic competitiveness.

The welfare requirement of industrial policy is also two dimensional, and is concerned with; i) raising employment in the sector and ii) favorably impacting on the consumer basket.

Employment welfare is concerned with the workers in the sector and the wage-plus-benefit structure facing individuals employed in the sector. Consumer welfare is far broader and is concerned with raising the disposable income of the poor by decreasing the cost of wage goods. The long term impact of industrial policy should be to increase the competitiveness of labour through the consumption of cheaper wage goods which will feed through to lower wage costs across all sectors; falling prices of clothing reduce wage pressure in other sectors (Morris and Einhorn 2008).

The evaluation of whether the China quotas secured the competitiveness agenda requires asking two questions: Firstly, how did the retailers respond to the quotas to remain competitive; did they source more locally or did they look for alternative foreign suppliers? And secondly, how did the quotas impact on manufacturers; were they able to upgrade and become more competitive to meet the new demands of globalisation and change their position in the value chain? The evaluation of whether the quotas secured the welfare dimension also requires asking two questions: Firstly, how were employees impacted by the quotas and secondly, how were consumers impacted by the quotas?

These questions are addressed in the following sections; the first, which looks at the impact of the quotas on trade and buying (the retailers), the second, which focuses on the impact of the quotas on output and employment (manufacturers); and the third, which analyses the impact of the quotas on garment prices (consumers). The employment welfare dimension is subsumed under the discussion on competitiveness. These analyses are the constituent parts to the broader evaluation of the China quotas as an industrial policy in Chapter 8.

Chapter 5: The effect of quotas on buying and trade: The retailer response

Changes in buying behavior and sourcing patterns are captured at the macro trade data level as changes in trade flows between trading partners. Large retailers drive demand through global clothing value chains; they decide where, when and how clothing production will occur and in this manner, they determine both the magnitude (volume) and direction (flows and patterns) of clothing trade between trading blocs. Similarly, the response of local retailers to the China quotas would manifest as a change in clothing trade flows between South Africa and its suppliers.

The pervasive industry view was that local firms would be unable to overcome the physical and technical infrastructural restraints to production in the short run with fabric shortages adding to the problem (Bisseker 2006b). Retailers estimated that 60% of their customer's favourite fabrics not readily available in South Africa would be restricted by quota, whilst the local industry offered a decidedly circumscribed range of fabric at prices as much as 50% more than China (Retailer Joint News Release 2006). Even where excess supply capacity existed, local supply would not match current price, quality or fashionability (Retailer joint news release 2006). In the short run, this would drive retailers offshore (Bisseker 2006a; Bleby 2006). In the longer run, consolidation of supply around new foreign locations would negate the incentive to switch to local sourcing, which would neutralise the long-term demand impact of the restrictions on local supply.

Despite numerous and material differences between the China quotas (especially in economic and political motivations which I shall explain later) and safeguards in the US and EU, the interventions were functionally and technically similar – they both imposed quantitative restrictions on imports from China - and they had similar objectives, to reduce Chinese imports, create employment and provide the local industry with a period to restructure and adjust to import competition. I showed in Chapter 3 that safeguards in the US and EU broadly failed in respect of achieving their key policy objectives, whilst at the same time they led to many

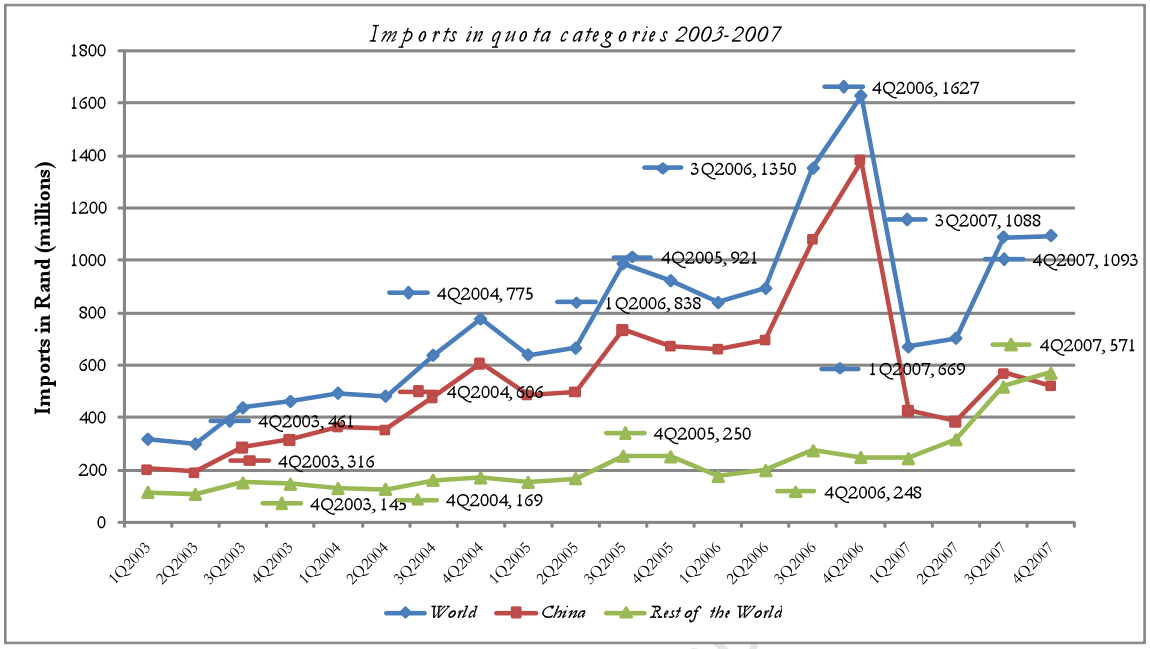
unintended and sometimes contradictory outcomes to their initial prescription. The experience of the United States in particular, suggests that import restrictions on Chinese goods would not unequivocally translate into higher demand for locally produced substitutes. A more likely occurrence was that retailers would adopt a number of alternative strategies to mitigate the impact of restrictions including: i) Pre-buying stock in large volumes in anticipation of quotas; ii) diverting shipments through countries that are not restricted; or iii) securing alternative, and possibly lower cost, foreign suppliers. In the long run, the last option was expected with countries where contracts already existed, such as India, reaping immediate benefits but with suppliers casting an ever widening net toward other Asian countries over the longer term (Brink 2006).

Since sourcing strategies were expected to change over time depending on the impact of the quotas on the local industry and the occurrence of alternative buying opportunities abroad, I divided the analysis into three time periods to enable these changes to be isolated: First, the short run 2006-2007; Second, the medium run 2006-2008. Third, the long run 2008-2010, which was effectively the period after quota removal.

Forward purchasing by retailers and supply bottlenecks

The first major oversight of the DTI was the failure to anticipate that a delay in the implementation of quotas would result in massive buying forward by retailers seeking to mitigate the impact of the restrictions and this despite the highly publicised incidence of the "bra wars" in Britain. The delay between their announcement in September 2006 and actual implementation in January 2007 led to significant forward purchasing as importers hurriedly brought forward their 2007 orders for import in 2006. Figure 37 (reproduced from Sandrey and van Eeden 2006) clearly shows the announcement of quotas in the third quarter of 2006. This is characterised by a sharp increase in the flow of quota imports from China in the fourth quarter of 2006 and their subsequent imposition at the end of 2006, which is followed by a period of sharply subdued import activity from China in the first two quarters of 2007. Clotrade estimated that between 38.5 million and 42 million garments from China were brought forward from 2007 for delivery in November/December 2006 to land before the introduction of quota for warehousing in South Africa (Clotrade 2007b).

Figure 37: Comparison of quarterly import activity in quota lines 2003 – 2007



Source: Clotrade statistical database (Own calculations) (Reproduced from Sanfdrey and van Eeden 2006)

The spike in imports in Figure 37 from countries other than China (Rest of the World) in the last two quarters of 2007 is provisional evidence that quota imports from China were displaced by imports from other regions.

Import diversion

Stockpiling of Chinese clothing was a kneejerk response to quotas and was never envisaged as a long run supply plan. Inevitably retailers would have to switch their sourcing of restricted garments to local firms or foreign suppliers other than China (Bisseker 2006b). The discussion proceeds with an overview of import activity in aggregate imports, and quota and non quota categories. It concludes with an analysis of the implications for import diversion and local manufacturing.

Macro trade impact of the quotas in the short run

Aggregate clothing imports

Between January and December 2007, imports from China fell by R1,901.98m (49.31%) and China's share of these imports fell from 78.49% to 61.88%. In comparison, World imports into

South Africa fell by a lesser 8.58% (R591.91m) from R6,900.01m to R6,308.10m (Table 27), which implies that the shortfall of R1,310.97m in imports was diverted elsewhere. Consistent the US and EU experience, a large chunk of China's share was simply reallocated to alternative supply countries (Sandrey 2006). Where did buyers go to?

Table 27: Major percentage and monetary gainers in aggregate clothing imports

Major percentage movers			**Major value movers**		
Rank	**Country**	**% change**	**Rank**	**Country**	**Value change**
	World	**-8.58**		**World**	**-591.91**
	China	**-27.92**		**China**	**-1,512.12**
1.	Madagascar	4,823.54	1.	Indonesia	111.96
2.	Malaysia	1,092.84	2.	Mauritius	110.71
3.	Myanmar	444.17	3.	Malaysia	103.20
4.	Sri Lanka	381.99	4.	Bangladesh	90.67
5.	Macau	374.55	5.	Vietnam	84.44
6.	Vietnam	341.03	6.	India	81.19
7.	Indonesia	232.66	7.	Myanmar	78.55
8	Cambodia	198.99	8.	Hong Kong	69.62
9	Bangladesh	178.35	9.	Thailand	37.74
10	Zimbabwe	85.13	10.	Zimbabwe	37.43
11	Mauritius	76.59	11.	Turkey	27.56
12	Thailand	59.62	12.	Sri Lanka	27.27
13	Turkey	54.99	13.	Madagascar	23.61
14	Tunisia	53.07	14.	Cambodia	23.60
15	Hong Kong	36.86	15.	Macau	12.15
16	Romania	30.40	16.	Italy	8.10
17	India	29.26	17.	Pakistan	6.27
18	Pakistan	24.50	18.	Tunisia	5.71
19	France	16.35	19.	United States	5.35
20.	United States	15.92	20.	Romania	4.65
21.	Italy	10.64	21.	France	4.41
22.	Republic of Korea	9.84	22.	Republic of Korea	0.42
23.	Taiwan	-1.29	23.	Taiwan	-0.26
24.	Philippines	-4.86	24.	Philippines	-0.54
25	Germany	-5.55	25	Germany	-0.75

Source: Quantec Statistical database (Own calculations)

Table 27 shows that in the immediate wake of the quotas, this was Mauritius, Indonesia, Malaysia and Vietnam[76] who were the immediate beneficiaries of the quotas; and to a lesser extent, Sri Lanka and Zimbabwe also achieved gains of approximately 100% or more in 2007 compared with the same 2006 period[77]. At the same time, South African buyers sampled a host of new suppliers. Some countries that never featured heavily in the past made dramatic inroads into the South African market e.g. Cambodia, Madagascar and Bangladesh (Sandrey 2006). Despite expectations that India would be a major beneficiary of quotas (Brink 2006), it was consistently outperformed in both percentage and monetary terms by these other emerging supplier countries. Of particular interest is Malaysia, who as of December 2007, was the principle beneficiary of quotas having achieved more than 1000% growth in value terms and an even more impressive 8000% in volume terms in 2007. Volumes increased from 238 000 units in 2006 to 19.26 million units in 2007, of which 81% (R15.62 million) were under quota (Clotrade 2007a). This was widely perceived to be preliminary evidence of transshipment activity through this region (Clotrade 2006a; Sandrey 2006)

Quota and non quota imports

The analysis here decomposes aggregate imports into quota and non quota catgories. The objective is to compare trade in quota categories with that in non quota categories. The analysis is done by clothing Chapters. This will be done in three ways. First, on an aggregate basis. Second, by unit and kilogram categories. Third, by HS categories. These distinctions are prompted a) by the diverse behaviour of unit and kilo imports within quota and non quota cohorts and b) due to the disproportionate share of quota categories in the different clothing Chapters; 28 in Chapter 61 (wovens) compared with 47 in Chapter 62 (knits). (Sandrey 2006)

The decline for China at the aggregate level (established above) was mainly driven by a progressive decline in quota imports following quota imposition. This is demonstrated in Table

[76] A recent research report suggests that some of this growth may be due to the establishment of Chinese clothing firms in some of these Asian countries in response to (mainly) US safeguards (Emergingtextiles, 2008).

[77] Interviews with key informants in the industry revealed that some firms in Swaziland, struggling in the post MFA environment, coped by taking advantage of the China quotas and switched to exporting to South Africa. However, because Swaziland belongs to the South African Customs Union, the magnitude of these 'imports' do not show up in the South African trade and customs data base.

28 below, which tracks imports from China by cumulative quarters during 2007 in quota categories and overall. The data is expressed as a percentage of 2006 values.

Table 28: Quota imports from China (Rm): 2007 by cumulative quarters

	2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
World	**4,707.06**	**669.13**	**1, 371.44**	**2,459.16**	**3,552.50**
China	**3,813.52**	**426.01**	**812.60**	**1,382,70**	**1,905.30**
China 2006	**100%**	**65.03%**	**60.86%**	**56,79%**	**49.26%**
% market share	**81.02%**	**63.67%**	**59.25%**	**56.23%**	**53.63%**
2nd place	India (3.94%)	India (5.22%)	India (5.73%)	India (6.64%)	India (6.89%)
3rd place	Hong Kong (2.49%)	Malawi (3.67%)	Hong Kong (4.56%)	Hong Kong (5.54%)	Hong Kong (5.62%)
4th place	Malawi (2.29%)	Hong Kong (3.51%)	Mauritius (3.19%)	Mauritius (3.43%)	Indonesia (3.58%)
5th place	Mauritius (1.15%)	Mauritius (2.62%)	Malawi (2.98%)	Indonesia (3.13%)	Mauritius (3.53%)
6th place	Italy (0.99%)	Zimbabwe (2.36%)	Zimbabwe (2.58%)	Malawi (2.84%)	Malawi (2.88%)
7th place	Zimbabwe (0.88%)	Vietnam (2.17%)	Indonesia (2.21%)	Vietnam (2.43%)	Bangladesh (2.86%)
8th place	Thailand (0.80%)	Indonesia (1.76%)	Vietnam (2.08%)	Zimbabwe (2.34%)	Malaysia (2.54%)
9th place	Indonesia (0.73%)	Myanmar (1.41%)	Malaysia (1.81%)	Malaysia (2.12%)	Vietnam (2.48%)
10th place	Bangladesh (0.60%)	Thailand (1.39%)	Italy (1.63%)	Thailand (1.80%)	Myanmar (2.29%)

Data source: Clotrade (Own calculations)

Table 29 and Table 30 contain base data for HS61 and HS62 imports respectively for the entire Chapter for January to December 2007. Comparable 2006 data is also shown, as are percentage changes. The data is ranked by quota imports expressed in values.

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In 2007, total HS61 imports fell both from China, by 16.70% equivalent to R382.23m and the World, although only by a marginal 0.92% or R27.38m. In contrast, India and Mauritius showed sizeable value (percentage) increases in HS61 imports of R70.24m (62.49%) and R71.68m (73.85%) respectively, as well as Malaysia (R48.96m; 979.58%), Myanmar (R43.98m; 325.69%); Indonesia (R42.45m; 235.72%); Bangladesh (R27.11m; 95.68%) and Thailand (R22.69m; 75.99%). Madagascar (2,654.15%), Cambodia (170.17%), Vietnam (99.89%) and Sri Lanka (174.80%) also achieved impressive percentage gains although all off a low value base.

Table 29: South African imports of HS61 (knitted apparel) from Jan-Dec 2007

Country	Total H61 imports		H61 quota imports		H61 non quota imports	
	Rand (millions)	% change	Rand (millions)	% change	Rand (millions)	% change
World	2,939.69	-0.92	919.05	-27.88	2,020.64	19.37
China	1,906.33	-16.70	481.51	-54.68	1,424.82	16.21
India	182.63	62.49	98.71	104.20	83.93	31.02
Myanmar	57.49	325.69	43.57	737.80	13.92	67.59
Mauritius	168.74	73.85	42.53	462.59	126.21	41.01
Malaysia	53.96	979.58	40.44	3,109.54	13.52	261.74
Indonesia	60.46	235.72	37.12	319.52	23.34	154.76
Hong Kong	76.91	-6.36	35.42	42.42	41.50	-27.54
Thailand	52.55	75.99	25.86	98.12	26.70	58.81
Bangladesh	55.44	95.68	17.98	129.80	37.47	82.66
Turkey	40.15	78.50	14.09	139.54	26.06	56.88
Vietnam	26.95	99.89	12.10	93.93	14.85	105.02
Malawi	15.90	-76.21	7.84	-77.22	8.06	-75.14
Italy	29.48	-1.25	6.33	-1.33	23.15	-1.22
Sri Lanka	13.16	174.80	4.34	329.28	8.82	133.49
Cambodia	25.79	170.17	4.15	207.50	21.64	164.01
United States	20.45	30.46	3.62	38.12	16.84	28.92
France	12.45	22.90	3.43	30.94	9.02	20.10
Pakistan	13.90	-10.26	1.92	-40.36	11.98	-2.36
Taiwan	10.65	-9.73	1.63	-49.05	9.03	4.85
Portugal	8.26	92.95	1.24	59.85	7.02	100.28
Madagascar	12.67	2,654.15	0.46	2,621.47	12.21	2,655.39
Zimbabwe	2.49	32.05	0.22	-47.14	2.28	53.98

Data source: Clotrade (Own calculations)

The greatest losers in both value and percentage terms were Malawi (R50.95m; 76.21%), United Kingdom (R5.24m; 42.59%) and Hong Kong (R5.22m; 6.36%) along with Pakistan (10.26%), Germany (17.07%) and Korea (12.35%) off a lower base.

HS 61 Quota imports

Imports in HS61 quota categories from China more than halved between 2006 and 2007, falling by R580.97m (54.68%). Imports from the World also fell by R355.31m (27.88%). Conversely, a host of other countries recorded significant value and percentage gains in these categories, particularly India (R50.37m; 104.20%), Malaysia (R39.18m, 3,109.54%), Myanmar (R38.37m; 737.80%), Indonesia (R28.27m; 319.52%) and Mauritius (R34.97m; 462.59%) and Thailand (R12.81m; 98.12%), as well as Sri Lanka (329.28%), Vietnam (93.93%), Turkey (139.54%), Cambodia (207.50%) and Madagascar (2,621.47%) off a lower base. The greatest loser in both value and percentage terms was Malawi (R26.58m; 77.22%) along with Zimbabwe (47.14%), United Kingdom (46.65%), Pakistan (40.36%) and Germany (38.54%).

Non-quota HS61 imports

Table 30 below shows country rankings for comparable 2006 and 2007 periods for HS61 imports.

Table 30: South African imports of HS61. knitted apparel from January to December 2007

Total H61 imports		H61 quota imports		H61 non-quota imports	
2006	**2007**	**2006**	**2007**	**2006**	**2007**
1. China	1. China	1. China	1. China	1. China	1. China
2. India	2. India	2. India	2. India	2. Mauritius	2. Mauritius
3. Mauritius	3. Mauritius	3. Malawi	3. Myanmar	3. India	3. India
4. Hong Kong	4. Hong Kong	4. Hong Kong	4. Mauritius	4. Hong Kong	4. Hong Kong
5. Malawi	5. Indonesia	5. Thailand	5. Malaysia	5. Malawi	5. Bangladesh
6. Thailand	6. Myanmar	6. Indonesia	6. Indonesia	6. Italy	6. Thailand
7. Italy	7. Bangladesh	7. Bangladesh	7. Hong Kong	7. Bangladesh	7. Turkey
8. Bangladesh	8. Malaysia	8. Mauritius	8. Thailand	8. Thailand	8. Indonesia
9. Turkey	9. Thailand	9. Italy	9. Bangladesh	9. Turkey	9. Italy
10.Indonesia	10 Turkey	10. Vietnam	10. Turkey	10. US	10. Cambodia

Reproduced from Sandrey 2006 (Own calculations)

In HS61 non-quota categories, imports from China increased by 16.21%, equivalent to R198.74m as did imports from the World by 19.37% or R327.93m. Positive value increases were also registered by all other of the major import countries but these were generally lower than increases in quota lines. Mauritius, Madagascar and Vietnam were the exceptions. The only countries that experienced decreases in imports in both value and percentage terms were Malawi (75.14%; R24.36m), Hong Kong (27.54%; R15.77m), United Kingdom (41.34%; R3.96m) and Germany (11.73%; R0.38m).

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Table 31: South African imports of HS62, woven apparel from January to December 2007

Country	Total H62 imports		H62 quota imports		H62 non quota imports	
	Rand (millions)	% change	Rand (millions)	% change	Rand (millions)	% change
World	3,368.41	-14.35	2,675.98	-22.82	692.43	48.68
China	1,997.12	-36.13	1,473.98	-47.26%	523.14	57.56
Hong Kong	181.55	70.13	165.74	79.09	15.82	11.61
India	175.98	6.63	130.15	6.55	45.86	6.68
Malawi	99.69	28.54	96.60	27.11	5.25	22.57
Indonesia	66.62	280.83	90.99	254.49	9.57	98.78
Bangladesh	86.06	282.45	83.54	307.05	2.53	22.66
Mauritius	86.53	82.18	82.53	78.24	4.00	202.23
Zimbabwe	78.91	87.50	78.78	88.12	1.09	28.06
Vietnam	82.25	629.31	76.22	736.13	6.35	124.84
Malaysia	58.68	1,220.19	50.04	1,928.94	8.64	336.79
Italy	54.81	18.30	46.21	15.03	8.60	39.62
Thailand	48.48	45.01	38.96	57.60	9.53	9.28
Myanmar	38.74	826.88	38.02	989.10	0.73	5.53
Turkey	37.54	35.85	32.19	70.71	5.35	-39.04
Sri Lanka	21.24	804.36	19.68	849.75	1.57	465.43
Pakistan	17.97	77.75	15.41	150.69	2.56	-35.31
France	18.93	12.41	14.74	1.33	4.20	82.27
Romania	15.86	40.08	13.11	19.05	2.76	769.13
United States	18.52	3.23	11.85	-3.89	6.67	18.86
Tunisia	11.01	49.35	10.62	45.66	0.39	388.68
Cambodia	9.67	317.89	9.12	351.81	0.56	87.44
Madagascar	11.42	38,822.76	8.82	61,964.33	2.61	17,114.36

Data source: Clotrade (Own calculations)

The data in Table 31 above shows a similar pattern. Although the values of imports in both clothing Chapters are comparable for the January to December 2007 period, R2,939.69m (HS61) versus R3,368.41m (HS62), there is a big difference in the relative shares of quota and non quota lines in the respective Chapters. Imports in HS62 were heavily concentrated in quota categories. During 2006, quota imports comprised 88.15% (R3,467.22m) of total HS62 imports (R3,932.94m) and 89.38% (R2,794.99m) of all HS62 imports from China (R3,127.01m). During 2007 these reduced to a still high 79.44% and 73.80% for the World and China respectively.

Imports from China in this Chapter fell by over a third (36.13%), which in value terms was a significant fall of R1,129.89m. HS62 imports from the World also fell, although by a much smaller percentage of 14.35%, equivalent to R564.53m. These values are notably larger than those for Chapter H61. Conversely, imports from India and Hong Kong, the second and third largest suppliers were up by 6.63% (R10.95m) and 70.13% (R74.84m) respectively, almost all in quota lines, as were imports from all other major suppliers; Vietnam (R74.84m; 629.31%), Indonesia (R69.51m; 230.83%), Bangladesh (R63.56m; 282.45%), Malaysia (R54.24m; 1,220.9%), Mauritius (R39.03m; 82.18%), Myanmar (R34.57m; 826.88%) and Zimbabwe (R36.83m; 87.50%), also mainly in quota lines. The increase for Hong Kong was contrary to the experience of HS61 but not unexpected given that quota was a more important factor in HS62 (Sandrey 2006). Other major percentage gainers were Sri Lanka (804.26%) and Madagascar, whose gains of 38,822.76% were impressive albeit off a lower base.

HS62 quota imports

HS62 quota imports from the World and China fell in percentage terms by a similar magnitude to those in the HS61 cohorts, by 22.82% and 47.26% respectively, but the values are higher; R791.23m and R1,321.01m for the World and China respectively. Surprisingly, the growth in imports from India in these categories rose by a mere 6.55%. Hong Kong, South Africa's third largest import partner in this Chapter in 2006, however, saw strong growth of 79.09% or R73.19m in value terms. Other countries that performed consistently well in both value and percentage terms were Vietnam (R67.11m; 736.13%), Indonesia (R65.32m; 254.49%), Bangladesh (R63.01m; 307.05%), Malaysia (R47.57m; 1,928.94%), Zimbabwe (R36.90m; 88.12%), Mauritius (R36.23m; 78.24%) and Myanmar (R34.53m; 989.10%). Again, although off a

low base, Madagascar's gain of 61,964.33% is noteworthy. One of the greatest losers in both percentage and value terms behind China was Mozambique (62.97%; R7.96m)

HS62 non-quota imports

Perhaps the most important change of all was recorded in non quota HS62 imports. Imports for the World in HS62 non quota categories increased by nearly 50% (versus 48.68%), and China by 57.56% (versus 19.21%), a considerably larger percentage increase than for HS61 cohorts, although once again the values are lower at R226.70m and R191.12m for the World and China respectively. China showed an obvious shift toward imports in non-quota categories. Non-quota imports for all other major suppliers increased between 5% and 25%, except Indonesia and Mauritius who saw respective increases of 94.16% and 235.06%.

Table 32 below shows country rankings for comparable 2006 and 2007 periods.

Table 32: South African imports of HS62, knitted apparel from January to December 2007

Total H62 imports		H62 quota imports		H62 non quota imports	
2006	**2007**	**2006**	**2007**	**2006**	2007
1. China	1. China	1. China	1. China	1. China	1. China
2. India	2. Hong Kong	2. India	2. Hong Kong	2. India	2. India
3. Hong Kong	3. India	3. Hong Kong	3. India	3. Hong Kong	3. Hong Kong
4. Malawi	4. Malawi	4. Malawi	4. Malawi	4. Turkey	4. Thailand
5. Mauritius	5. Indonesia	5. Mauritius	5. Indonesia	5. Thailand	5. Malaysia
6. Italy	6. Mauritius	6. Zimbabwe	6. Bangladesh	6. Italy	6. Indonesia
7. Zimbabwe	7. Bangladesh	7. Italy	7. Mauritius	7. United States	7. Italy
8. Thailand	8. Vietnam	8. Indonesia	8. Zimbabwe	8. Indonesia	8. United States
9. Indonesia	9. Zimbabwe	9. Thailand	9. Vietnam	9. Taiwan	9.Vietnam
10.Turkey	10 Malaysia	10. Bangladesh	10. Malaysia	10. Pakistan	10. Turkey

Data source: Quantec Statistical Database (Own calculations)

The ratio of quota to non quota imports

An alternative way to identify changes in the composition of total imports is presented in Table 33 below which reproduces the data from Table 29 and Table 31 as ratios of quota imports to non quota imports. The data is ranked by 2007 HS62 imports expressed in values - given the

relatively greater importance of HS62 in quota categories. The inclusion of Madagascar, Cambodia and Macau is for illustrative purposes of a later argument on transshipment.

Table 33: Ratio of HS61 and HS62 quota to non quota imports

Country	Chapter HS61		Chapter HS62	
	2006	2007	2006	2007
World	0.75	0.45	*7.44*	*3.86*
China	0.87	0.34	*8.42*	*2.82*
Hong Kong	0.43	0.85	6.53	10.48
India	0.75	1.18	2.85	2.84
Malawi	1.06	0.97	48.69	31.20
Indonesia	0.97	1.59	5.78	10.55
Mauritius	0.08	0.34	*38.85*	*20.67*
Bangladesh	0.38	0.48	10.37	33.13
Vietnam	0.86	0.81	4.22	12.64
Zimbabwe	0.28	0.10	199.38	583.12
Malaysia	0.34	2.99	1.25	5.79
Italy	0.27	0.27	*6.53*	*5.38*
Thailand	0.78	0.97	2.84	4.09
Myanmar	0.63	3.13	5.06	52.25
Turkey	0.35	0.54	2.15	6.02
Sri Lanka	0.27	0.49	7.47	12.54
France	0.35	0.38	*6.31*	*3.51*
United States	0.16	0.19	2.20	1.78
Pakistan	0.26	0.16	1.55	6.01
Madagascar	0.04	0.04	0.94	3.38
Cambodia	0.16	0.19	6.79	16.38
Macau	1.27	4.76	39.95	71.83

Data source: Quantec (Own calculations)

Chapter 61

Non quota imports, which always dominated imports in HS61, increased their share to 68.74% in 2007 from 57.05% the previous year. Quota imports from the World comprised 31.26% of aggregate imports in HS61 in 2007, down from 42.95% in 2006. At an aggregate level, the ratio of quota imports to non quota imports fell from 0.75:1 to 0.45:1, confirming the slight overall shift away from imports in quota and toward those in non quota categories identified above and a shift of even greater magnitude in the same direction for China (0.87 to 0.34). In 2007

non quota imports made up 74.74% of all HS61 imports from China compared with 53.57% in 2006 (not shown). The percentage share in aggregate imports of quota lines from China fell to 25.26% in 2007 from 46.43% in 2006. Comparatively, most other major suppliers, with the exception of Zimbabwe, Malawi and Vietnam, increased their ratio of quota to non quota imports in 2007 and in particular, India, Mauritius, Malaysia and Myanmar.

Chapter 62

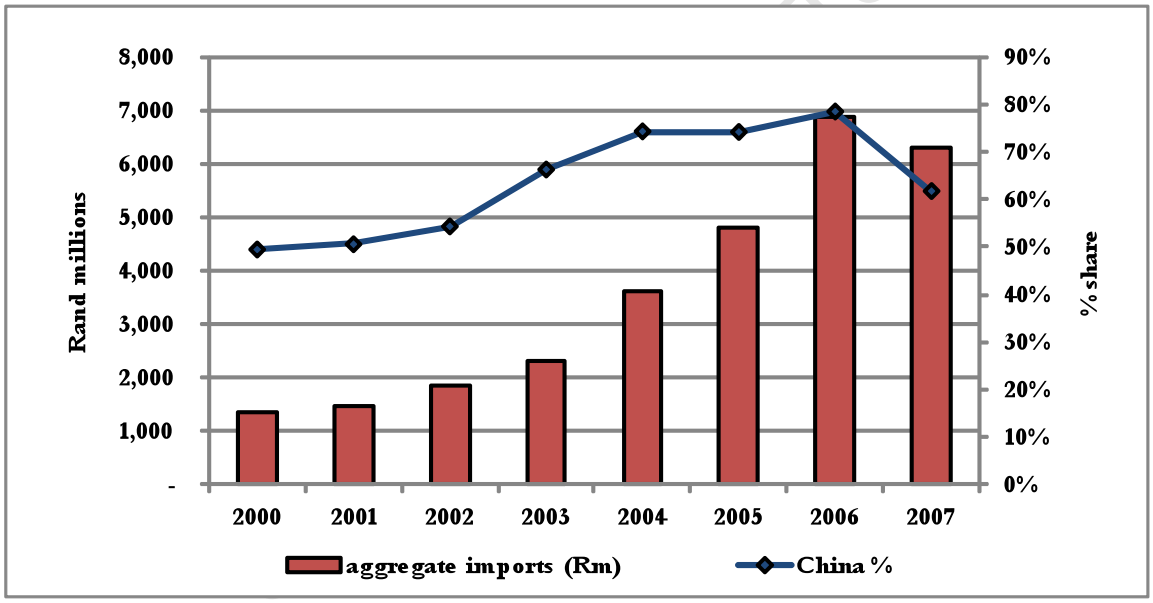
As mentioned previously, quota imports from the World comprised 79.44% of total imports in this Chapter in 2007, down from 88.16% in 2006. However, despite the minority share of imports in non quota categories - 40.01% - this was double the 2006 figure of 18.31%. The fall in the ratio from 7.44:1 to 3.86:1 confirmed that in 2007, HS62 quota imports from the World fell relative to HS62 non quota imports. At an individual country level, the shift toward non quota imports was particularly evident for China where the ratio of quota to non quota imports fell from 8.42:1 to 2.82:1. That is, for it every unit non quota imports, there were only 2.48 units of quota imports in 2007, which is a third of the 8.42 units for 2006. As a percentage share in total HS62 imports from China, non quota imports increased from 10.62% to 26.19% (not shown) in 2007. If this growth was sustained, imports in non quota categories from China could potentially offset its loss of quota imports in HS62. Only one other country showed a significant shift away from quota imports, this being Mauritius; in 2007 only 22.86 units of quota imports were imported from this region for every unit of non quota imports, almost half of the 45.31 units in 2006. However, most European Union countries i.e. Romania, UK, Italy and France as well as the US also moved away from quota imports in 2007.

The opposite trend was apparent for most other individual countries i.e. there was a majority shift *toward* quota lines. This is demonstrated by an increase in the percentage share of quota imports in individual country total imports and in turn, the ratio of quota to non quota imports. This was evident for Hong Kong (86.72% to 94.24%), Indonesia (85.24% to 91.34%) and Bangladesh (91.20% to 97.07%), who were South Africa's 2nd, 5th and 7th largest suppliers of HS62 imports by value in 2007 but more particularly, for the emerging Asian countries; Vietnam (80.83% to 92.67%), Malaysia (55.48% to 85.27%), Thailand (73.93% to 80.35%), Myanmar (83.51% to 98.12%), Pakistan (60.79% to 85.73%) and Cambodia (87.17% to 94.24%). Some

African countries also increased their shares between 2006 and 2007, for instance, Madagascar (48.40% to 77.18%) and Zimbabwe (99.50% to 99.83%) (not shown).

The picture for the full 2007 period was largely unchanged but the analysis revealed some interesting trends. Aggregate imports into South Africa declined by 8.66% from R6,902.78m in 2006 to R6,304.87m in 2007; China's share of these imports also declined from 78.49% in 2006 to 61.88% in 2007 as aggregate import values from China fell; by 28.02% (from R5,419.02m to R3,900.48m)(Figure 38). In volume terms, the declines were larger; World imports fell by 21.16% between 2006 and 2007, and China's share in these imports fell from 89.13% to 74.72%; import volumes from declined by 33.91%.

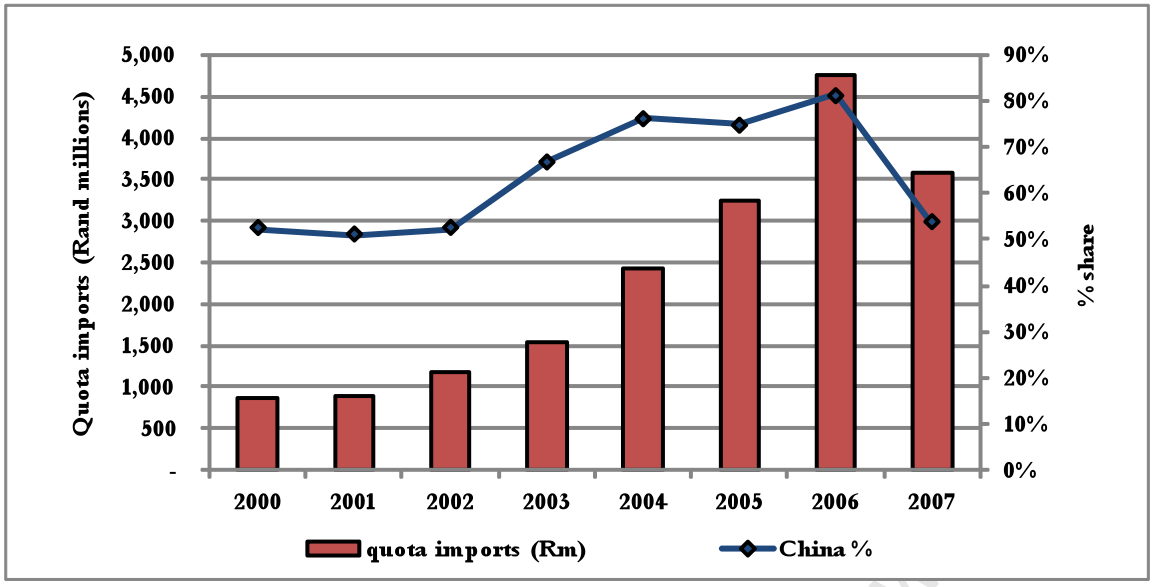
Figure 38: Demonstration of China's share in aggregate imports



Data source: Quantec Statistical Database Own calculations

Secondly, quota imports into South Africa declined sharply from a high of R4,754.29m in 2006 to R3,587.61m in 2007, which was matched by an equally dramatic fall in the percentage of China in these imports from 71.60% in 2006 to 47.52% in 2007 (Figure 39); quota imports by value from China fell by 50.10% from R3,867.81m to R1,930.03m. In volume terms the change was also significant. World quota imports fell by 50.06% and the share of China in these imports fell by 61.49% to reflect dramatically reduced import volumes in quota categories from China of 66.49% in 2007.

Figure 39: Demonstration of China's share in quota imports



Source: Quantec Own calculations

Finally, there was increased orientation by other major foreign suppliers towards quota imports. A comparison of current import value and market share for individual countries for 2007 shows precisely who got China's share of quota imports in the immediate quota period.

Table 34 ranks the current twenty-five top countries in terms of import share in quota categories and gives an overview of major gainers in percentage and value terms in 2007. The data is ranked by 2007 sources, expressed in values. Changes in percentage and monetary terms between the comparable 2006 and 2007 periods are also shown.

Table 34: Major players in South African clothing quota categories, 2007

Rank	Country	Imports R (m)		% share		% change	Value change R (m)
		2006	2007	2006	2007		
	The World	*4,741.58*	*3,595.03*	*100.00*	*100.00*	*-24.18*	*-1,146.54*
1.	China	3,857.47	1,955.49	81.35	54.39	-49.31	-1,901.98
2.	India	170.49	228.86	3.60	6.37	34.24	58.37
3.	Hong Kong	117.41	201.15	2.48	5.60	71.32	83.74
4.	Indonesia	34.52	128.11	0.73	3.56	271.16	93.60
5.	Mauritius	53.86	125.06	1.14	3.48	132.19	71.20
6.	Malawi	110.42	104.44	2.33	2.91	-5.42	-5.98
7.	Bangladesh	28.35	101.51	0.60	2.82	258.13	73.17
8.	Malaysia	3.73	90.48	0.08	2.52	2,328.13	86.75
9.	Vietnam	15.35	88.32	0.32	2.46	475.4	72.97
10.	Myanmar	8.69	81.59	0.18	0.39	838.74	72.90
11.	Zimbabwe	42.29	79.00	0.89	2.82	86.81	36.71
12.	Thailand	37.77	64.81	0.80	1.80	71.60	27.04
13.	Italy	46.59	52.54	0.98	1.46	12.77	5.95
14.	Turkey	24.74	46.28	0.52	1.29	87.08	21.54
15.	Sri Lanka	3.08	24.01	0.06	0.67	679.13	20.93
16.	France	17.16	18.16	0.36	0.51	5.85	1.00
17.	Pakistan	9.37	17.33	0.20	0.48	84.97	7.96
18.	United States	14.95	15.47	0.32	0.43	3.47	0.52
19.	Romania	13.31	14.72	0.28	0.41	10.61	1.41
20.	Macau	2.63	13.87	0.06	0.39	427.86	11.24
21.	Tunisia	9.08	13.86	0.19	0.39	52.60	4.78
22.	Cambodia	3.37	13.27	0.07	0.37	293.93	9.90
23.	Madagascar	0.03	9.27	0.00	0.26	29,868.87	9.24
24	UK	10.58	8.46	0.22	0.24	-26.98	-3.12
25	Taiwan	7.16	8.29	0.15	0.23	15.72	1.13

Data Source: Clotrade (Own calculations)

The data in Table 34 is now reformatted in Table 35 sorted on i) percentage gains and ii) monetary gains between 2006 and 2007.

Table 35: Major percentage and value movers in South African clothing quota categories

	Imports Rand (millions)		% share		Change '06-'07	
Country	**2006**	**2007**	**2006**	**2007**	**%**	**Rand (m)**
Percentage gainers						
1. Madagascar	0.03	9.27	0.00	0.26	29,868.87	9.24
2. Malaysia	3.73	90.48	0.08	2.52	2,328.13	86.75
3. Myanmar	8.69	81.59	0.18	2.27	838.74	72.90
4. Sri Lanka	3.08	24.01	0.06	0.67	679.13	20.93
5. Vietnam	15.35	88.32	0.32	2.49	475.24	72.97
6. Macau	2.63	13.87	0.06	0.39	427.86	11.24
7. Cambodia	3.37	13.27	0.07	0.37	293.93	9.90
8. Indonesia	34.52	128.11	0.73	3.56	271.26	93.60
9. Bangladesh	28.35	101.51	0.60	2.82	258.13	73.17
10. Mauritius	53.86	125.06	1.14	3.48	132.19	71.20
Value gainers						
1. Indonesia	34.52	128.11	0.73	3.56	271.26	93.60
2. Malaysia	3.73	90.48	0.08	2.52	2,328.13	86.75
3. Hong Kong	117.41	201.15	2.48	5.60	71.32	83.74
4. Bangladesh	28.35	101.51	0.60	2.82	258.13	73.17
5. Vietnam	15.35	88.32	0.32	2.49	475.24	72.97
6. Myanmar	8.69	81.59	0.18	2.27	838.74	72.90
7. Mauritius	53.86	125.06	1.14	3.48	132.19	71.20
8. India	170.49	228.86	3.60	6.37	34.24	58.37
9. Zimbabwe	42.29	79.00	0.89	2.20	86.81	36.71
10. Thailand	37.77	64.81	0.80	1.80	71.60	27.04

Data Source: Clotrade Statistical Database (Own calculations)

In the first classification (percentage change), the biggest gainers were Hong Kong (71.32%), Mauritius (132.19%), Bangladesh (258.99%) and Zimbabwe (86.81%) followed by Malaysia (2,408.61%), Sri Lanka (682.75%), Vietnam (488.31%) and Indonesia (270.55%) off a lower base. Madagascar, in particular, showed impressive growth of 29,383.07% albeit off a very low base to secure a place in the top 25 supply countries. However, the table does not show the proliferation of countries that although off a very low base, achieved significant percentage gains in quota categories, constituting a vast range of potential supply sources sampled by

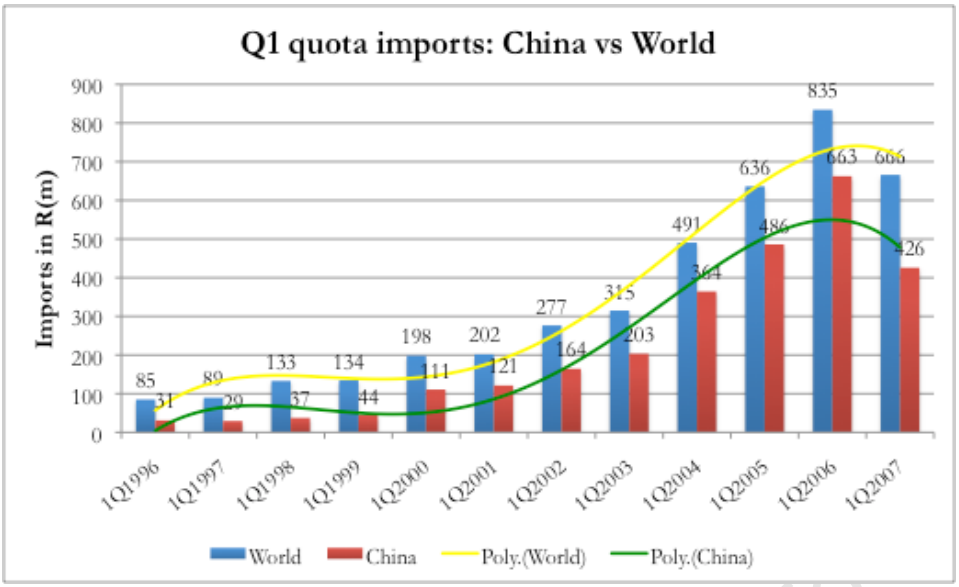
importers (Sandrey 2007). For example; Peru (231.91%), Egypt (212.97%), Macedonia (440.13%), Dominican Republic (408.10%), Monaco (841.60%), El Salvador (446.34%), Luxembourg (1,755.49%); as well as Mongolia (18,105.43%), Bahrain (3,323.41%), Costa Rica (701.74%), Zambia (795.14%), Tanzania (62,852.66%), Albania (50,470.39%), Cyprus (8,681.38%) and Chile (6,990.43%), albeit off an even lower base. In the second classification (value change), the greatest gainers were Indonesia (R93.60m), Malaysia (R86.75m), Hong Kong (R83.74m), Bangladesh (R73.17m), Vietnam (R72.97m), Myanmar (R72.90m), Mauritius (R71.20m) and India (R58.37m).

In both cases, the data evidences a growing market share for all of South Africa's major clothing suppliers in contrast with China's falling share. This confirms conclusions in previous sections and other studies that in the short run at least, Chinese imports were virtually replaced by imports from other countries.

Overview of trade in the short run

If the objective was to reduce China's participation in aggregate quota imports and overall imports, the analysis shows that the China quotas to some extent achieved this. However, closer scrutiny of trade flows in quota and non quota imports revealed two other issues that needed to be taken into account. Firstly, an increased flow of imports (identified by Clotrade as between 38-42 million units) in the last quarter of 2006 due to forward purchasing by retailers (ref previous discussion). In total, 422.75 million units were imported in 2007, down 22.3% on 543.91 million units in 2006. Given that the shortfall in volume imports from China between June 2006 and June 2007 was 46m units, this implies that the real fall in total imports from China may be significantly distorted (inflated). However, imports of products recorded by weight increased from 23.00 million kilos in 2006 to 24.20 million kilos (5.2%) in 2007 (Clotrade 2008). Once again, although this reflects an overall decline, Clotrade show that once these figures are adjusted by the 38.5 to 42 million units brought forward, the net effect is an increase of 3-4% year on year in the value of imports and a decline of 7.4% to 8.7% in unit imports during 2007. This is alternatively shown by a relative comparison of activity in fourth quarter imports from China in 2006 and 2007 (Figure 40) the latter is considerably subdued compared with the former.

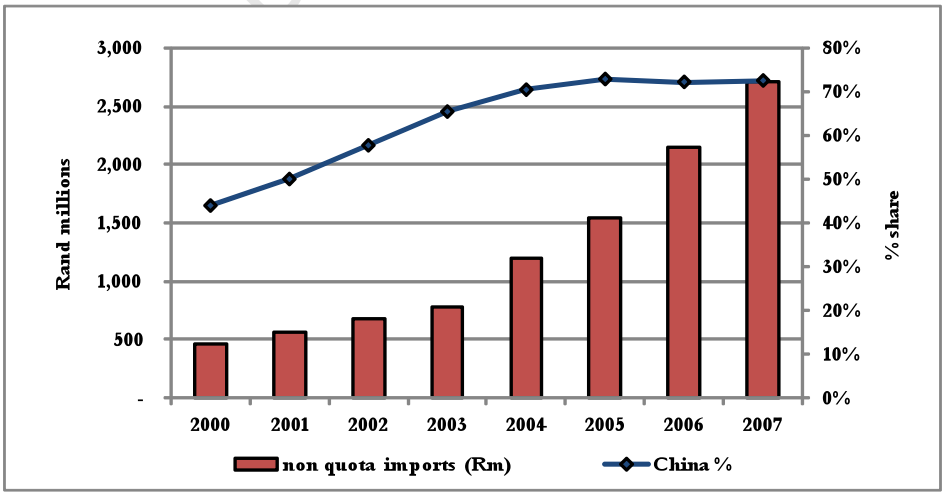
Figure 40: First quarter quota imports: 1996 – 2007



Source: Adapted from Sandrey 2006

Secondly, increased levels of activity in non quota imports from China in both clothing Chapters, which could potentially compensate China for the loss of quota imports and neutralize the effect of selective restrictions. Figure 41 (below) has non quota imports in millions of Rands (in columns, on left hand scale) and China's percentage share of these imports (as a line, on right hand scale) and demonstrates; i) the sustained growth of non quota imports into South Africa from 2000 through 2007 and ii) the simultaneous growth in China's share in these imports, albeit at a decelerating rate (72.19% in 2006 to 71.80% in 2007).

Figure 41: Demonstration of China's share in non quota imports



Data source: Clotrade (Own calculations)

Conclusions for the short-run macro trade impact of quotas

The DTI failed to anticipate that shutting out China would simply drive importers towards the proliferation of alternative cheap suppliers (Bleby 2006; Sandrey and van Eeden 2007). From a supply perspective, the fact that many companies had already either scaled down or completely closed doors prior to remedial intervention implied that it would be impossible to restore supply capacity at short notice (Clotrade 2007a). It was therefore inevitable and immediately obvious to local manufacturers that importers would simply look elsewhere, encouraged further by an increasingly favorable exchange rate. South African retailers followed the lead of the US and EU and began importing from Vietnam, Indonesia, Bangladesh, Pakistan, Sri Lanka and Thailand who, as shown in Chapter 3, were able to successfully take advantage of import restrictions. Imports in quota categories comprised a large share of total imports for these countries and provided them with a toehold in the US markets. It is clear that, as predicted, the China quotas, in the short run at least, led to significant import diversion without generating any positive spin off to the local industry in the form of greater output volumes.

Macro trade impacts of quotas in the medium run

The analysis now extends to include the second year of quota operations (2008).

Table 36 contains 2008 import data for China in both clothing Chapters by cumulative quarter, expressed in Rand values, as well as a percentage share of World imports. The data tracks the progressive recovery in clothing imports from China into South Africa during 2008, with the total for the full period up 15.91% on the comparative 2007 value, a move in monetary terms of R620.74m (R3,900.48m to R4,521.22m). This was more than three times the growth in imports for Bangladesh, South Africa's 2nd largest clothing supplier in 2008, of R185.25m; four and a half times that for Mauritius in 3rd place of R137.41m; and ten times plus that for India in 4th place of R59.85m. This notwithstanding, China's market share retreated further in 2008, albeit only 1.14% which indicates some stabilisation around 61% following the sharp drop of almost 17% between 2006 and 2007. World imports also increased by 18.10%, equivalent to R1,140.98m, between January and December 2008.

Table 36: Clothing imports from China by cumulative quarter 2007-2008

	2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
World	**6,304.87**	**1,957.20**	**3,546.57**	**5,486.57**	**7,445.84**
China	**3,900.48**	**1,273.98**	**2,309.80**	**3,417.73**	**4,521.22**
China 2007	**100.00%**	**32.66%**	**59.22%**	**87.62%**	**115.91%**
% market share	**61.86%**	**65.09%**	**64.56%**	**62.29%**	**60.72%**
2nd place	India (5.69%)	Mauritius (4.00%)	India (3.95%)	India (5.00%)	India (5.62%)
3rd place	Hong Kong (4.09%)	India (3.77%)	Mauritius (3.70%)	Mauritius (4.55%)	Mauritius (5.28%)
4th place	Mauritius (4.06%)	Bangladesh (2.99%)	Bangladesh (3.24%)	Bangladesh (3.84%)	Bangladesh (4.38%)
5th place	Indonesia (2.54%)	Hong Kong (2.88%)	Hong Kong (2.55%)	Hong Kong (2.47%)	Hong Kong (2.40%)
6th place	Bangladesh (2.25%)	Vietnam (2.37%)	Vietnam (2.13%)	Indonesia (2.15%)	Indonesia (2.22%)
7th place	Malawi (2.88%)	Indonesia (2.12%)	Indonesia (1.96%)	Vietnam (2.03%)	Malaysia (2.04%)
8th place	Malaysia (1.79%)	Myanmar (2.07%)	Malaysia (1.90%)	Malaysia (1.95%)	Vietnam (1.91%)
9th place	Vietnam (1.73%)	Malaysia (1.61%)	Malawi (1.63%)	Malawi (1.78%)	Malawi (1.90%)
10th place	Thailand (1.62%)	Thailand (1.51%)	Thailand (1.60%)	Thailand (1.74%)	Thailand (1.74%)

Source: Clotrade (Own calculations)

This was mainly due to sustained value gains in imports during the period by most of those countries identified as immediate beneficiaries of the quotas, specifically, India, Mauritius, Bangladesh, Indonesia and Vietnam, although Hong Kong was an exception (Table 37). Also noteworthy, though, are the large percentage gains achieved by a number other countries, although off a smaller base. This supports predictions by Clotrade (2006) that the quotas would prematurely introduce local retailers to sources alternative to China, who may be even more beneficial in the long run since costs in China have started to rise. The greatest value losers,

who were also the greatest losers in percentage terms, during the second year of quotas were (ranked by fall in import value); Hong Kong (R79.13m; 30.65%); Myanmar (R24.49m; 25.45%); Zimbabwe (R23.05m; 28.32%). Macau (R4.02m; 25.97%); Germany (R3.49m; 27.47%); Sri Lanka (R3.37m; 9.79%); France (R2.38m; 7.61%) and Turkey (R2.43m; 3.16%).

Table 37: Major percentage and value movers in South African clothing imports in 2008

	Imports Rand (millions)		% share		Change '07-'08	
Country	**2007**	**2008**	**2007**	**2008**	**%**	**Rand (m)**
Percentage gainers						
China	*3,900.48*	*4,521.22*	*61.86*	*65.09*	*15.91*	*620.74*
1. Sweden	0.84	8.18	0.01	0.07	898.42	7.34
2. Canada	2.27	5.73	0.04	0.14	152.31	3.46
3. Madagascar	24.24	58.62	0.38	1.23	141.81	34.38
4. Bangladesh	141.58	325.82	2.25	2.99	130.14	184.25
5. Portugal	12.03	21.49	0.19	0.43	78.59	9.46
6. Poland	3.83	6.74	0.06	0.04	75.98	2.91
7. Morocco	8.81	14.74	0.14	0.09	67.37	5.93
8. Spain	4.16	6.66	0.07	0.06	60.16	2.50
9. Mauritius	255.69	393.10	4.06	4.00	53.74	137.41
10. Slovenia	3.15	4.64	0.05	0.04	47.20	1.49
Value gainers						
China	*3,900.48*	*4,521.22*	*61.86*	*65.09*	*15.91*	*620.74*
1. Bangladesh	141.58	325.82	2.25	2.99	130.14	184.25
2. Mauritius	255.69	393.10	4.06	4.00	53.74	137.41
3. India	358.72	418.57	5.69	3.77	16.68	59.85
4. Malaysia	112.77	151.68	1.79	1.61	34.50	38.91
5. Madagascar	24.24	58.62	0.38	1.23	141.81	34.38
6. Vietnam	109.18	142.22	1.73	2.37	30.26	33.04
7. Thailand	102.15	129.89	1.62	1.51	27.15	27.24
8. Malawi	115.67	141.32	1.83	1.26	22.18	25.65
9. Italy	84.02	105.94	1.33	1.24	26.10	21.93
10. Cambodia	35.46	47.02	0.56	0.88	32.58	11.55

Source: Clotrade Own calculations

World clothing imports in the two main Chapters HS61 and HS62 increased between 2007 and 2008 by R1,140.97m (18.10%) with this growth more or less evenly split between China (55% with R620.74m) and the conglomerate of other supply countries (ROW in the table) (45% with R520.24m). However, the impetus for growth differed in each case; for China, an expansion in non quota imports accounted for 64.04% (R397.50m) of China's overall import growth of R620.74m during the period, whilst for the Rest of the World, growth in quota imports accounted for the bulk (70.72%/R367.89m) of the overall increase of R520.24m in imports for this cohort in 2008 (Table 38).

Table 38: Decomposition of imports by clothing Chapters 2007-2008

	HS61											
Country	**R(m) value**			**% change**					**R(m) change**			
	2007		*2008*	*2007*		*2008*			*2007*		*2008*	
World	2,934.97		3,613.59	-0.69		23.12			-20.26		678.61	
China	1,903.04		2,311.05	-16.46		21.44			-375.03		408.01	
ROW	1,031.94		1,302.53	52.39		26.22			354.77		270.60	
	HS61 non quota						***HS61 quota***					
	R(m) value	**R(m) value**	% change	% change	R(m) change	R(m) change	**R(m) value**	**R(m) value**	% change	% change	R(m) change	R(m) change
	2007	***2008***	*2007*	*2008*	*2007*	*2008*	***2007***	***2008***	*2007*	*2008*	*2007*	*2008*
World	**2,018.76**	**2,438.58**	19.59	20.80	330.65	419.82	**916.22**	**1,175.01**	-27.69	28.25	-350.91	258.80
China	**1,424.67**	**1,708.49**	16.61	19.92	202.93	283.83	**478.37**	**602.56**	-54.71	25.96	-577.96	124.19
ROW	**594.09**	**730.09**	27.39	22.89	127.72	136.00	**437.84**	**572.45**	107.71	30.74	227.05	134.60

	HS62											
Country	**R(m) value**			**% change**					**R(m) change**			
	2007		*2008*	*2007*		*2008*			*2007*		*2008*	
World	3,369.89		3,832.26	-14.63		13.72			-577.65		462.36	
China	1,997.44		2,210.17	-36.41		10.65			-1,143.45		212.72	
ROW	1,372.45		1,622.09	70.15		18.19			565.85		249.64	
	HS62 non quota						***HS62 quota***					
	R(m) value	**R(m) value**	% change	% change	R(m) change	R(m) change	**R(m) value**	**R(m) value**	% change	% change	R(m) change	R(m) change
	2007	***2008***	*2007*	*2008*	*2007*	*2008*	***2007***	***2008***	*2007*	*2008*	*2007*	*2008*
World	**698.50**	**828.52**	51.72	18.62	238.12	130.03	**2,671.40**	**3,003.73**	-23.39	12.44	-815.76	332.34
China	**545.78**	**659.46**	65.66	20.83	216.32	113.68	**1,451.66**	**1,550.70**	-48.37	6.82	-1,359.82	99.05
ROW	**152.71**	**169.06**	16.65	10.71	21.80	16.35	**1,219.74**	**1,453.03**	80.52	19.13	544.05	233.29

These shifts are illustrated as a ratio of quota to non-quota imports in Table 39 for both clothing Chapters combined as well as for the individual clothing Chapters.

The weakening of the ratio for China from 0.98 to 0.91 (i.e. for every unit of non quota imports, only 0.91 of quota imports was imported in 2008 compared with 0.98 in 2007) reflects increased orientation towards non quota imports for the region. At a Chapter level, this change is most pertinent for Chapter 62 imports given the greater concentration of quota categories in this Chapter; the ratio of CH62 quota to non quota imports fell from 2.66 to 2.35, with a move in the same direction for Chapter 61, albeit of much smaller magnitude. Converse to that for China, the ratio for ROW strengthened at the aggregate level from 2.22 to 2.55, demonstrating the greater positioning of the conglomerate of other suppliers toward quota imports relative to non quota imports. Again, for reasons given, this change is more obvious for imports in Chapter 62 than Chapter 61. In 2008, for every unit of non quota imports, 8.59 units of quota imports were imported compared with 7.99 in 2007.

Table 39: Ratio of HS61 and HS62 quota to non-quota imports

Country	Total HS61 & HS62 Chapters			Chapter HS61			Chapter HS62		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
World	2.21	1.32	1.28	0.75	0.45	0.48	7.57	3.82	3.63
China	2.49	0.98	0.91	0.86	0.34	0.35	8.53	2.66	2.35
ROW	1.48	2.22	2.25	0.45	0.74	0.78	5.16	7.99	8.59

Overview of macro trade impacts during the medium run: 2006-2008

The China quotas had two explicit objectives; to reduce imports from China and to boost local clothing output. This would require that aggregate (World) clothing imports into South Africa remain, at least constant and at best fall in response to restrictions. For this to happen, two necessary conditions must hold: i) non quota imports from China must remain constant while quota imports from China are reduced; and ii) imports from the Rest of the World (ROW)(i.e. countries other than China), in both quota and non quota categories must not increase.

The output from analysis of import data for the full quota period is presented in Table 40. It shows aggregate import values, for the World, as well as for China and the "Rest of the World" (World minus China) in 2006, 2007 and 2008 in millions of Rands, which are also expressed as; a share of total imports in that year; year on year changes in percentage and value terms. Values for quota and non-quota categories are shown as well as the share of these cohorts in total imports. Table 41 then gives import values for China and the Rest of the World as a percentage share of total clothing imports into South Africa in 2006, 2007 and 2008.

Table 40: Decomposition of aggregate imports into quota and non quota categories: China vs ROW

	Total imports			*Non quota*			*Quota*		
	2006	*2007*	*2008*	*2006*	*2007*	*2008*	*2006*	*2007*	*2008*
World	**6,902.78**	**6,304.87**	**7,445.84**	**2,148.49**	**2,717.25**	**3,267.10**	**4,754.29**	**3,587.61**	**4,178.74**
% share	100%	100%	100%	31.12	43.10	43.88	68.88	56.90	56.12
R(m) change	*2,113.78*	*-597.91*	*1,140.98*	*605.99*	*568.77*	*549.85*	*1,507.79*	*1,166.68*	*591.13*
% change	44.14	-8.66	18.10	39.29	26.47	20.24	46.44	-24.54	16.48
China	**5,419.02**	**3,900.48**	**4,521.22**	**1,551.30**	**1,970.45**	**2,367.95**	**3,867.71**	**1,930.03**	**2,153.27**
% share	100%	100%	100%	28.63	50.52	52.37	71.37	49.48	47.63
R(m) change	*1,864.28*	*-1,518.53*	*620.74*	*426.50*	*419.15*	*397.50*	*1,437.77*	*-1,937.68*	*223.23*
% change	52.44	-28.02	15.91	37.92	27.02	20.17	59.10	-50.10	11.57
ROW	**1,483.76**	**2,404.38**	**2,924.62**	**597.18**	**746.80**	**899.15**	**886.58**	**1,657.58**	**2,025.48**
% share	100%	100%	100%	40.25	31.06	30.74	59.75	68.94	69.26
R(m) change	*249.51*	*920.62*	*520.23*	*179.48*	*149.62*	*152.34*	*70.02*	*771.00*	*367.89*
% change	20.22	62.05	21.64	42.97	25.05	20.40	8.58	86.96	22.19

Table 41: Share in aggregate imports: China vs Rest of World 2006-2008

	Aggregate imports				**Non quota imports**				**Quota imports**			
	Change R(m)	Share in World imports (%)			Change R(m)	Share in World Non Quota (%)			Change R(m)	Share in World Quota (%)		
	'06-'08	**'06**	**'07**	**'08**	**'06-'08**	**'06**	**'07**	**'08**	**'06-'08**	**'06**	**'07**	**'08**
World	**543.06**	*100*	*100*	*100*	**1,118.61**	*100*	*100*	*100*	**-575.55**	*100*	*100*	*100*
China	**-897.79**	78.50	61.86	60.72	**816.75**	72.20	72.52	72.48	**-1,714.55**	81.35	53.80	51.53
ROW	**1,440.86**	21.50	38.14	39.28	**301.86**	27.80	27.48	27.52	**1,139.00**	18.65	46.20	48.47

The data in Table 40 and Table 41 shows that the restrictions were successful in their objective to reduce imports from China. Aggregate imports from China fell by R897.97m or 12.11% between 2006 and 2008, which showed a significant retardation in the growth rate for the pre quota period (2005-2006) of 52.44% (equivalent to R1,864.18m). China's share of the South African clothing market hemorrhaged by almost 20% during the period of quota operations, from 78.50% in 2006 to 60.72% in 2008. This was due in principle to a significant contraction in its share of South African quota imports - by almost 30% - from 81.35% in 2006 to 51.53% in 2008, equivalent to R1,714.55m in monetary terms. This compared with growth in quota imports of R1,436.72m between 2005 and 2006. In sum, China switched focus to non quota imports in response to the restrictions. The proportion of non quota imports in total imports from China rose from 28.63% in 2006 to 52.37% in 2008. However, since growth in non quota imports only compensated for R816.75m of the loss of R1,714.55m in quota imports, condition (i) was supported.

In relation to condition (ii), imports from the ROW increased on aggregate by R1,440.69m (83.69%) for the full the quota period; R1,139m of this increase occurred in quota categories, which was R109.15% more than the R886.48m imported in 2006. Imports were diverted to alternative supply countries, and especially those in restricted categories; the share of quota imports in total imports from this cohort increased from 59.75% in 2006 to 69.26% in 2008 demonstrating increased orientation of emerging supply countries towards quota categories in response to quotas. The result was that the restrictions fell far short of their broader objective of reducing aggregate imports into South Africa. Growth in imports from the Rest of the World and non quota imports from China between 2006 and 2008 offset the contraction in quota imports from China generating positive aggregate import growth of 9.44% (equivalent to R543.06m). However, the rate of growth was significantly lower than the 44.14% (or R2,113.78m in Rand terms) recorded for the 2005 to 2006 period; this slow down was due to the contraction in imports from China. Although this was likely principally as a result of restrictions, the deepening global economic crisis that began to take hold on the South African economy in 2008 may also be a factor here.

The important question is whether this shift away from China was sustained when restrictions were removed? I shall now analyse trade during the two years pursuant to quota withdrawal

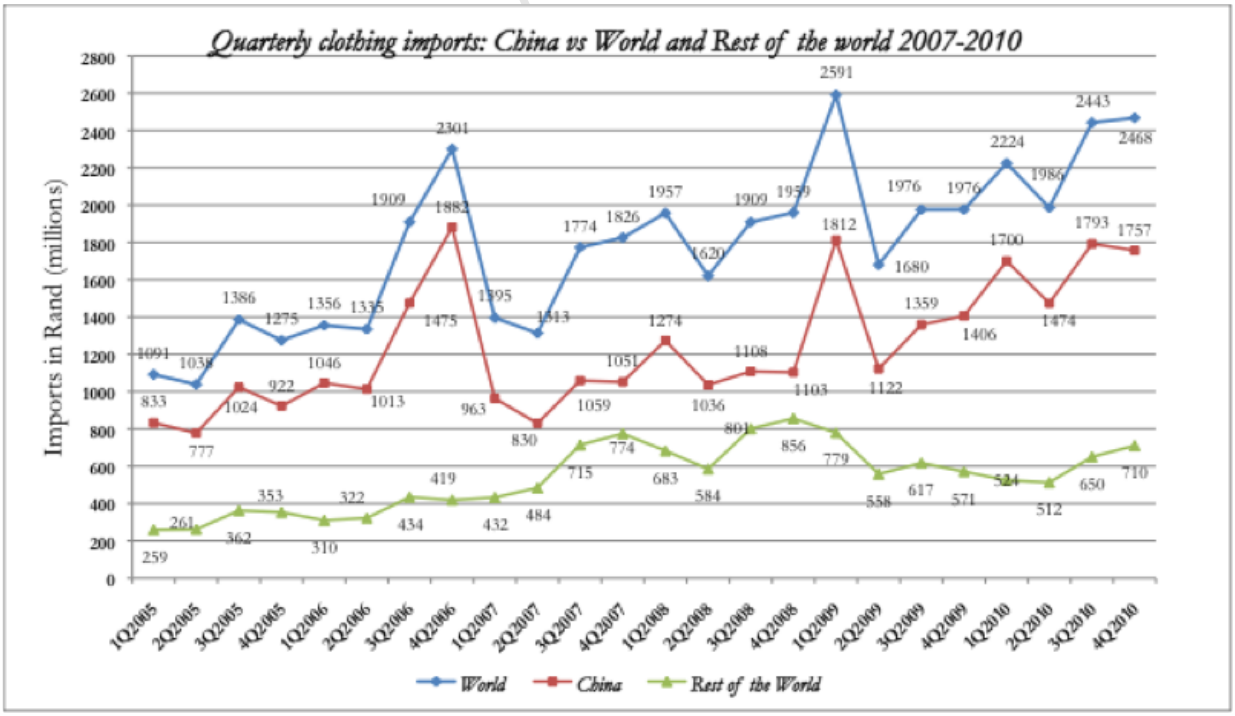
(2008-2010) which is deemed an adequate period to capture the long run impacts of the intervention. The objective here is to establish to what extent the observed shifts in trade in quota and non quota imports were entrenched in the mid to long term. A successful intervention would imply a sustained drop in imports both from China and overall which would imply greater levels of local sourcing.

Macro trade impact of the quotas in the long run

The immediate response of buyers to quota removal…

In the first quarter of 2009, total clothing imports jumped 32.38% (equivalent to R633.80m) on the comparable 2008 period and more importantly, the bulk of these (84.91%) imports came from China, which increased by 42.24% or R538.18m in value terms. The flurry of import activity from China in immediate response to quota removal caused a spike in imports, both from China and overall akin to that in the wake of quota announcement (Figure 42).

Figure 42: Clothing imports by quarter: China vs World 2005-2010



Source: Clotrade (Own calculations)

Table 42 below compares the first quarter performance of South Africa's top supply countries in 2007, 2008 and 2009, ranked by value gain on the comparable period of the previous year. Percentage changes are also given. China's resurgence in the first quarter of 2009 came mainly at the expense of the immediate beneficiaries of the restrictions (ref previous sections), who were also likely trans-shipment hubs, namely, Hong Kong, Myanmar and Malaysia, for each of which large respective year-on-year drop in imports were recorded of 70.51% (R37.48m), 66.46% (R26.46m) and 65.47% (R22.16m) between January and March 2009; and also Taiwan, Sri Lanka and Macau to a lesser extent.

However, some emerging suppliers showed resilient import growth despite resurgent competition from China, for example; Bangladesh (R57.65m/98.41%), Mauritius (R49.01m/62.59%); India (R25.28m/34.24%) and Madagascar (R17.40/72.29%) as well as Morocco (143.50%), Bulgaria (120.18%), Poland (93.27%) and Germany (51.48%) albeit off a lower base.

Table 42: Comparison of q1 imports by major supplier countries pre and post quotas

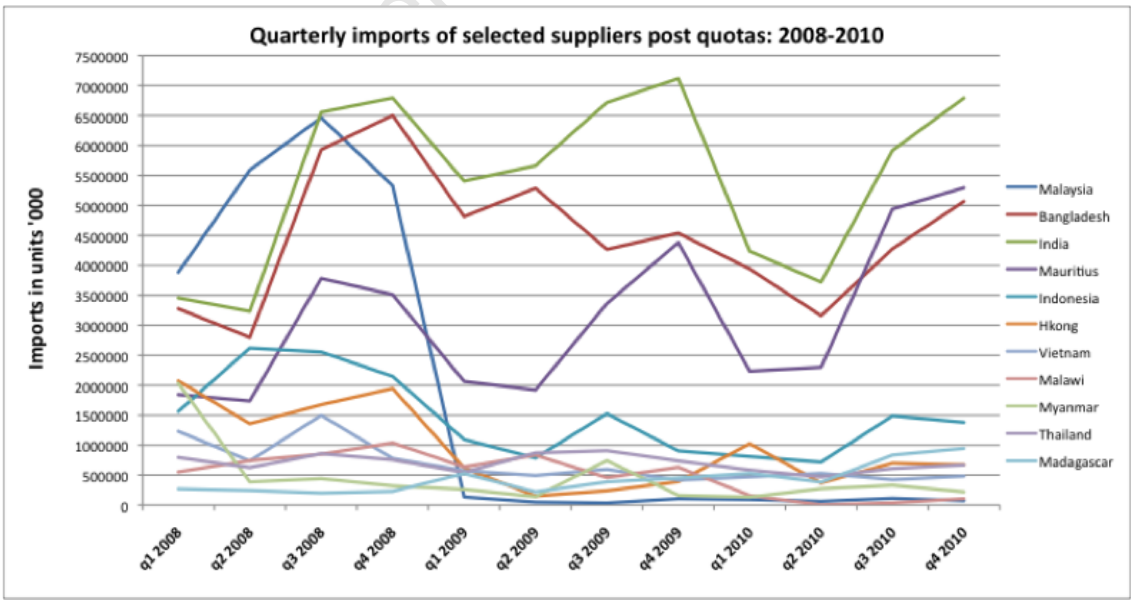
Rank	Country	Change (%) Q1 06-Q1 07	Change R(m) Q1 06 -Q1 07	Rank	Country	Change (%) Q1 07-Q1 08	Change R(m) Q1 07 -Q1 08	Rank	Country	Change (%) Q1 08-Q1 09	Change R(m) Q1 08-Q1 09
	China	*-7,88%*	*-82,37*		*China*	*32,23%*	*310,55*		*China*	*42,24%*	*538,18*
1	Mauritius	54,10%	19,50	1	Bangladesh	243,58%	41,54	1	Bangladesh	98,41%	57,65
2	Vietnam	366,70%	16,90	2	Myanmar	224,06%	27,94	2	Mauritius	62,59%	49,01
3	India	24,95%	11,42	3	Vietnam	115,29%	24,80	3	India	34,24%	25,28
4	Myanmar	344,75%	9,67	4	Mauritius	40,97%	22,76	4	Madagascar	72,29%	17,40
5	Indonesia	84,65%	9,12	5	Indonesia	108,21%	21,52	5	Cambodia	47,07%	8,10
6	Malaysia	365,38%	8,70	6	Malaysia	183,51%	20,34	6	Zimbabwe	42,71%	4,81
7	Madagascar	1317100,00%	8,53	7	Hong Kong	44,10%	17,26	7	Italy	19,30%	4,67
8	Zimbabwe	80,16%	7,52	8	India	29,10%	16,64	8	Turkey	22,21%	3,70
9	Bangladesh	66,24%	6,79	9	Madagascar	181,94%	15,53	9	Malawi	13,54%	3,34
10	Turkey	64,97%	6,19	10	Thailand	82,03%	13,31	10	Philipines	91,97%	2,98
11	Cambodia	283,49%	5,60	11	Cambodia	127,45%	9,65	11	France	47,34%	2,76
12	Sri Lanka	255,66%	4,02	12	Italy	36,05%	6,41	12	Vietnam	5,12%	2,37
13	Macao	1090,45%	3,27	13	Pakistan	47,71%	3,35	13	UK	32,85%	1,55
14	Malawi	8,35%	2,33	14	Sri Lanka	51,46%	2,88	14	Thailand	4,95%	1,46
15	France	39,63%	2,14	15	Taiwan	49,12%	2,40	15	Romania	25,55%	1,27
16	Pakistan	30,87%	1,66	16	USA	26,20%	2,20	16	Germany	51,48%	1,00
17	US	22,86%	1,56	17	Romania	65,01%	1,96	17	Tunisia	21,47%	0,95
18	UK	20,88%	0,71	18	Tunisia	73,34%	1,86	18	Australia	43,23%	0,63
19	Thailand	4,20%	0,65	19	Turkey	5,88%	0,92	19	Belgium	11,58%	0,14
20	Taiwan	6,36%	0,29	20	Germany	-50,56%	0,62	20	Korea	3,34%	0,04
21	Romania	4,75%	0,14	21	UK	14,25%	0,59	21	USA	-2,34%	-0,25
22	Tunisia	-1,71%	-0,04	22	Philipines	15,97%	0,45	22	Indonesia	-1,83%	-0,76
23	Italy	-0,93%	-0,17	23	Korea	31,86%	0,32	23	Pakistan	-14,52%	-1,51
24	Philipines	-6,36%	-0,19	24	Macau	-23,38%	-0,70	24	Sri Lanka	-21,76%	-1,84
25	Germany	-6,14%	-0,26	25	France	-22,54%	-0,83	25	Macau	-71,33%	-1,95
26	Belgium	-20,82%	-0,32	26	Malawi	-18,40%	-1,70	26	Taiwan	-47,30%	-3,44
27	Korea	-36,04%	-0,56	27	Zimbabwe	-33,44%	-1,98	27	Malaysia	-70,51%	-22,16
28	Australia	-24,17%	-0,69	28	Belgium	-0,16%	-5,55	28	Myanmar	-65,47%	-26,46
29	Hong Kong	-9,09%	-3,91	29	Australia	-32,25%	-5,65	29	Hong Kong	-66,46%	-37,48

Note: Countries included are based on available comparable data.

… And their long run response to quota removal…

Import data for the full 2008 to 2010 period confirms a decisive shift in sourcing back to China. Imports from the region rose by 26.05% in 2009 and by a further 17.99% in 2010, a compound rise of 48.72% for the two year period equivalent to R2,202.27m; 89.27% of this increase occurred in categories previously restricted by quotas, which almost doubled (91.32%) in value terms. This compares with increases at the aggregate level of 22.50% and 33.12% in total and (previously) quota imports respectively. Comparatively, the Rest of the World saw decreases of 18.04% (overall imports) and 28.76% (previously quota imports) during the same period. Figure 43 gives a graphical illustration of imports for South Africa's main suppliers in 2010 both immediately upon quota removal as well as into the longer term. China displaced imports from most of the small East Asian countries, such as Cambodia, Thailand and even Indonesia, who showed robust growth in the first half of 2008. Even the larger import countries, Mauritius, Bangladesh and Indonesia experienced a sharp correction to 2008 import levels in the first quarter of 2009, although again, the fact that this period coincided with the deepening financial crisis muddies the waters since it is impossible to disentangle the impacts of quota removal and the global depression. The case of Malaysia is an exception and is left for more detailed discussion in the next section.

Figure 43: Performance of selected supply countries in the post quota period

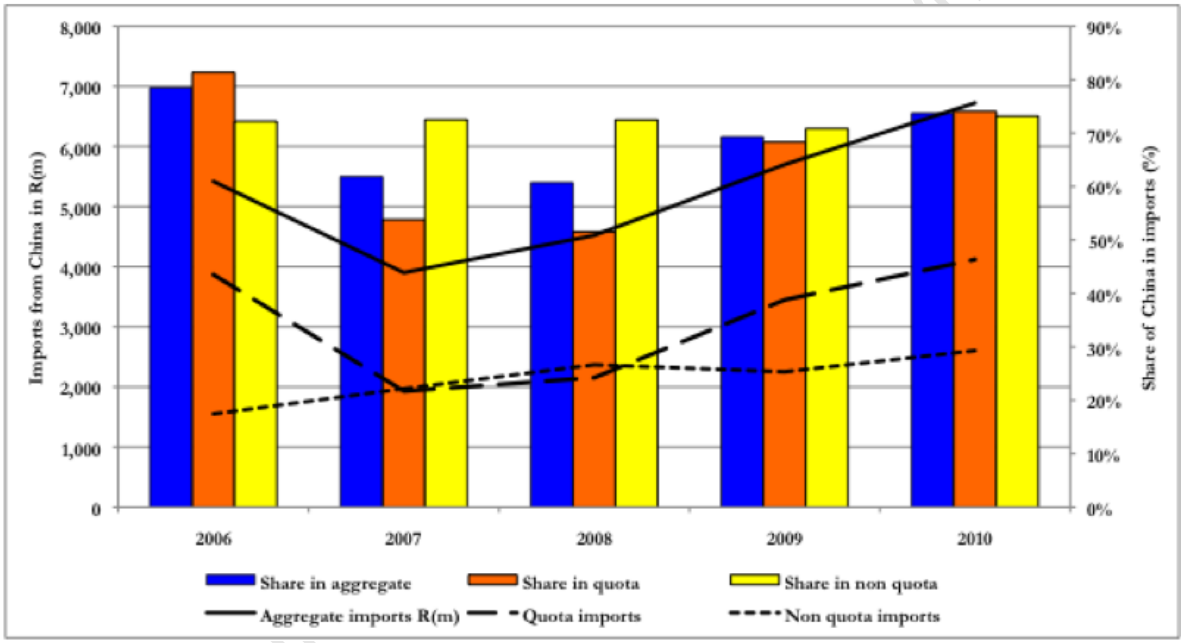


Source: Clotrade (Own calculations)

Relative comparison of China's performance: Pre versus post quotas

In 2010, South Africa imported 32.13% more clothing than in 2006; 24.08% more from China and 61.54% more from other countries and China had re-established its dominance in the South African clothing market, commandeering 73.72% (equivalent to R6,724m) of total clothing imports, and 74.06% (equivalent to R4,119.73m) of quota imports. Although these shares were smaller in percentage terms than in 2006 (78.50% for total and 81.35% for quota imports), they were larger in value terms (R5,419.02m (total) and R3,867.81m (quota)(Figure 44).

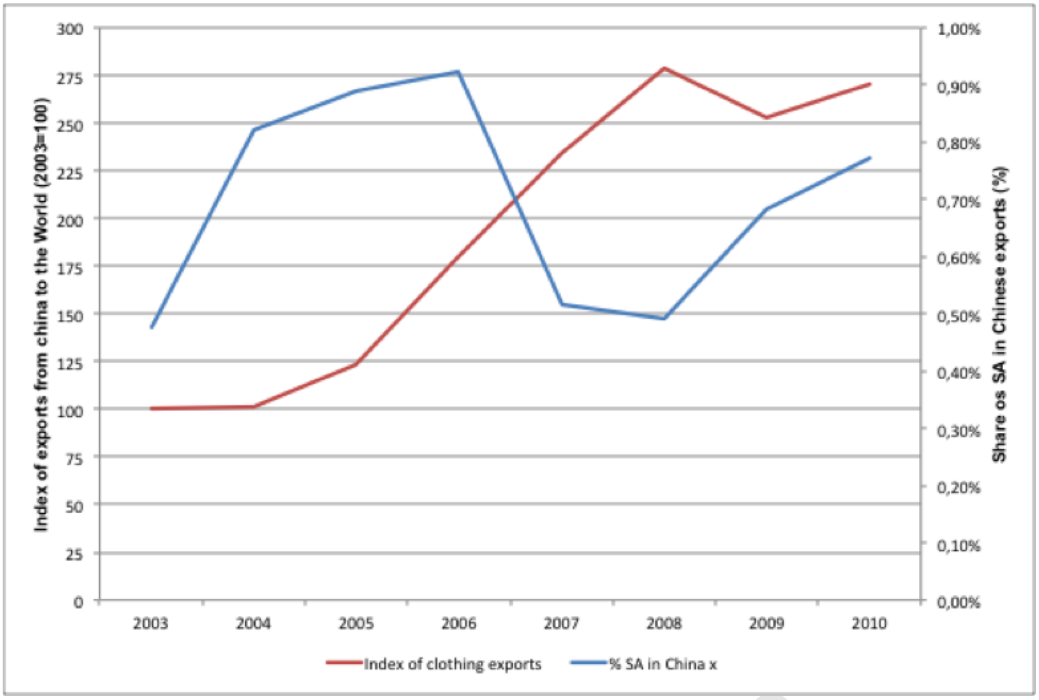
Figure 44: Demonstration of China in total, quota and non quota imports: 2006-2010



Source: Clotrade (Own calculations)

To put an alternative spin on the argument, Chinese export data showed that South Africa resumed importance as a market for Chinese clothing exports in the two year period after quota removal; the share of South Africa in total Chinese exports fell from 0.92% to 0.48% between 2006 and 2008, presumably in response to the China quotas, but trended strongly upward after 2008 to almost 0.77% by the end of 2010 (Figure 45).

Figure 45: Demonstration of SA share in Chinese clothing exports



Source: Trade map (Own calculations)

Conclusions for the macro trade impact of the quotas and implications for local output

The China quotas were successful in their objective to reduce imports from China. Although some recovery occurred in quota imports from China in 2008, with the decline moderating in pace, the value of these imports was still considerably lower than in 2006 before the intervention was made.

Analysis for the full quota period suggests that the quotas significantly impeded China's penetration into the South African clothing market, and especially in quota categories in which the fall in China's market share in both value and volume terms was significant. However, analysis for the post-quota period suggests that there was significant reversion of sourcing back to China when the restrictions were lifted. Qualitative evidence confirmed that suppliers preemptively resumed sourcing from China before quota removal by delaying orders for Winter 2009[78]. Furthermore, market share was redeemed largely through the displacement of imports from other countries.

The China quota intervention may thus have notched one success by slowing the rate of China's penetration into the South African market. The cumulative growth rates for total imports and quota imports by value from China between 2006 and 2010 represented a massive drop from previous levels between 2002 and 2006. This said, the slowdown in imports from China cannot summarily be racked up to the success of the China quotas. Qualitative evidence suggests that there may be other drivers behind this, including a general shift in focus from China toward its own domestic market and the growth of emerging Asia, which was quick to fill the gap left by the quotas; and the global economic crisis which depressed markets generally, so that not all developments in terms of volumes and prices in 2008 and 2009 can be explained by safeguards and their removal.

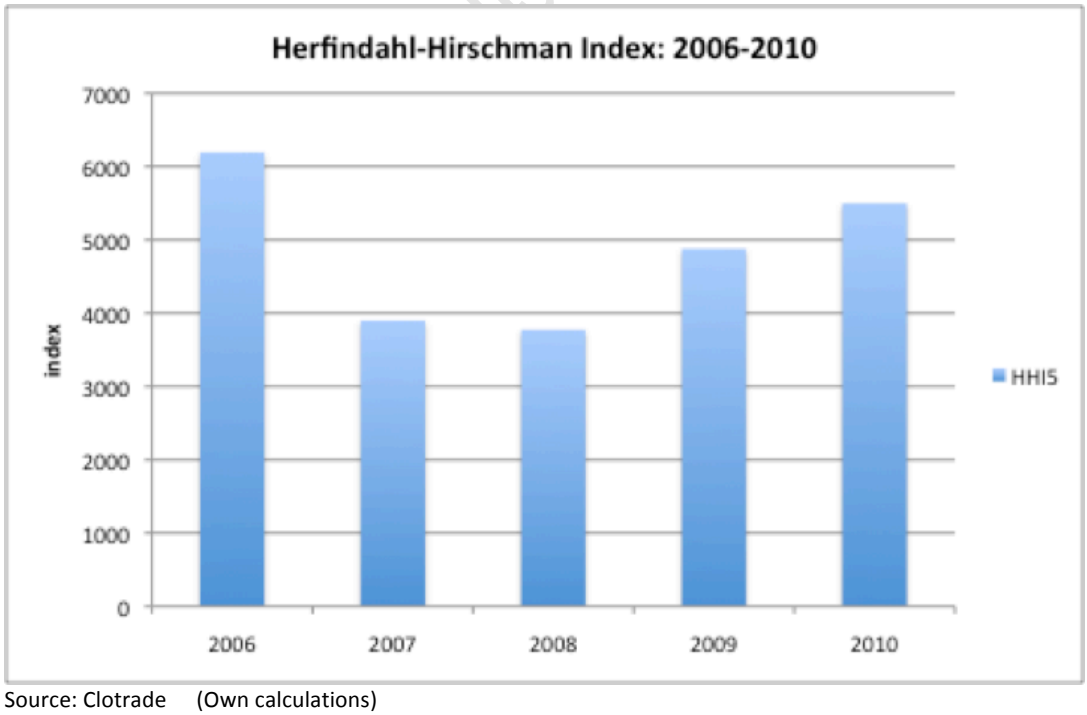
However, the China quotas fell short of their broader objectives to reduce clothing imports overall and to encourage greater levels of local sourcing. Although imports on aggregate fell in the immediate wake of quota imposition, having been forewarned about the impending implementation of the restrictions, retailers stockpiled product to mitigate the impact of the restrictions. In the medium run, imports were diverted to a host of other foreign, and mainly Asian countries that had geared their supply around the US and EU markets during their safeguard periods. The relief from import competition from China thus gave some other supply countries an opportunity to demonstrate their competence as clothing manufacturers and to carve a niche in the South African clothing market which they may otherwise not have had. In effect, the China quotas simply preempted the premature discovery of alternative and potentially lower cost suppliers to China. The import data shows that a handful of these countries, notably Mauritius, India and Indonesia remained core suppliers to the South African market after restrictions on China were removed.

Contrary to its initiative to encourage greater levels of local sourcing, the China quota intervention motivated more dispersed global sourcing. The growth in imports between 2009 and 2010 shows that South African demand for clothing shifted largely toward imports and not toward the domestic supply base. The higher level of imports from China and overall in 2010 indicates a persistent reliance on imports to feed domestic demand and a broad failure of local suppliers to step up and fill the void in supply that the restrictions created. Macro trade analysis

casts doubt on the premise that local clothing manufacturers received any sustained benefit from the intervention either during, or beyond its effective period of operation.

Apart from demand generally shifting back to China after quota removal, supply also consolidated around a smaller number of countries between 2006 and 2010. At the end of 2010, the collective share of the top five and top ten supply countries had largely restored to pre quota levels of 93.72% and 88.74% respectively. This is demonstrated by the rise in the Herfindahl-Hirschman Index (Figure 46 below) during this period[79]. This index is a measure of concentration of export sources; a fall in the index = less concentration i.e. greater spatial dispersion. The consolidation between 2008 and 2010 likely reflects a global trend in supply rationalization, which has intensified with the global economic crisis, particularly since 2008 (Gereffi and Frederick 2010). However, it may also be a reversion to the formerly high levels of concentration that existed pre quotas; or a combination of both. The effects are difficult to disentangle. Whatever the case, the increase in spatial dispersion between 2006 and 2008, shown as a decline in the index during this period, broadly confirms import diversion in consequence to the China quotas.

Figure 46: Concentration of South African supply base



Source: Clotrade (Own calculations)

[79] This concept was borrowed and adapted from Staritz 2011

Whilst the concentration ratios of the top 5 and 10 countries did not change significantly between the quota and post quota periods, there were some material changes in the magnitude and composition of the collective import share of these cohorts between the two periods (Table 43). South Africa imported 31.16% more clothing from the top five and 32.34% from the top ten supply countries in 2010 than in 2006. What is more, there was greater orientation around suppliers in close geographical proximity to the South African market. Imports from Mauritius and Madagascar grew by 220.82% between 2006 and 2010; this compares with collective growth of 162.64% for the remaining six countries in the top ten cohort in 2010. This may be due to preferential access for these countries to South Africa as members of SADC; clothing exports face some of the highest tariffs on manufactured goods, and preferential market access has a substantial impact on global production and trade patterns (Minor, Velia and Hughes 2002; Morris and Barnes 2006). However, tighter financial conditions have also shortened lead times which gives countries like Mauritius, who have vertically integrated value chains a competitive advantage. In an environment where buyers are being forced to 'cut the fat', the objective to is to work with few, large, capable and often vertically integrated core suppliers (Gereffi and Frederick 2011).

Table 43: Top ten clothing suppliers to South Africa: 2006, 2008, 2010

Rank	Country	Imports (Rm)	Market Share (%)	Rank	Country	Imports (Rm)	Market Share (%)	Rank	Country	Imports (Rm)	Market Share (%)
		2006	2006			2008	2008			2010	2010
	Top 10	*6 459,39*	*93.61%*		*Top 10*	*6 568,28*	*88,21%*		*Top 10*	*8 548,50*	*93,72%*
	Top 5	*6 170,82*	*89.43%*		*Top 5*	*5 837,73*	*78,40%*		*Top 5*	*8 093,45*	*88,74%*
1	China	5 415,57	78,49%	1	China	4 521,22	60,72%	1	China	6 724,00	73,72%
2	India	277,43	4,02%	2	India	418,57	5,62%	2	Mauritius	505,08	5,54%
3	Hong Kong	188,85	2,74%	3	Mauritius	393,10	5,28%	3	India	440,59	4,83%
4	Mauritius	144,56	2,10%	4	Bangladesh	325,82	4,38%	4	Bangladesh	290,75	3,19%
5	Malawi	144,41	2,09%	5	Hkong	179,01	2,40%	5	Madagascar	133,03	1,46%
6	Italy	76,19	1,10%	6	Indonesia	165,44	2,22%	6	Indonesia	109,82	1,20%
7	Thailand	63,29	0,92%	7	Malaysia	151,68	2,04%	7	Vietnam	101,79	1,12%
8	Bangladesh	50,84	0,74%	8	Vietnam	142,22	1,91%	8	Italy	91,08	1,00%
9	Turkey	50,13	0,73%	9	Malawi	141,32	1,90%	9	Thailand	79,99	0,88%
10	Indonesia	48,12	0,70%	10	Thailand	129,89	1,74%	10	Hkong	72,37	0,79%

Source: Clotrade statistical database Own Calculations

Transshipment and illegal activity

One of the industry's greatest concerns was that quotas would entrench the culture of illegal import activity ranging from mis-declarations of tariff codes, under-valuations to avoid import duties and avoiding importer registration requirements (Sandrey 2006; Clotrade 2006a). Although country-of-origin legislation had been recently introduced, a pervasive view was that SARS and UTIC lacked the capacity to monitor imports and enforce restrictions on a continuous basis. In the run up to the China quotas, the South African clothing sector was being targeted by what appeared to be illegal import activity aimed at directly destroying South Africa's tariff regime[80]. The DTI and ITAC were forewarned that undervalued imports were the most exigent issue facing the local clothing industry and that the problem would likely escalate under a system of theoretically rigid import restrictions that were not rigorously enforced in practice (Sandrey 2006). In 2003, Clotrade sought protection for the industry against illegal imports and dumping; and the huge distortion factor posed by undervaluations and underinvoicing of imports[81]. The surge in imports in 2003 exposed cutom's inability to control and prevent illegal imports and transshipments through South Africa "porous" borders (Kipling 2006). As a result, the potential for transshipments (where imports from China are funneled through other countries into South Africa), a global problem driven by quotas, was widely foreseen (Clotrade 2006a; Bisseker 2006a; Sandrey 2006). South Africa's immediate African neighbours, whom did not have restrictions on China i.e. Zimbabwe and Malawi, and/or former China establishment countries such as Hong Kong and Singapore, whose exports to South Africa were not limited, were all fingered as potential transshipment hubs.

Transshipment activity at the trade data level is evidenced either by a large relative increase in the level of imports for an individual country immediately after quota imposition, which may or may not be sustained through the quota period, and a subsequent fall in imports to pre-quota

[80] This was a view expressed by jack Kipling during an interview in 2011.

[81] When a large importer places an order with its Chinese supplier, there is an automatic 10% redundancy/reject margin built into production. On a global scale, this translates into billions of Dollars worth of overruns. Furthermore, since these garments are fully costed into the invoice amount and thus are thus effectively already paid for, they are available to spillover markets for "literally beans". Since South Africa has similar styles and tastes to the United States, coupled with the convenience that it runs 6 months behind US fashion, its market is particularly suited to these overruns. In 2003, once this was realised, overruns were phenomenal with huge volumes being imported under tariff code 77, the code used for holiday declarations.

levels, and especially immediately after quota removal; or a sharp increase in the ratio of quota to non quota imports for an individual country - an increase in quota imports, coupled with a fall in non quota imports (ref. preceding discussions and Tables). On this basis, countries that were both the greatest gainers in the initial quota period and the greatest losers after their removal Table 45 raised immediate red flags. The exact magnitude of transshipments and round-tripping was revealed at the end of 2008 (and corroborated in 2010) when imports from suspect countries fell away following the withdrawal of restrictions and sourcing patterns changed.

A comparison of imports in the first two quarters of 2006 with comparable 2007 data shows extraordinarily rapid import growth for; Vietnam of 528.12% (R24.14), Zimbabwe of 66.65% (R19.96m); Myanmar of 1,451.65% (R19.14m); Malaysia of 1008.56% (R26.99m), Indonesia of 83.02% (R16.31m), Thailand of 34.05% (R8.46m), Sri Lanka of 666.28% (R8.45m), Turkey of 29.99% (R7.08m), Hong Kong of R9.97% (R6.01m), Bangladesh of 40.79% (R5.29m), Macau of 357.69%(R4.39m), Cambodia of 93.79% (R1.61m), Kenya of 849.70% (R0.41m), Dominican Republic of 2,423.96% (R0.26m) and Zambia of 91.42% (R0.22m). For all of these countries, along with Malawi, a subsequent and in some cases, catastrophic fall in import value between 2008 and 2009 was recorded; most notably, Hong Kong (R122.81m); Malaysia (R132.50m), Indonesia (R46.36m), Vietnam (R30.81m), Myanmar (R28.44m), Malawi (R20.84m), Cambodia (R14.40m), Macau (R9.75m), Zimbabwe (R8.34m), and Taiwan (R6.25m).

Table 44: Greatest gainers and losers of quotas

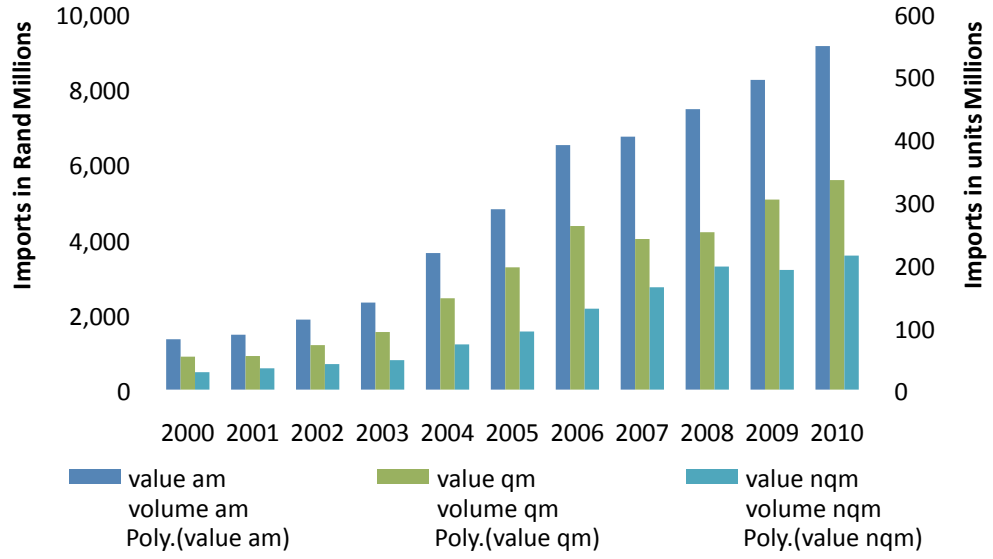
	2006-2007		2008-2009	
	% change	R(m) change	% change	R(m) change
Malaysia	1092,84%	103,20	-98,49%	-132,50
Hong Kong	36,86%	69,62	-80,16%	-122,81
Indonesia	232,66%	111,96	-51,49%	-46,36
Vietnam	341,03%	84,44	-51,02%	-30,81
Thailand	59,62%	37,74	0,87%	-28,57
Myanmar	444,17%	78,55	-58,89%	-28,44
Malawi	-19,95%	-28,81	-19,64%	-20,84
Cambodia	198,99%	23,60	-37,70%	-14,40
Macau	374,54%	12,15	-93,91%	-9,75
Zimbabwe	85,13%	37,43	-38,34%	-8,34
Sri Lanka	381,99%	27,27	-34,22%	-7,31
Taiwan	-1,29%	-0,26	-48,17%	-6,25

Source: Clotrade Own calculations

Additional support for under-declarations is gained from unit price data. Artificially low import values, in particular, would place local manufacturers under even greater price suppression than they faced before the restrictions. Mis-declarations are difficult to establish at the aggregate level, but the rise in kilogram non quota imports during the quota period lends some support to this hypothesis since irregularities in these categories are more difficult to detect. The price effects of quotas are examined in detail in Chapter 8 but the principles behind the argument for price distortions due to the China quotas is established here.

Figure 47 (below) shows that between 2000 and 2006, aggregate quota imports increased steadily by 396.52% and 337.89% in value and volume terms respectively. Similarly, total non quota imports increased by 364.70% and 409.19% in value and volume terms respectively, during the same period. After 2006, however, the trends in quota and non quota imports diverge; whereas quota imports fell in both value (7.94%) and volume (48.49%) terms, non quota imports continued to grow by 26.47% (value) and 40.97% (volume) in 2007. The divergence of the value and volume indices in 2007 indicate rising prices in quota categories and falling prices in non quota categories.

Figure 47: Demonstration of imports in quota and non-quota categories: 2000-2007

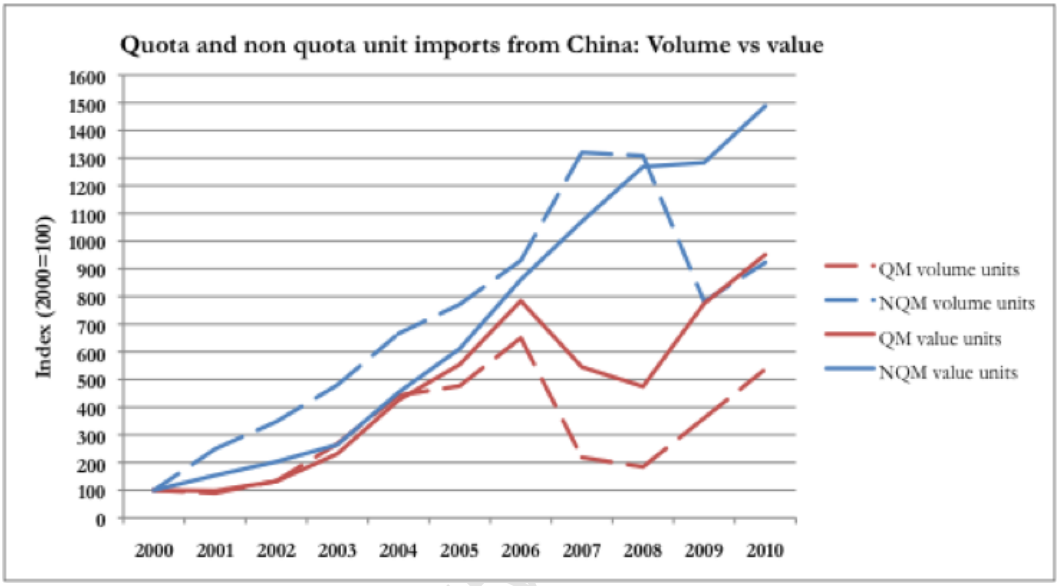


Source: Reproduced from Sandrey 2006 with Clotrade data Own calculations

(Data adjusted for forward purchasing of 42.5m units at R10.21 per unit)

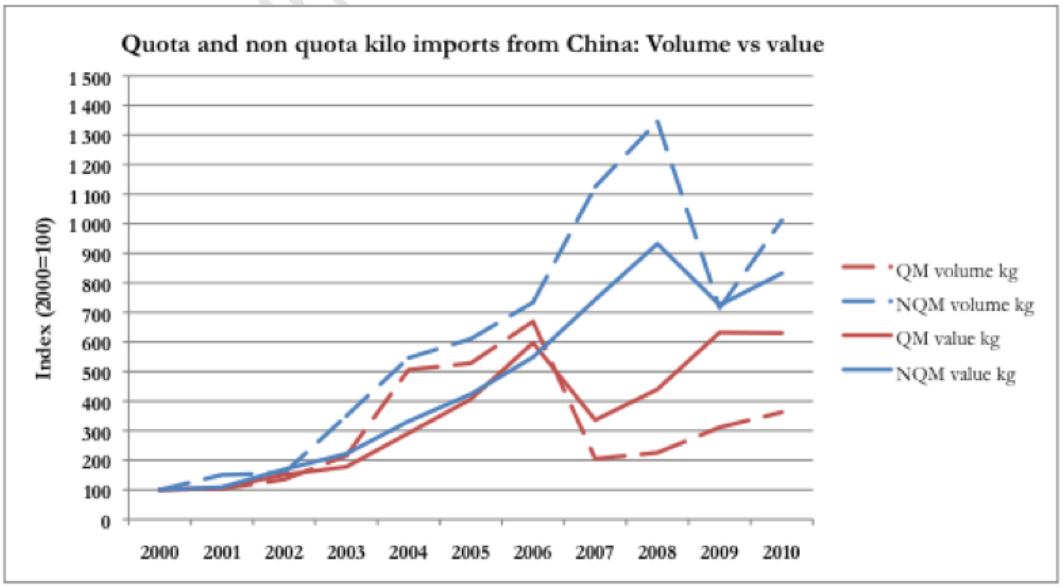
This divergence was even more dramatic for imports from China, which is amplified at the unit and kilogram category level (Figure 48 and Figure 49). Before quotas there were always unusually large divergences between the value and volume for kilogram categories recorded from China compared with unit categories, which until quotas were relatively stable. This changed after quota imposition, with unit categories exhibiting more volatility during the quota period.

Figure 48: Divergence of volume and value unit imports from China in quota and non quota categories



Source: Clotrade (Own calculations)

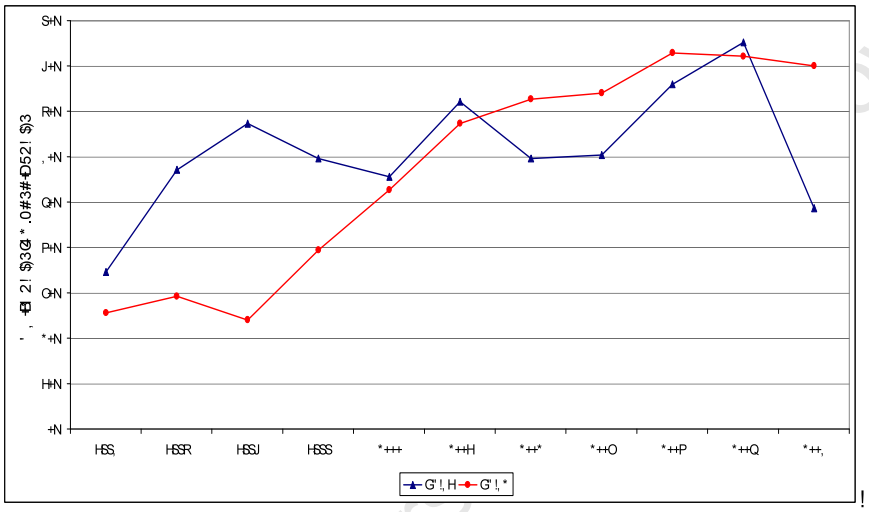
Figure 49: Divergence of volume and value kilogram imports from China in quota and non-quota categories



Source: Clotrade Statistical Database (Own calculations)

A comparison of Chinese export data and South African import data shows that there was significant inconsistency between reported export levels by the Chinese and reported import levels of the same goods into South Africa, and especially in HS62 categories which are largely declared by kilogram and for which monitoring is more difficult since garments of different cost, quality and complexity are mixed in a container and customs officials are not equipped with sufficient knowledge to differentiate between them at the product level. On balance, the trade data confirms that some level of underreporting was likely occurring (Figure 50 below) (Sandrey and van Eeden 2007).

Figure 50: Ratio of annual South African imports to annual Chinese exports: 1996-2006



Source: Sandrey and van Eeden 2007

Under-invoicing was not a problem unique to South Africa. Concerns about undervalued imports from China were being expressed globally. In 2004, the World Customs Organisation called a meeting at the WTO to explore different ways to assess under-valuations but without resolution. There were two separate issues in this respect, the first was the problem posed by 'distressed goods' and the second, was the issue of structured under-invoicing. 'Distressed' merchandise is the byproduct of large production runs. Since the cost is factored into the contract price and thus borne by the customer, these garments can be sold at a jobless price (Ref Footnote 80). Under WTO rules, if the price paid is the same price that would be fetched in the local market, i.e. the home price is the same as the export price, the goods cannot be deemed dumped. However, according to Kipling, the problem is that these goods can be

bought at a price that has no relation to the value of the goods. Whilst it is impossible to plan a retail strategy solely around distressed goods, they do offer pockets of value and working through intermediaries and agents allows for plausible deniability of source.

The South African market presents a particularly ideal solution to distressed goods for a number of reasons. Firstly, there are no major US retailers operating in the domestic market to create a conflict of interest; and secondly, the South African market is fundamentally the same as the US market but with one season time lag between Northern and Southern hemispheres. In 2003, local firms were being subjected to intense price suppression from retailers due to the abundance of distressed goods, and many closed down in consequence to this. Interviews with large retailers revealed that quotas had encouraged them to cut out third party suppliers to create transparency in their supply chain and avoid being implicated in illegal imports. Qualitative evidence suggests that the quotas drove a significant rationalisation of the supply base as "honest" retailers eliminated potentially compromising supply sources. One interviewee stated: "If the price was to cheap, we took them out. We have rationlised our supply base on supplier performance and compliance." The same source confirmed that illegal activity had hiked under the quotas but that there was no evidence of any concerted effort by government to tackle it.

A greater problem however lay with 'structured under-invoicing', which is broadly practiced by importers to avoid payment of full duties. In respect of the macro trade price data, the clearest case for under-declarations is Malaysia, which was flagged by Clotrade as a potential transshipment hub before the China quotas had even been introduced. Clotrade (2007b) showed that imports from Malaysia grew 555% - from R2.5m (2006) to R16.5m (2007). Units grew from 38,000 to 2 million, a growth of over 5000%. Imports declared under kilograms grew from 7,500 kg to 62,000kg, a growth of 726%. Average prices dropped from R47.73 in 2006 to R6.72 in 2007[82] before rising again to R59.76 in 2009 (Ref Table 45). Similarly, imports from Macau grew from R613,000 in 2006 to R4.82m in 2007, a growth of 687%. Unit imports grew by

[82] In a circular to members September 2007, Clotrade made this point very forcibly "Malaysia, coming from a position of exporting only 80,000 units to South Africa in 2006, has now passed India to become the second largest exporter to South Africa after China in **volume** terms. Exports from Malaysia are now 10.4 million units at an average price of R5.09 for a total value of only R52.8 million, a 26,000% growth year-on-year. Even China would be impressed with this remarkable performance in such a short period."

700% (5000 to 40 000) and kilo imports by 53,025% (32 to 17 000). Average prices dropped from R66.58 in 2007 to R42.85 in 2008 and increased to R113.03 in 2009. Finally, prices for imports from Turkey behaved erratically between 2007 and 2009 - R19.57 to R77.44 - which opens the door to questions about transshipment through some Eastern European as well as Asian countries.

Table 45: Import prices from Malaysia: 2005-2010

Year ('000)	Volume ('000)	Value R('000)	Price (China)	Price (Malaysia)
2005	287	8,378	4.22	29.19
2006	236	9,447	10.72	39.69
2007	19,257	112,773	11.68	5.86
2008	21,263	151,680	14.24	7.13
2009	321	19,183	17.60	59.76
2010	338	19,019	15.14	56.27

Conclusions on illegal imports

Consistent with expectations, the trade data suggests that the quotas encouraged importers to "cheat" more. This is gleaned from massive increases in imports from regions which have historically low levels of imports, such as Zimbabwe, although Singapore was also fingered as a gateway country, along with Hong Kong and Myanmar. Furthermore, the highly irregular behavior of unit price data between quota and non quota imports and between imports recorded by unit and by kilogram within these categories broadly evidenced undervalued imports. The low import values from Malaysia are incorrigible proof that imports were being transshipped and under-declared through certain regions. Government failed and as some have argued, inexcusably so, to acknowledge the at times preposterously low import values which present an immediate threat to local manufacturers.

Despite the evidence, only one case of quota prosecution was recorded, which is a poor indictment on the South African customs system and the DTI[83]. Two possible explanations for government's sluggish concern over this issue were firstly, the implication of strong action from the informal sector – which is large and growing – and fear of recriminations from grass roots consumers that depend on these imports; and secondly, the involvement of organised crime[84].

[83] According to one ITAC official, South Africa compromised its ability to prosecute China for anti-dumping allegations by granting China market economy status in reciprocation for its co-operation on their quota plan (Business day 2007).

[84] This was an explanation volunteered by an interviewee in 2011.

Chapter 6: The impact of the quotas on the clothing industry: The manufacturer response

This Chapter examines the impact of the China quotas on the clothing industry, which was the explicit intended beneficiary of the intervention (Sharma 2006). An explicit objective of the China quotas was to give the sector a two year pause from Chinese import competition for it to "restructure and become globally competitive…by encouraging local retailers to source from local manufacturers" (DTI 2006). This optimistic outcome was predicted on several assumptions: Firstly, that constraints on local output expansion were exclusively demand side i.e. that greater demand for local produce would unequivocally translate into higher levels of local production and that local firms could infinitely meet this new demand; and secondly, that the South African clothing industry would be internationally competitive once Chinese imports were disregarded i.e. that Chinese imports would be substituted by locally made substitutes.

Local firms were advised to optimize on their locational competitive advantage of proximity and speed to market and to focus production efforts on high-end disposable fashion items rather than compete in low-end mass-produced items where imports are concentrated. However, this era of globalisation and the emergence of buyer driven value chains have fundamentally altered the basis on which firms can compete. In addition to offering good value in terms of price and quality, firms need to have manufacturing and knowledge capabilities encompassing all aspects of production; including sourcing and financing of raw materials, assembly of garments, packaging and delivery (Gereffi and Memedovich 2003; Kaplinsky, 2005; Barnes et al 2006; Gereffi 2005); and they must be able to fulfill many non production functions such as having a "feel" for their customers' market and culture (Gibbon 2002a).

The assessment of whether the quotas secured the competitiveness dimension shall be informed by the response of both firms and the sector as a whole to diminishing competition from China and the consistency of these outcomes with WCM principles and the DTI's objectives. The quotas were a temporary measure with the implication that the industry would inevitably be reopened to foreign competition; at this juncture, the future survival of the industry hinged critically not merely on the ability of firms to become integrated into the value

chain, but on their ability to insert themselves into the upper and more profitable segments of the value chain. The impact of the quotas on domestic competitiveness requires evaluating *how* rather than if, local firms are inserted in the value chain (Kaplinsky 2005; Kaplinsky and Morris 2006; Barnes and Esselaar 2006). This requires asking questions such as: How did the relative position of local firms in the value chain change as a result of the China quotas? Were identified constraints on competitiveness lifted by the intervention?

Three outcomes were possible at the end of 2008, the scheduled expiration date for the China quotas. There would either be i) more local firms supplying the market with increased employment, indicative of a reinvigorated clothing manufacturing sector which is responsive to the growing internal market; or ii) the same number of local firms with more imported goods and increased employment, where the relative percentage of local to imported goods remains constant but grows as domestic demand expands or iii) less local firms and decreased employment despite growing internal demand as imports are substituted for locally produced items; this would portend the collapse of the local industry as local firms fold under the competitive pressures of global competition.

Employment

An overarching aim of the China quotas was to address – to stave and even reverse – the employment loss in the industry. The South African Clothing Workers Union (SACTWU) claimed that 64 744 jobs were lost in the clothing and textiles sector between 2003 and 2006; and that these losses had occurred in direct consequence to clothing imports from China. The DTI expressly motivated their quota plan with these job losses. Since clothing is the most labour-intensive industry in the manufacturing sector, its labour absorbing bias is often emphasised in policy debates where reducing unemployment is the key policy objective. The China quotas are a strong point in case. The vociferous concern for formal sector job loss by the unions resulted in public focus being exclusively drawn to the impact of imports on employment (Morris and Einhorn 2008). The discussion on employment shall proceed with an analysis of employment trends during the quota period followed by an evaluation of the economic justification for the use of the China quotas to address the unemployment problem.

Employment trends during the quotas

Most studies of employment in the clothing and textile industry cite the official Statistics South Africa (StatsSA) data; for example, Kriel 2006 uses this data to argue that employment dropped from 206 947 in January 2003 to 142 203 in June 2006 (a loss of 64 744 jobs). However as Edwards and Morris 2007 demonstrated, there are major problems with using this data source as an indicator of employment trends since inappropriate comparisons of data drawn from different employment surveys create distorting breaks in the employment series, which considerably exaggerates the estimated job losses[85]. StatsSA conducts a bi-annual Labour Force Survey (LFS), which captures national household data on approximately 30 000 households. Given the small sample size, sub-sectoral or geographical levels, breakdowns are statistically problematic. However the data does provide a cautious indication of the clothing industry's informal economy size, which is not available from the industrial data. The LFS 8 data reveals that approximately 30% of clothing workers are employed by informal enterprises (IES 2000).

The National Bargaining Council (NBC) register of all firms and employees in the sector is the most reliable and continuous data source available (Morris and Reed 2008b). Analysis of employment in this thesis draws on this data although several caveats are made. Firstly, according to NBC records, registered employment actually increased in 2004, which makes January 2003 an unreliable base line[86]; for this reason, I use 2004 as a baseline for estimates. Secondly, the estimated job losses fail to take into account changes in employment in the entire value chain from production to retail; the focus on employment losses in production alone whilst ignoring simultaneous (and possibly larger than commensurate) employment gains in the retail sector may present a downwardly biased view of employment changes. Thirdly, the data does not capture and account for changes in the composition of employment brought about by a shift from formal to informal sector trade, non-registered companies, CMTs and micro enterprises since it does not include firms who avoided compliance officers' detection, nor those small CMT operations with less than five or six workers.

[85] Edwards and Morris 2007 posit that at least 50% of the 60 000 plus decline in employment estimated by the DTI obtains from statistical breaks between the underlying employment series used such that rather than actual job losses these declines are statistical artifacts arising from differences in surveys (p. 5)

[86] Using 2004 as a base shows that the number of clothing workers employed in the formal sector declined by 26,269 workers (25.9%) between December 2004 and December 2007, although the number of firms only declined by 11% in the same period.

The bold statement that "more than 55 000 jobs could be created by quotas" (Sharma 2006) is unsupported by employment trends in the industry. Table 46 contains data from the National Bargaining Council on the number of firms and employees in each region, and in the industry overall, for the two years of quota operation (highlighted in yellow), as well as for the two years prior to quota imposition and the two years subsequent to quota removal (highlighted in blue).

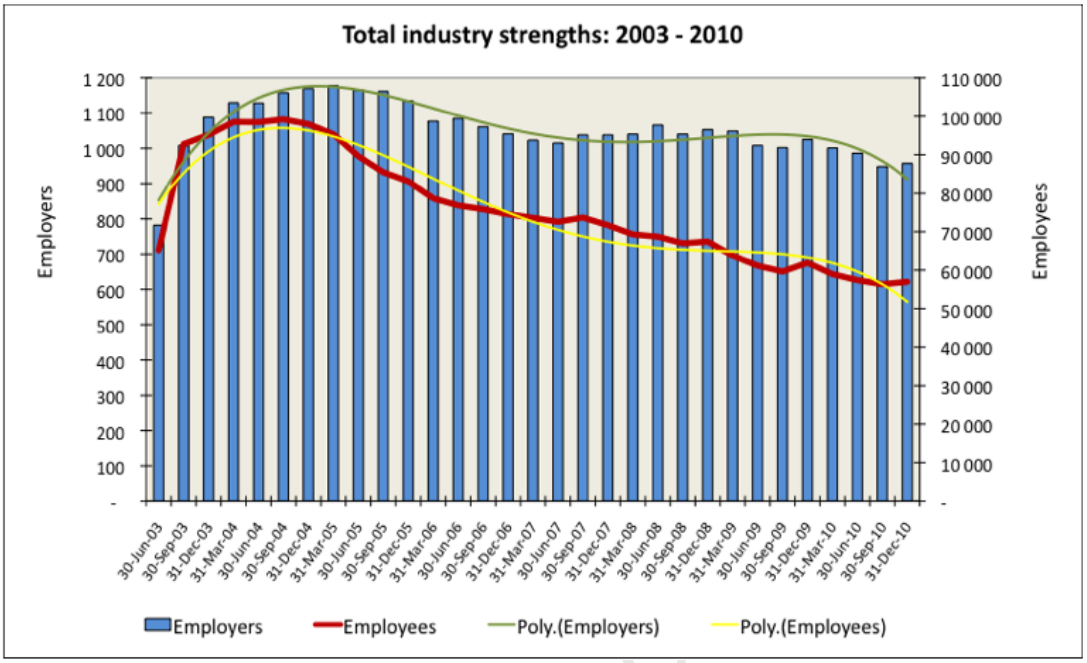
Table 46: Total clothing manufacturing firms and employee strengths 2004 - 2010

	WESTERN CAPE		EASTERN CAPE		KWAZULU--NATAL		NORTHERN AREAS		NATIONAL TOTAL	
As at	Firms	Emply's	Firms	Emply's	**Firms**	**Emply's**	**Firms**	**Emply's**	**Firms**	**Emply's**
31.03.2004	346	34,130	47	4,673	375	37,077	361	22,659	1,129	98,539
30.06.2004	345	32,981	45	4,501	371	38,156	367	22,828	1,128	98,466
30.09.2004	350	33,220	45	4,501	404	39,487	358	21,999	1,157	99,207
31.12.2004	353	33,508	45	2,715	417	39,715	354	22,020	1,169	97,958
31.03.2005	362	33,196	47	2,732	421	38,538	347	20,878	1,177	95,344
30.06.2005	360	31,628	47	2,330	420	36,401	344	19,249	1,171	89,608
30.09.2005	359	30,896	44	1,427	407	34,627	363	18,473	1,173	85,423
31.12.2005	346	29,547	43	1,384	396	34,204	353	17,946	1,138	83,081
	30.40%	***35.56%***	***3.78%***	***1.67%***	***34.80%***	***41.17%***	***31.02%***	***21.60%***	***100%***	***100%***
31.03.2006	329	28,680	44	1,582	386	32,476	341	15,946	1,100	78,684
30.06.2006	326	28,375	44	1,462	379	31,977	332	15,034	1,081	76,848
30.09.2006	325	28,591	44	1,473	370	31,492	326	14,296	1,065	75,852
31.12.2006	321	28,451	46	1,903	358	30,147	323	13,955	1,048	74,456
	30.63%	***38.21%***	***4.39%***	***2.56%***	***34.16%***	***40.49%***	***30.82%***	***18.74%***	***100%***	***100%***
31.03.2007	311	28,369	46	1,930	350	29,846	316	13,467	1,023	73,612
30.06.2007	307	27,878	48	1,946	348	29,065	312	13,682	1,015	72,571
30.09.2007	309	28,291	49	2,215	352	29,210	328	13,974	1,038	73,690
31.12.2007	302	27,502	50	2,517	348	27,463	338	14,207	1,038	71,689
	29.77%	***38.39%***	***4.72%***	***3.01%***	***33.91%***	***39.64%***	***31.60%***	***18.96%***	***100%***	***100%***
31.03.2008	311	26,750	50	2,260	343	26,940	336	13,335	1,040	69,285
30.06.2008	315	25,995	46	2,136	352	26,520	353	14,057	1,066	68,708
30.09.2008	308	25,481	36	1,611	348	26,008	348	13,864	1,040	66,964
31.12.2008	293	24,962	36	1,611	372	26,829	352	14,029	1,053	67,431
	27.85%	***37.07%***	***3.42%***	***2.39%***	***35.27%***	***39.70%***	***33.46%***	***20.84%***	***100%***	***100%***
31.03.2009	303	24,437	36	1,611	358	24,221	352	13,532	1,049	63,801
30.06.2009	296	24,277	-	-	365	23,819	347	13,077	1,008	61,173
30.09.2009	297	23,629	-	-	358	22,941	347	13,077	1,002	59,647
31.12.2009	305	25,189	-	-	373	23,675	347	13,077	1,025	61,941
	29.76%	***40.67%***	-	-	***36.39%***	***38.22%***	***33.85%***	***21.11%***	***100%***	***100%***
30.03.2010	309	24,721	-	-	345	21,182	347	13,077	1,001	58,980
30.06.2010	298	24.023	-	-	341	20.306	347	13.077	986	57.406
30.09.2010	298	24.210	-	-	338	20.055	312	12.076	948	56.341
31.12.2010	295	23.379	-	-	345	21.353	317	12.253	957	56.985
	29.89%	***41.03%***	-	-	***34.52%***	***37.47%***	***32.12%***	***21.50%***	***100%***	***100%***

Source: Clothing National Bargaining Council

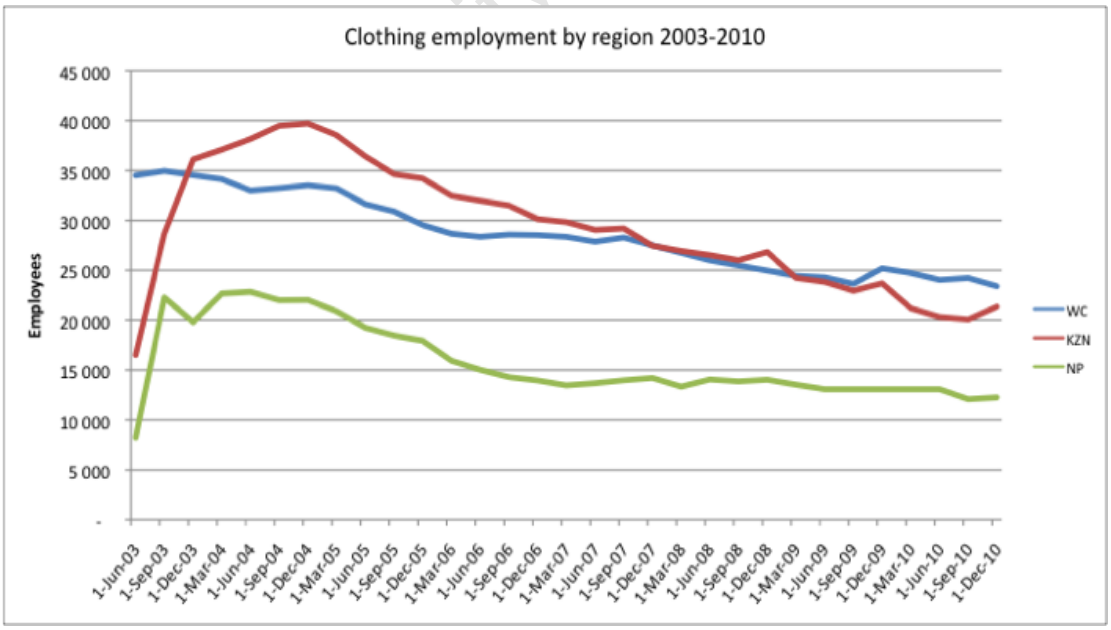
The same data is depicted graphically in Figure 51 and Figure 52 and illustrates the real decline in clothing sector employment and industry strength between 2004(3) and 2010 respectively.

Figure 51: Total clothing manufacturing industry strengths: 2003-2010



Source: Clothing National Bargaining Council

Figure 52: Clothing employment by region: 2003-2010



Source: Clothing National Bargaining Council

NBC data records show that in the first year of quotas, 2,767 formal sector jobs were lost and 10 firms closed down; and in the second year, despite 14 new firms opening doors, a further 4,359 employees lost their jobs. The net loss to the formal clothing sector for the entire quota period was 7,126 jobs. If one takes the heartland of the sector (Western Cape and KwaZulu-Natal), which was supposed to benefit the most from the China quotas, the employment losses were an even greater 6,897 (comprising 3,579 and 3,318 respectively). On the other hand, the pace of the decline did slow during the quota period to 9.57% compared with 23.99% for the two-year period prior to quota imposition during which 23,502 jobs were shed. However, once quotas were removed, employment in the sector hemorrhaged badly. Between 2008 and 2010, 10,345 jobs were lost and 95 firms went out of business (Table 47). At the end of 2010, 957 firms formally employed 56,985 workers; this compares with 98,539 workers in 2004.

Table 47: Employment and industry strength post quotas

	Employees		Employers	
	Employee %	Employee no	Employers %	Employers no
Dec 04- 05	-15.19%	-14877	-2.65%	-31
Dec 05-06	-10.38%	-8625	-7.91%	-90
Dec 04-06	-23.99%	-23502	-10.35%	-121
Dec 06-07	- 3.72%	-2767	-0.95%	-10
Dec 07-08	- 6.08%	-4359	1.35%	14
Dec 06-08	- 9.57%	-7126	0.38%	4
Dec 08-09	- 8.00%	-5389	-2.57%	-27
Dec 09-10	- 8.00%	-4956	-6.63%	-68
Dec 08-10	-18.15%	-10345	-9.93%	-95

Source: Clothing National Bargaining Council Own calculations

It is thus very clear that the quotas fell far short of their mark in terms of the DTI's projections for employment generation, which supports predictions by analysts that this was a completely unrealistic expectation based on the fundamentals (Edwards et al 2006). The statistical results on employment presented above are backed by evidence gathered from qualitative interviews with 20 clothing and textiles manufacturers in KwaZulu-Natal and Western Cape conducted in September 2007 and a survey of 32 clothing manufacturers in the Western Cape and KwaZulu-Natal that I conducted co-operatively with Clotrade in September 2008. My main findings are summarised below.

13% of the firms interviewed reported that they had expanded their workforce, 40% reported no changes at all, and 47% of firms reported either a reduction in the workforce or that they had put workers on short time, or both. With regard to the last group, it is important to note that most of the downsizing was not wholly or directly the result of quotas which occurred exclusively in non-core production areas. For one firm, it was part of a strategic move to shrink its merchandise design band. In the remaining firms, it was largely driven by a consolidation of the management function in response to a general downturn of the industry.

However, the real impact of quotas on employment is better measured by the "opportunity cost" to employment – i.e. how much employment firms believe they could have created had quotas not been imposed. By these counts, the cost was significant.

> "We were growing nicely before quotas and we could have employed more people, but the quota on fabric has cut all possibility of increases."

Even in the two exceptional cases where the firms had actually expanded their workforce, this growth was either not attributed to quotas,

> "Our growth is entirely due to our adoption of WCM practices; it is a classic product of proper value chain alignment and forging collaborative relationships with other stakeholders."

or, was expected to reverse once quotas disappeared.

> "The quotas have helped us with our political battle to grow employment, but since it has occurred exclusively in an area in which competition from Chinese imports is most fierce, we cannot guarantee that it will continue once quotas go."

Whilst the surge of imports from China must have contributed to job losses in certain areas, it should rather be seen in the context of lost opportunity to grow the local clothing sector. Hence, the cost of the China quotas should be based on estimations about how many jobs may have been saved had the CSP been implemented instead of this intervention (Kipling 2011). For instance, a Clotrade survey on employment prospects in early 2007 indicated that whilst 19% of

member firms intended on increasing staff in the following six months, 15% still intended reducing employment whilst 66% intended remaining the same. In particular, the delay in the CSP due to the fall out between business and the DTI over the China quotas was accountable for much of the job loss between August 2006 and July 2007. This is because a Key Action Program in the CSP, specifically, the KAP that proposed the removal of duties on fabric and trim, would have made a significant contribution to job creation (Clotrade 2007b).

Sources of unemployment in the South African clothing sector

In theory, the employment argument for quotas is underpinned by the assumption that restricting imports will generate greater demand for locally produced substitutes, which will generate an increase in local output and in the process, in the demand for labour. In this way, import restrictions, such as quotas, hypothetically contribute to a reduction in unemployment in the sector. The new labour hired, it is argued, will earn spendable income, which via the Keynesian multiplier process will cause other industries to expand and add more jobs (Bivens 2003) is widely accepted that employment multipliers in manufacturing as a whole are larger than in other sectors of the economy with the implication that job loss in the manufacturing sector has large ripple effects throughout the larger economy.

The Industrial Policy Action Plan (IPAP), released in August 2007 as the implementation program for the NIPF noted that "(…) the clothing and textiles sector has been under intense pressure since the mid-1990's, negatively impacted by periods of currency strength and fierce import competition, especially from China. Notwithstanding, the sector cannot be left to wither away due to both its contribution to employment as well as to retain core capabilities that have been built in the sector." (CSP 2004). The DTI dialogue on employment and the clothing sector in the IPAP is transparent with respect to the DTI's views on imports and jobs: Firstly, China is the primary cause of the sector's demise and secondly, trade protection would allow the industry to restructure to become internationally competitive and create new jobs, both directly and indirectly through its multiplier effect.

The use of quotas to address unemployment in the sector was predicated on a direct causal link between job losses and imports from China. However, experts argued that the employment impacts of Chinese imports were far more complex, diverse, multifaceted and contradictory

than were reflected in SACTWU's claims (Morris and Einhorn 2008). Unemployment was not solely a consequence of trade liberalisation but was a function of a number of factors playing out at the time, of which rising imports were but one.

Firstly, the spike in exports between 2001 and 2003 (Ref previous sections) generated an estimated 12,000 jobs; hence Kipling 2006 argued that 12,000 of the total job loss between 2002 and 2007 was in fact due to a collapse in exports, which was in turn as a result of the strengthening Rand and rising production costs which were unaccompanied by productivity improvements.

Secondly, a key finding from firm interviews was that despite the employment losses being experienced by the formal sector due to firm closures and retrenchments, surviving formal sector manufacturers were unable to find qualified machinists to recruit. Furthermore, the labour pool, particularly at operator level, but increasingly in other production areas too, was diminishing at an alarming rate. Evidence from firms suggested (particularly in clothing) that some unemployment in lower occupational spheres was voluntary, motivated by debt and access to UIF and provident funds to settle this debt, migration to higher wage sectors and staying at home to maintain a subsistence level of income from government grants.

> "At the end of the day, all people care about is take-home pay. So if they can work from home where they can take care of their kids and not have to expend money for travel, avoid deductions for UIF, union dues, industrial council contributions etc., they probably earn more by working in the informal sector than they do working in the formal sector."

> "Of all the thousands and thousands (of machinists) that have lost jobs, none want to come back into the formal industry. Bottom line is they get more money working for backyard CMTs than they would get working for a formal enterprise..."

> "What people want is flexibility. When they join a CMT, they can work four days a week if they want to. There is very high absenteeism in CMTs for precisely this reason…"

This implied that the employment problem was fundamentally a *formal* sector problem and that net involuntary job loss in the sector was significantly less than the official numbers implied. The sloughing of formal sector employment over the past decade is best interpreted as a manifestation of the radical restructuring of the industry in response to competitive pressures from imports (Morris and Einhorn 2008). This spurred a drive towards cost efficiency and lower overhead structures and a re-composition of labour as workers traded employment in the formal sector for self-employment in small, often home-run enterprises sub-contracting to large manufacturers or supplying retailers directly (Morris and Reed 2008b; 2008c). One of the problems facing analysts is the insufficient knowledge of employment numbers, working conditions and wages for the informal sector but the scale of their existence means that the

CASE STUDY: INFORMALISATION OF EMPLOYMENT: A RACE TO THE BOTTOM?

Aruna Clothing and Textiles is a small clothing manufacturer supplying women's wear ranging from dresses to cocktail dresses, tops, skirts and pants to high end boutiques throughout South Africa servicing mid to high end consumers. 20 to 30 units of each style are produced to preserve exclusivity. The garments are highly fashion oriented which implies that remaining on par with the European fashion season is imperative. Fast fashion has increased both the frequency of seasons and reduced the lag between South Africa and Europe to a few weeks.

Initially the company, which employed 25 workers, maintained production exclusively in India to take advantage of access to the large variety of good quality locally produced fabric and highly skilled and productive labour force. Having established a sustainable customer base in South Africa, two years ago the company explored possibilities for production in South Africa. This was driven mainly by logistical contingencies such as the ability to physically monitor and control production (the owner is resident in South Africa) and reduce replenishment times, although import duties, which raised the landed cost of the garments, also played a role.

Over the past few years a small portion of production has been shifted to South Africa on an experimental basis. Work is outsourced to CMTs based in and around Athlone, Mitchells Plain and Woodstock. The operations comprise 4 to 5 people who charge between R50-R150 per unit depending on the complexity of the garment. Due to their nature, the garments (which are silk) have a high skills requirement and special on the job training was required to upskill the CMT'ers in basic operations relating to silk.

Despite the advantages - outsourcing all production to CMTs would avoid the overhead costs and full time employees that the company is obligated to in India - a decisive shift in production to South Africa was hampered by a number of factors; primarily, the lack of skills, low quality of work, poor work ethic and lack of commitment. Not only are wages in India lower (for instance a patternmaker earns R8000 or Rs50000 per month vs R10000; and a machinist Rs1587 vs R6000), productivity is also very high since production is geared for the US and EU markets. The company acknowledged that low levels of motivation and productivity in South Africa likely stem from informal employment and the insecurity that accompanies it. At the same time, it could not envisage a profitable formally established CMT operation in South Africa due to high and inflexible formal sector wages and working hours (although India also works on a fixed wage basis and firms employing over 50 workers are unionised), the high cost of fabric (which is R27/m in India compared with R200/m in SA due to import duties) and lack of local alternatives therefor; and finally, lack of government effort around training incentives and upskilling clothing sector workers aimed at boosting work effort and improving levels of productivity in the sector.

whole formal sector job loss issue is distorted by the concurrent rise in informal sector employment (Morris and Einhorn 2008). Whilst it is extremely difficult to determine precisely the number of jobs lost in total in both formal and informal sectors of the clothing industry due directly to the surge of imports, what is absolutely clear is that there has been an enormous loss of opportunity to grow the clothing industry (Kipling 2011).

Motivation for the quotas: Unemployment or non-compliance?

Enforcement of collective wage agreements, legislated working hours and working conditions fall under the purview of the National Bargaining Council (NBC), which is the institutional mouthpiece for the South African Clothing Workers Union (SACTWU). This is by virtue of the current configuration of South African politics; COSATU (Confederated SA Trade Union) is a partner in the governing coalition (the ANC). National Bargaining Council (i.e. union) power ensures that clothing sector wages remain at rigidly higher levels than those required to clear the labour market; this despite the obvious contradiction to the ANC's Manifesto commitment of employment creation. Wage rates and working hours were a major hindrance to local competitiveness in the run up to the quotas (Edwards et al 2006). The minimum wage of South African workers in 2005 was the equivalent of US$2,40 per hour, compared with US$0,40 per hour for Chinese workers (du Toit 2005)[87]. In addition to this, most Asian competitors work on a piecemeal system that significantly raises productivity. Requests by industry to alter the dispensation of wages to reflect the varying levels of productivity and different economic conditions across metro and non-metro areas were consistently rejected by SACTWU, as were those to lower the minimum wage to legalise non-compliant firms.

As members of the Bargaining Council, employers are legally obliged to unionise their employees. Furthermore, union membership fees are calculated as a percentage of a worker's wage. These two factors – compulsory union membership and payment of the minimum wage - by design create an incentive for SACTWU to enforce compliance, but at the same time for firms and employees to avoid detection. This led to high and rising levels of non-compliance in the industry in the run up to the quotas (Ref previous section). Primarily in KZN, firms relocated from urban to rural areas where wages are lower, a more flexible labour regime operates, and

[87] They also live on the premises and work in shifts, 24-hours a day, without extra pay for weekend work.

lower rates of unionisation are evident. Some firms have gone as far as relocating across borders to neighbouring countries such as Lesotho and Swaziland where the wage and regulatory environment is even less onerous.

To compound problems for SACTWU, employment in formal sector firms and hence in those in SACTWU's purview, was falling as many workers were retrenched or voluntarily exited the formal sector, partly and ironically, to avoid Bargaining Council levies (ref previous section). The upshot is that the unions were losing on all fronts. A large part of the unemployment problem was experienced by the union and superimposed on the industry with union membership losses presenting as a loss of clothing sector employment. SACTWU could not publicise this fact without simultaneously undermining its own motivations for the China quotas.

Output and competitiveness

Output volume and composition

To measure the effectiveness of quotas in stimulating local manufacturing activity, firms were asked to report on their output levels on separate occasions in 2007 and 2008[88]. Firm level interviews confirmed that, on the whole, the impact of quotas on clothing manufacturing firms was negative in terms of output. 26% of firms interviewed in 2007 reported a contraction of between 20%-40% in output (in units). 48% reported unchanged volumes. In 2008, 14% reported that they had produced more garments since quotas, 59% produced less and 28% produced the same as before quotas. The failure of the intervention to provide a sustained impetus to output growth and innovation during the initial period of the quotas was largely blamed on forward purchasing by retailers, which led to a complete over-stocking of the retail chain. In particular, firms revealed that the delay in implementation closed the window of opportunity that quotas were supposed to offer local suppliers since importers brought forward many future orders.

[88] During firm level interviews conducted in July 2007 and in a survey carried out in conjunction with Clotrade in September 2008.

According to one firm interviewed:

> "There was a total overstocking in the whole retail chain in preparation of quotas. Quota-wise, retailers got what they wanted in terms of a supply base and local business has not been flooded with orders as government anticipated."

These findings were supported by a Clotrade survey in 2007, which revealed that only 9% of respondents thought that quotas had had a positive impact on their business whilst 31% felt that it had actually hampered their business and 60% reported that they had had no impact at all (Clotrade 2007b p.8). If anything, quotas aggravated the situation for clothing manufacturers, particularly where restrictions on fabric were linked to unprecedented fabric price increases following the announcement of quotas (Clotrade 2007b).

> "We were just starting to grow nicely when our whole ability to expand was curtailed. In six months, we have shrunk by 30%; not only did we not increase orders, but we lost our existing supply base because we couldn't fill orders. "

> "If not for quotas, we would have had two full production lines with 20 people per line. Instead we have seen a 20% drop in output because our design house cannot source the fabric."

From a manufacturer point of view, capacity shortages were the greatest hurdle to exploiting the opportunity that quotas would hypothetically create since many textiles producers were simply unable or, in the eyes of many unwilling to, gear supply to the clothing industry.

> "The local industry did absolutely nothing to step up to the plate in delivering extra capacity to make up for quota restrictions and this cost us market share."

Interviews with local textiles firms in 2007 revealed an increased shift away from the manufacturing of inputs to supply local apparel production toward production of industrial textiles and supply to niche export markets. This was a continuation of a trend that commenced post 2001 when access to imported fabric culminated in falling demand for locally produced and more expensive substitutes. They also indicated this was unlikely to change in response to

the quotas or even in the medium run since they had retooled and restructured their production platform to meet export demand, which implied long-term financial commitment and structural rigidities.

The void in local fabric supply compounded a more exigent problem facing manufacturers, namely the shortage of imported fabric. This stemmed from the fundamentally flawed allocation mechanism for quota, both in terms of the basis for their initial calculation and the sanctioning of additional quota. Quota for the next period was based on quantity ordered in the current period. Consequently, only those firms who previously imported fabric from China in those precise categories under quota were eligible to apply for additional quota (Clotrade 2007b). Calculations for quota were based on an 18-month formula spanning one Summer and two Winter seasons. Since most manufacturers had finalized most of their orders (75%) for Summer 2008, this significantly jeopardized the percentages and created tremendous imbalances in (fabric) supplies. An examination of the restrictions shows that quantities for 2006 were anchored to between 10% and 15% above the 2003 imports in almost all cases, suggesting that these were the criteria used to base the regime upon rather than an more detailed approach (Sandrey and Jansen 2007)

Underutilisation of quota in both 2007 and 2008 (Table 48 below) broadly confirmed problems with the manner in which quotas were allocated and the procedures and regulations for the granting of additional quota.

Table 48: Quota utilisation for fabrics: 2007 and 2008

Period	Knits		Wovens			
	60.05	**60.06**	**52.08**	**52.09**	**52.10**	**56.14**
Jan-Dec 07	30.4%	39.1%	71.3%	15.3%	56.2%	55.4%
Jan-Dec 08	9.9%	16.7%	26.5%	5.7%	20.5%	26.2%

Source: Clotrade 2008

Given market unpredictability due to volatile consumer tastes and frequent fashion changes, it is virtually impossible to place future orders based on current demand patterns.

As one firm interviewed put it,

> "If we have an order on, say, code 6405 for this year, then we get quota for next year on this code …. But we may not need it next year because fashions may have changed. And the fabric that we do need we can't get because we didn't order it this year…"

According to interviews conducted, three areas which were hardest hit in terms of reduction in percentage were ironically those which, from a retail and consumer perspective, experienced the most significant shifts in demand; in particular, woven cotton fabrics (5208 and 5210), as well as knits (6006). Comparatively, too much quota was granted for other categories (5514, 6005 and 6006). In some instances, the design of the restrictions in terms of product coverage and scope completely lacked economic foundation or logic. Kipling 2008 illustrated one specific case in point. T-shirts was a product specifically excluded from quota whilst quota was implemented on fabric for the use in the manufacture of T-shirts. This led to the bizarre consequence of increasing the incentive to import the ready-made garments. Imports of T-shirts from China totaled 81 million units in 2007, up 36% on 2006 imports and this trend continued into 2008. Imports of T-shirts for the first six months of 2008 totaled R36.6m; an increase of 16% on the comparable 2007 period. This growth in imports during the quota period likely occurred at the expense of local T-shirts manufactured in 2006, which may explain the low utilisation of the quota (Clotrade 2007a).

The survey of manufacturers in the Western Cape and KZN conducted co operatively with Clotrade in 2008, by which time the (beneficial) impact of quotas should have been largely entrenched, showed that this picture had barely changed. If anything, the negative impact in respect of quotas on fabric compounded with time. Figure 53 summarises the response pattern of firms.

Figure 53: Demonstration of perceived impact of quotas on fabric availability and prices

	Price increase	No Price Increase
Fabric Shortage	Price increase & fabric shortage **37%**	No price increase & fabric shortage **26%**
No Fabric Shortage	No fabric shortage & price increase **7%**	No price increase & no fabric shortage **30%**

60% of firms reported that they had produced less than before quotas. Three of the firms in the sample (10%) did not respond to the question on price. In two cases, this was due to the fact that the fabric was not available in South Africa at any price. In the third case, it was argued that local mills were so incompetent that they were not even worth consideration as a potential supply source, thus ruling out the possibility for price comparisons. Of the remaining 90% of the sample, 66% of respondents indicated that they had been negatively affected by fabric shortages or delays. Of these, 45% reported they had suffered a severe adverse impact whilst the remaining 55% felt that the negative impact was manageable. Where some firms did not suffer fabric shortages, they reported problems relating to deteriorating fabric quality[89]. Furthermore, 41% of respondents believed that quotas had led to significant increases in local fabric prices.

Only 30% of firms believed they were unaffected by fabric quotas at all. 37% of respondents were affected by both fabric non availability and increasing prices. 7% reported increasing prices but no problems with supply; 26% reported supply problems but did not believe that prices had increased. One firm argued that the closure of some major South African fabric factories (such as BMD and Gregory) also reduced the options of local manufacturers.

[89] Firm 29 reported ongoing problems with quality of fabric from China and some new sources such as Bangladesh.

60% of those firms who were unaffected by fabric shortages experienced a drop in the quality of fabric available from both local and foreign suppliers, as well as increasingly poor delivery times. Even firms who had invested in upgrading their plant and workforce to be internationally competitive and should thus have been ideally poised to benefit from quotas, experienced losses due to fabric shortages and mounting problems in the supply chain. These were exacerbated by poorly contrived quota allocation mechanisms and implementation systems. Some clothing manufacturers experienced a drop in turnover due to quota, not on fabric, but on fully assembled garments. This happened where; manufacturers were importing components to make up garments; manufacturers were importing garments to make combination packs (Case Study 1); or manufacturers were cross subsidising their own products by importing high minute rate garments to balance their bottom line in production. In anticipation of falling prices received from retailers (due to low cost imports) and hence falling margins on their own products in the future, many local clothing firms had recently established or expanded their own imported clothing lines in order to maintain profits. Furthermore, 60% of those firms who reported they were unaffected by fabric shortages in 2007 experienced a drop in the quality of fabric available from both local and foreign suppliers, as well as increasingly poor delivery times. This flagged mounting problems in the supply chain, which would not be directly addressed by quotas.

CASE STUDY 1: FAULTY QUOTA MECHANISMS

Seven years ago, a large CMT identified a market gap for an underwire bra, which requires specific competency. It developed a product line with two bra lines, underwire and T-shirt to sell in combination with two of their established underwear lines, the g-leg and panty. The firm subsequently landed a contract to supply a large retailer contingent on its ability to supply a combination pack, which included a padded bra. This latter component incorporates seam-free technology, which is available exclusively from China. The firm began to import padded bras in February 2006. When quotas were introduced in January 2007, since it was a new entrant with a historically low import volume of this category, the firm was awarded zero quota for padded bras. The quota was awarded mainly to one large established company who had previously imported large volumes of padded bras. However, since there was a large amount of unallocated quota for panties, the firm was awarded substantial quota for this category, which it did not need. The firm lost its contract with the retailer and had to retrench 15% of its intimate wear workforce, the equivalent of 8% of its total workforce. This was the first retrenchment that the firm had witnessed in 18 years of operation. For the first six months of 2007, solely because of quotas, the firm's average monthly turnover fell by 52%.

The negative impact of the China quotas was exemplified at the smaller operator level. I gathered information from a small number of firms who pre quotas all supplied a retail chain that exclusively spearheaded South African designers. As symbols for the "buy local" campaign, these firms should have been the primary beneficiaries of the intervention that touted support of the local industry. The inability to secure quota for imported fabric due to their insignificant size and the high cost of local alternatives, or the lack of availability othereof, forced a considerable number of small firms to close their doors within the first six months and even more before the end of the first year and before quota expiry (this was based on "hear say" not actual evidence). According to the representative of one firm that supplies fabric to a significant base of small clothing manufacturers, fabric was the most binding constraint on productivity; in terms of quantity, quality, long delivery times and the delay in getting quota approved. Many never received concessions that they applied for. Their small size not only counted against them in pledging for concessions for extra quota on Chinese fabric, but also in their dealings with alternative foreign suppliers, such as Bangladesh and Pakistan who cater for large orders. Skills shortgages and labour costs were identified as the second constraint but these were largely circumvented by stepping up outsourcing to (informal) CMT'ers. Another source reported that many small firms subcontracted between 35% and 50% of their production to CMT operations before the quotas; this increased significantly during the quota period driven by an effort to reduce overhead costs to counter higher fabric costs. As one interviewee put it:

> "We have to maintain our prices on the shelf because we know that our customers buy our clothes beause they offer high fasion at good value. We can't suddenly hike our prices and expect the customer to understand. Fabric and labour are our two big costs, so we balance the increase in one (fabric) by lowering the cost of the other. If I employ a worker, I have to pay them a fixed wage, the CMT'ers charge by batch or even per garment, which makes a big difference when you average it out."

Few firms managed to preserve their pre-quota levels of inhouse production for the full duration of the quotas. Based on available evidence, most small firms had either scaled down their own operations by contracting a larger portion or, all of the production to informal CMT'ers on a piecemeal basis. Three firms interviewed had repositioned themselves to supply

small independent retailers and shifted some, or in two cases, all of their production offshore to India.

In meeting their objective of affording local firms protection from foreign competition, qualitative evidence from firms surveyed in both 2007 and 2008 indicated that China quotas had merely added an additional layer of complexity to operations. The lengthy application processes and red tape delayed the granting of additional quota to firms, which prejudiced their ability to service their customers and extract future orders from retailers, which resulted in business going to overseas firms. Comments from firm representatives emphasised the significant supply chain disruption that quotas caused whilst creating an extra layer of inefficiency:

> "As far as the beneficial impact of quotas on the local market is concerned, these have been negligible. But they have made doing business more difficult. The quotas are a blunt instrument and have not taken into account the fact that a number of fabrics and garments that were being imported from China are not readily available in SA."

> "Application for extra quota took over four months. This resulted in numerous orders being cancelled while our fabric was stuck in the docks awaiting clearance."

Relationship with retailers

Problems with fabric quality, the lack of ranges and postponed delivery dates for garments, all directly as a result of quotas, had an adverse impact on customer relations for 37% of respondents in the 2008 survey. 3% of respondents (one firm) believed that quotas had positively impacted on their customer relations. 60% did not believe that that there had been any change at all. Although retailers in principle supported the "buy local" campaign, they were cautious about the ability of local fabric suppliers to deliver on quantity and quality across the board. As one major retailer explained, there were limits to this process:

> "We intend to increase our local component significantly, but are extremely concerned that there are a number of fabrics that the local market cannot make that are identical or similar, correct fashionability for the season and of correct texture and weight."

In addition they warned that a price that was "too far out" would simply lead to the procurement of ready-made garments from quota-free areas. What is more, manufacturers conveyed retailer sentiments that their predicament was largely their own creation:

> "Our customers have become more distant with price being the only criteria..."

> "Our customers believe that as manufacturers we requested the quotas which is simply not true. As a result, they sought cheaper garments elsewhere, and found even better value than China in Bangladesh, Vietnam, Malaysia and Myanmar, or simply resorted to buying transhipped garments."

Finally, manufacturers believed that the full brunt of the restrictions was never brought to bear on importers who simply transshipped a large bulk of their product. The belief that local firms lost business to illegal imports was incongruent.

"A lot of my customers buy from the Chinese who are able to supply quota items..."

An importer of a well-known branded product confirmed these suspicions:

> "As soon as I heard about quotas, my first thought was: How can I get around this? I flew straight to Bangladesh and enquired how I could get my garments made up there and sent to South Africa with my company's label on. The answer was: There is no difference, the stuff is still made in China, just the paperwork changes because it leaves from Singapore!"

Firms were asked to rank on a scale of 1 to 10 (1=lowest; 10=highest) the effectiveness of quotas in providing protection from import competition. A breakdown of their responses appears in Table 49 below.

Table 49: Demonstration of perceived impact of quotas on import competition

Scale	Respondents
1	53%
2	20%
3	3%
4	7%
5	10%
6-10	7%

In general, firms argued that relief from foreign competition was temporary and short-lived because customers sought goods elsewhere and new sources were found. However when asked whether they believed their orders would increase or decrease once quotas had expired, responses showed that although 37% of firms expected their orders to fall - with 17% a major fall - 30% expected their order books to grow. 33% expected their orders to be unchanged post quota. Firms argued that rising costs in China would be a major factor in influencing future sourcing decisions and that this would govern the extent to which orders reverted to China upon quota removal. However, retailers emphasised the non-cost benefits of dealing with Chinese suppliers which override price concerns:

> "China prices are not the best in the World in quota and non quota classifications...China is however, more reliable in delivery date achievement and quality predictability than some of the cheaper sources."

Skills as a measure of competitiveness

Establishing whether firms had increased their skills demand shed some additional light on the issue of upgrading (and employment). A growing supply base would translate as increased employment and an expansion in the demand for skills. A change in skills requirements would indicate that firms had changed place in the value chain. The latter also partly addressed the question of whether firms were encouraged to innovate and progress to more complex garments or whether they remained locked into producing basics due to fabric shortages and other constraints.

The level and composition of demand for skills provide an important measure of the competitiveness of firms but it is not always possible to isolate changes in skills needs at the firm level (Morris and Reed 2008b). Nevertheless, two clear patterns did emerge: Firstly, the prophecy that quotas would assist in driving firms up the value chain was largely unfulfilled and secondly, quotas alone were insufficient to engender a sustained shift up the value chain due to compounding problems with skills shortages and skills gaps in the sector, which the intervention was not able to address. In 2007 there was no significant evidence that firms had upgraded to more complex garments. Manufacturing firms who were importing high minute-

rate garments from China prior to quotas to supplement their local range simply switched to alternative sources, mainly Bangladesh, Malaysia and India, as did the retailers.

Of the twenty firms interviewed in 2007, there were only two cases where firms changed their output mix as a direct result of the restrictions. In neither case was the shift toward more complex, higher-end garments nor was the trend expected to last beyond quotas. Both firms concurred that they been forced into niche markets in which they would not be competitive in an open economy. Both cases demonstrated the unintended consequences of quotas for local clothing manufacturers and illustrated how the quota allocation mechanism inherently favoured firms who were historically least supportive of the local market.

CASE STUDY 9: TRANSITORY IMPACTS OF QUOTA

One large clothing firm significantly expanded its schoolwear division as a direct result of quota on "woven shirts" which was sufficient only to cover its customer's requirements for outerwear. In addition to this, the firm opened a new factory to manufacture male underwear, a product, which it had previously imported and did not make locally. This was a strategic decision pre-empted by uncertainty surrounding the amount of quota that the firm would be granted as an importer of this product. The project cost billions of Rands and created 200 new jobs. However, in neither case were the gains expected to sustain once the constraints were lifted. In the latter case, in particular, the project was expected to generate a net financial loss to the company and the firm anticipated that the employment gains would also be reversed.

The 2008 survey of 32 clothing manufacturing firms yielded more interesting results. 43% of respondents reported that they had changed their output mix due to quotas. A somewhat unexpected result was that this shift was predominantly (69%) toward more complex, high value added garments with only 23% reporting a shift toward garments of lower complexity. This is the antithesis of what was expected from the quantitative restrictions. However, there was significant qualitative evidence that firms struggled to meet the new requirements in terms of greater garment complexity and enhanced quality.

> "Having no quota available forced us to task local contractors with production complexity beyond their capacity and/or capability. Orders were delayed and customers cancelled."

> "We have received orders for garments with greater complexity which is hard on labour."

With regard to skills, problems with recruiting machinists and other production staff had intensified due to a skills exodus from the industry. 67% of respondents reported skills shortages and gaps in their production line with fill times ranging from two to twelve weeks. 27% of respondents reported that they were tackling skills shortages by training internally. A key finding was that firms regarded skills to be their *greatest* constraint to growth, not the availability of fabric or the potential to secure orders. Even the most severely affected firms believed that a skilled workforce could have mitigated the negative impact of quotas. Quotas simply made a bad situation worse. Reasons given as to why machinists were leaving the industry partially related to the provident fund (55%) and flight to the informal industry but were also linked to the fading popularity of manufacturing jobs amongst young people:

> "We initially thought that the lack of machinists was due to the provident fund and UIF but we are now of the opinion that machinists feel that they work too hard and the new generation has an attitude of not wanting to work in a factory."

This was due to the generally negative image of the industry, as graduates opted for employment in the more glamorous, lucrative and thriving clothing retail or design sectors. Furthermore, poaching management skills from other economic sectors was limited. Given that managerial skills are generic, this skills pool was particularly vulnerable to attrition from skills migration (Morris and Reed 2008c).

These outcomes come with several caveats based on findings from the first wash of interviews in 2007. These importantly revealed that, whilst manufacturers all operate under the same competitive conditions and challenges pervasive in the South African clothing industry, a firm's potential to an become industry leader, and its relative dominance in the sector, is not based on these factors but rather on the firm's strategic vision of the future and extent to which World Class Manufacturing principles are engaged (Morris and Reed 2008c). Firms are differentiated by their strategic approaches to address competitiveness barriers based on their response to industry restructuring; and which fundamentally determined how the firm would respond to and to a large extent, how it would be impacted by the China quotas. In general, firms embracing WCM principles in their operational performance platforms - and thus opting for competitive dynamism over a wage war – were addressing competitiveness constraints by

internalising the problem and solving it within their own parameters; for instance, skills shortages were being tackled by training and upskilling existing staff or mallable new recruits. These firms had all but abandoned old and unproductive methodologies of recruitment (and ironically those which government policies ostensibly aim to reinforce).

Alternatively, firms trapped in the old methodology, reproducing an historically obsolete operational platform, were persisting with the old methodology of recruitment from the formal labour market, and this with diminishing success owing to skills migration to the informal sector (Morris and Reed 2008b; 2008c); or alternatively, by promoting existing staff, who were not necessarily equipped with the requisite skills or capabilities, into more senior positions leading to the paradoxical outcome that skills shortages were simply giving way to skills gaps at senior management level. This exacerbated rather than attenuated competitiveness pressures.

Fabric prices and middle man margins

There were two important channels through which quotas could potentially impact on manufacturers (and competitiveness); fabric prices and supply bottlenecks leading to shortages (Edwards et al 2006)[90] and import prices, both directly and indirectly by changing the composition of the import basket with the result that local manufacturers would be forced toward supplying the low end of the market. The latter is subsumed to Chapter 7 and the discussion on the price impacts of the quotas.

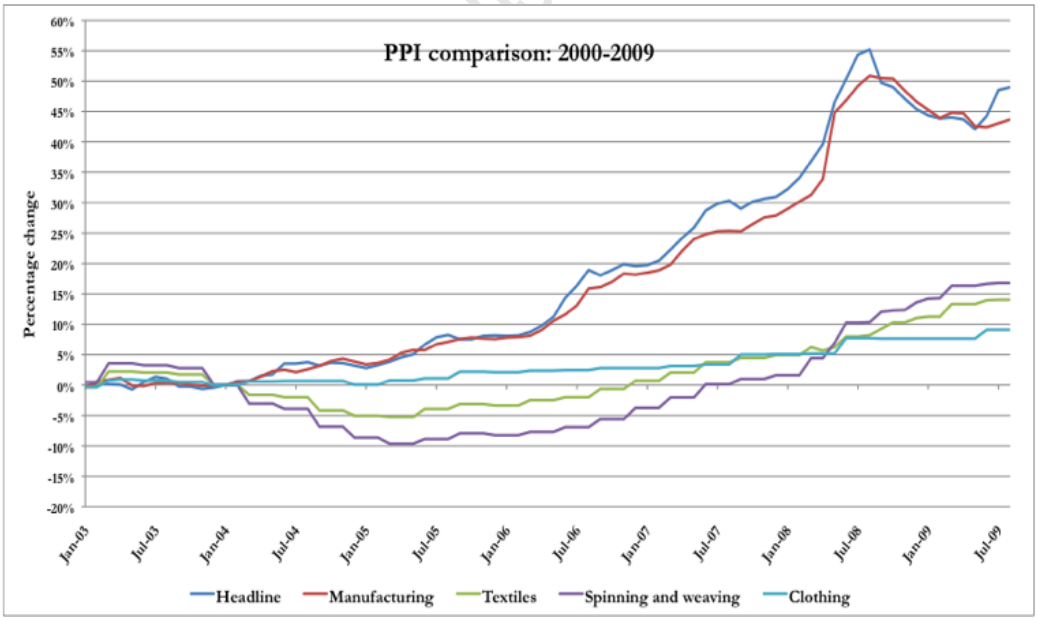
The principle issue for manufacturers was how the China quotas would impact the middleman mark-up, which reflects the extent to which manufacturers were able to pass on their higher costs of production to retailers. This determined the distribution of the benefits from quotas between value chain constituents. The available evidence from previous studies shows that the distribution of rents along the chain has historically been unequal, accruing disproportionately to retailers and consumers, with clothing producers struggling with very small profit margins and hence remaining particularly vulnerable (Morris and Reed 2008b; 2008c). A key question was whether manufacturers would be able to create a win-win situation by being able to secure

[90] Edwards, Kantor and Ross 2006 model several scenarios using different demand elasticities and supply shortfalls. Depending on the variables, they forecast a price increase ranging from 2 to 34%.

higher prices for their output and pass on their higher production costs – mainly due to higher fabric prices – to their customers; or whether they would remain squeezed between textiles manufacturers on one hand and the retailers on the other, and hence face diminishing margins.

Of those respondents who in 2008[91] reported that their output had expanded due to quotas, 60% said that margins had fallen whilst the remaining 40% reported that margins had remained the same. Of those who reported a contraction in output during the quota period, 82% reported a fall in margins and for 57% of these, the fall was severe. In at least one case, this resulted in the organisation running at a loss. 6% managed to maintain their margins and only 12% (one firm with a highly specialised and technical product) reported that margins had (marginally) increased. Finally, of those respondents who reported the same level of output before and during quotas, 50% reported that margins had fallen while the other 50% said that margins had been maintained. In summary, not one firm both increased its output and its margins during the quota period; either the gains to be had from increased sales were summarily negated by falling margins or those from increased margins were offset by falling output volumes.

Figure 54: Comparative PPI for clothing and textiles 2000-2007



Source: Stats SA Own calculations

[91] This was a survey conducted co operatively with Clotrade in September 2008

The pressure on margins is clearly brought out in the PPI graph in Figure 54. Compared to the robust performance for general manufacturing, which climbed to 39.63%, clothing PPI languished at 4.75% between 2004 and 2008, which is simply not enough to ensure new investment in upgrading of equipment and technology. Despite a general improvement in the PPI for both textiles and spinning and weaving since 2006, presumably due to quotas, the same stimulus is not evident for clothing for which the PPI remained relatively flat throughout the period.

Falling margins was a counterintuitive result given the evidence of quota trading[92]. Higher import prices should have alleviated some of the price pressure that manufacturers faced from retailers who benchmark local prices against import prices (Morris and Einhorn 2008). However, several factors undermined this price advantage and negated the ability of local firms to negotiate higher prices for their output.

First, although quota trading did occur in the immediate wake of the restrictions (ref Footnote 94), this margin may have been significantly lower where the restricted items were sourced from an alternative, possibly even lower cost supplier to China, or where they were imported illegally or at a significantly under-declared value (Clotrade 2007b; 2008a). Transshipments and irregular import activity from China services a large chunk of the informal clothing trade, especially at the discount end of the market where declared values may be underreported by as much as three times (Robbins 2007).

Table 50 shows average declared values from some of the new emerging exporters to South Africa. These figures suggest that some new supply countries to South Africa were a potentially lower cost source than China; although average declared values might be influenced by the type of product being produced, so that the aggregated figure is not necessarily a like-for-like comparison[93] (Sandrey 2006).

[92] Although retail defends all allegations of quota trading, there is some evidence that it did occur in the immediate wake of restrictions with agents commanding a premium of 20-30% (Bisseker 2006a; 2006b).

[93] Large quantities of low value items will skew the average value downwards.

Table 50: Comparative average declared values: China versus competitors

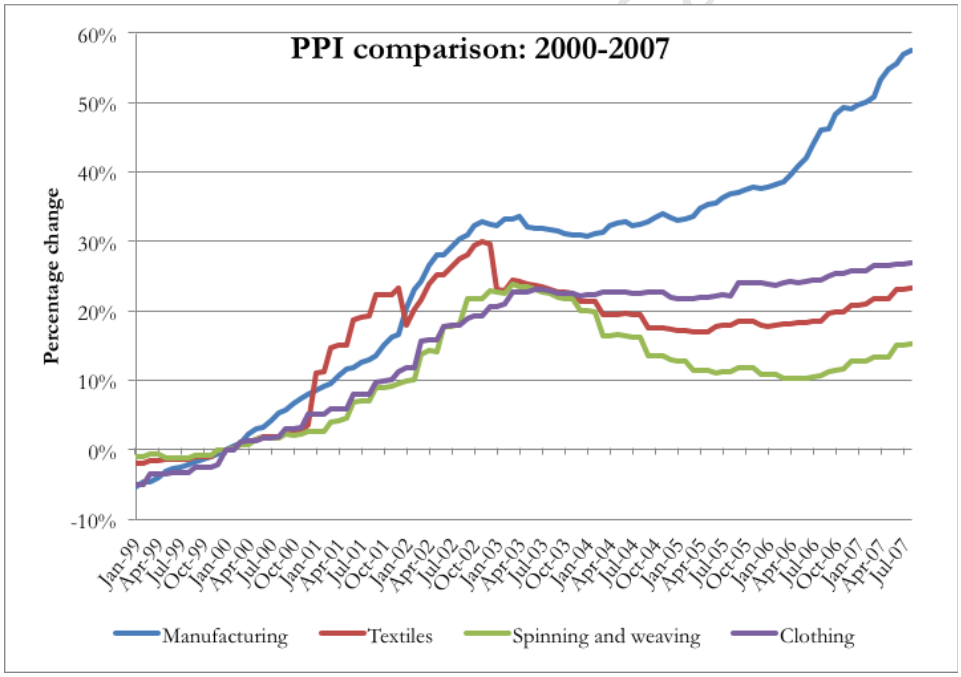
Country	Average Declared Values
Indonesia	R31.70
Pakistan	R32.18
Cambodia	R34.15
Mauritius	R34.98
Vietnam	R36.59
China (adjusted)	R37.02

Source: (Clotrade 2007)

Second, with regard to input costs, quotas definitely had their own impact. Clothing firms reported price increases from textile mills in September 2006 shortly after quotas were announced (Clotrade 2007a). According to one of the firms interviewed:

> "After quotas were announced, 'X' Textiles increased their prices on shirting by 16%, just like that!"

Figure 55: Comparative Producer Price Index (PPI) for clothing and textiles 2000-2007



Source: Stats SA

Figure 55 (above) indicates the sharp improvement in the PPI for Textiles and Spinning and Weaving in reply to the DTI'S quota revelation. Feedback from the clothing industry dismissed this as simple coincidence. The textile industry claimed that it had merely passed on recent increases in chemical costs from its overseas suppliers.

Despite rising prices due to fabric shortages and deteriorating quality, local clothing manufacturers found themselves in a position of having to absorb increased prices for fabrics but were unable to pass on these increased costs in total to retailers who "squeezed them to barely operable margins". Furthermore, even where firms were not directly affected by restrictions on fabric, one senior official contended that quotas were a "psychological problem" since they strengthened the position of fabric suppliers and reduced clothing manufacturers' bargaining power. As a result, lead times increased, which put manufacturers under pressure. Firms were similarly subjugated in their negotiation with retailers. The countervailing view among manufacturers who were hardest hit by quotas is that there is no garment that can be made locally that is not available everywhere else in the world. This simple fact increased retailers' bargaining power to the extent that pricing has become a unilateral process. Firms quite simply believed that retailers were not committed to supporting the local industry and followed the best price. They argued that the only benefit to sourcing locally was that retailers had the option of stopping production midstream to restyle. However, for this convenience, retailers offer no premium, which leaves local firms to compete on the basis of labour alone. This many saw as an exercise in futility given the constraints imposed by unions on wages and working hours.

> "We sell labour with the constraints and costs of producing a brand. We design a garment, source the fabric and carry all the costs of getting it to market, but at the end of the day all that we sell is labour…If we weren't unionized, we would survive. And, if we had a piecework system, our productivity would go through the roof, but the bargaining council would shut us down."

> "All we hear now from the retailers is: "We can import this garment at x cost. Can you meet it?" They only favour local suppliers for speed to market and because they have control over the product which allows them to make changes early in the process but all the while they are squeezing companies down the value chain out of business."

Third, local firms by and large lacked the production capacity and skills to support the sudden expansion in output volumes implied by the restrictions. At the higher end of the market, skills shortages and rising fabric prices hindered local competitiveness by raising production costs that may even have precluded participation in this segment at all.

An export perspective on the China quotas

Some pundits argued that imports would be less of a problem if South African firms were able to export more effectively; that is, if local firms were able to boost their exports, and thus reduce their dependence on the domestic market, the problems associated with imports would be partly ameliorated. However, there are several caveats to using exports as a measure of competitiveness in the South African case. Firstly, all our knowledge from industry experts and academics eschews any connection between the collapse of exports and the surge of Chinese imports. Unlike all other Sub Saharan African (SSA) countries, South Africa does not necessarily need to pursue an export-led industrialization strategy to grow its clothing sector. Kipling 2011 contends that if 1 million of the 34– 42 million garments that went to China had stayed in South Africa, thousands of jobs would have been created. The collapse of the export sector and the inability to grow exports arises from a host of other factors, such as the stricter rules of origin facing South African exports into the US under AGOA and the exchange rate (Morris 2006a; 2007; Morris and Einhorn 2008). Secondly, the competitiveness picture for the South African clothing sector is complicated by numerous artificial market distortions, including the combination of preference tariffs into developed (and particularly US) markets on the export side, SACU subsidies to its clothing sectors and on the import side, a 20% specific minimum duty on fabrics and 40-50% import tariffs on clothing into South Africa (Sandrey 2006).

Despite these inherent limitations, I included exports in the analysis for two reasons. Firstly, exports are relevant in respect to the fact that they opened the door to imports. Poor export performance in the run up to the China quotas undoubtedly contributed to the general decline of the sector by protracting and deepening the dependence on the domestic market. In relation to this, Kipling 2011 argues that it only takes 5% more capacity than demand to create doubt in the mind of the seller. Exports leveled the playing field to an extent that they removed the problem of the 5% under capacity and afforded exporters a small degree of bargaining power by marginally tipping the balance in their favour.

Secondly, a specific objective of the China quotas was to assist the domestic manufacturing industry to develop into an internationally competitive World Class producer (Sharma 2006). Rodrik proposes that “exports are a quick and dirty way of gauging how an industry is doing

relative to its world class competitors" (Rodrik 2007a). Large corporations play an increasingly important role in the allocation of export-oriented production of clothing such that the location of clothing production is largely dictated to developing countries (Gibbon 2008). Crucially for South Africa, amongst the factors that influence sourcing decisions is the ability to participate in high value products and engage in full package production. An assessment of South Africa's export performance during the quota period could thus provide an initial, albeit crude read on whether local firms were more competitive as a result of the intervention.

Comparative export performance of South Africa versus SSA and China

I shall start the discussion by situating South Africa's export performance in the broader context of global export markets by examining its performance relative to other SSA countries, who are its immediate competitors, but also to China whose domination in global export markets has constrained the ability of SSA countries, including South Africa, to penetrate global and particularly, US markets. The sheer volume of Chinese exports and the extent to which exports from developing and especially African countries would be "crowded out" by China following MFA quota liberalisation, underpinned generally negative sentiment around the prospects for developing country export growth in the post MFA era (Flanagan 2005a; Kaplinsky 2005; Kaplinsky and Morris 2006). A comparison of US import values for the top 20 product groupings exported by South Africa in 2006, 2008 and 2010 with those for China (i.e. US import values for China) in the same product groupings clearly demonstrates the insignificance of South Africa's exports to the US market in a global context. In 2006, the export value for South Africa's top 20 product categories constituted just 0.69% of China's export value for the same basket of products to the US; this share fell to 0.21% in 2008 and to just 0.06% in 2010. And to further exemplify the extent to which South Africa is dwarfed by China in the US market, knitted cotton pullovers and sweaters (611020) was the top export category to the US for both China and South Africa in 2006; China exported US$1,047.04m compared with South Africa's US$17.55m (although the unit price does suggest significant product differentiation; SA's export price was almost half (US$36.79) that of China's (US$60.46)).

The data in Tables 51 to 53 clearly demonstrates declining export competitiveness for South Africa during the quota period. Exports from South Africa to the US fell rapidly from a high of US$173.3m (R1,487.61m) in 2001 to a mere US$6.5m (R47.38m) in 2010, a compound decrease

of 86.19% between 2006 (the start of the China quotas) and 2010. 65.55% of this fall occurred during the period that quotas were in operation.

Table 51: Demonstration of South Africa vs SSA competitors in US and EU imports

	South Africa		Lesotho		Madagascar		Kenya		Swaziland		Mauritius	
	US	EU	US	EU	US	EU	US	EU	US	EU	US	EU
	EXPORTS BY VALUE (US$)											
1995	**55,9**	**66.9**	61,9	5,6	6,8	122,0	34,0	6,3	11,7	n/a	190,4	573,3
2001	**173,3**	**70,2**	214,8	3,4	178,2	239,1	64,5	1,6	48,0	0,0	238,2	598,7
2005	**67,0**	**50,3**	390,7	0,8	277,1	224,5	270,6	3,0	160,9	0,0	166,6	548,5
2006	**46,9**	**38,0**	387,1	1,1	238,4	290,0	262,9	1,0	135,2	0,1	118,7	607,4
2007	**23,8**	**27,0**	383,5	2,3	289,5	339,4	248,2	1,1	135,3	0,1	114,5	659,2
2008	**18,0**	**19,6**	339,7	2,7	279,0	319,8	246,6	1,5	124,9	0,1	101,3	620,9
2009	**10,7**	**15,2**	278,3	2,7	211,8	281,4	195,1	0,9	94,4	0,2	100,7	518,8
2010	**6,5**	**14,2**	280,8	2,0	54,9	252,0	201,8	1,5	93,5	0,0	119,7	435,0

Source: Comtrade Own calculations

Table 52: Demonstration of SA performance in US imports vs China, AGOA and other SSA

Period	**South Africa**	China	AGOA	Mauritius	Lesotho	Madagascar	Kenya	Madagascar	Swaziland
	CHANGE IN EXPORTS BY VALUE IN US$ (%)								
2006/2005	**-30,10%**	18,20%	-11,77%	-28,73%	-0,94%	-13,97%	-2,83%	-13,97%	-15,93%
2007/2006	**-49,15%**	20,65%	0,23%	-3,52%	-0,91%	21,43%	-5,60%	21,43%	0,04%
2008/2007	**-24,39%**	0,12%	-10,92%	-11,53%	-11,43%	-3,62%	-0,64%	-3,62%	-7,70%
2009/2008	**-40,81%**	1,51%	-19,91%	-0,62%	-18,06%	-24,09%	-20,87%	-24,09%	-24,39%
2010/2009	**-39,30%**	18,12%	-14,30%	18,88%	0,86%	-74,08%	3,42%	-74,08%	-0,99%
2008/2006	**-61,55%**	20,80%	-10,71%	-14,65%	-12,24%	17,04%	-6,20%	17,04%	-7,67%
2010/2008	**-64,07%**	19,90%	-31,36%	18,15%	-17,35%	-80,32%	-18,16%	-80,32%	-25,14%
2010/2006	**-86,19%**	44,84%	-38,72%	0,84%	-27,46%	-76,97%	-23,24%	-76,97%	-30,88%

Source: Comtrade Own calculations

Table 53: Demonstration of SA performance in EU(27) imports vs China and other SSA

Period	**South Africa**	China	Mauritius	Lesotho	Madagascar	Kenya	Swaziland
	CHANGE IN EXPORTS BY VALUE IN US$ (%)						
2006/2005	**-24,45%**	12,61%	10,74%	37,17%	29,14%	-65,72%	104,36%
2007/2006	**-29,11%**	26,50%	8,53%	116,35%	17,04%	1,88%	76,65%
2008/2007	**-27,26%**	23,87%	-5,82%	17,31%	-5,77%	42,57%	-57,74%
2009/2008	**-22,38%**	-4,04%	-16,43%	-0,26%	-12,00%	-39,74%	211,02%
2010/2009	**-6,94%**	4,68%	-16,15%	-25,68%	-10,47%	63,54%	-97,01%
2008/2006	**-48,44%**	56,70%	2,22%	153,82%	10,29%	45,26%	-25,34%
2010/2008	**-27,77%**	0,45%	-29,93%	-25,87%	-21,21%	-1,46%	-90,70%
2010/2006	**-62,76%**	57,40%	-28,38%	88,15%	-13,10%	43,15%	-93,06%

Source: Comtrade Accessed October 2011 Own calculations

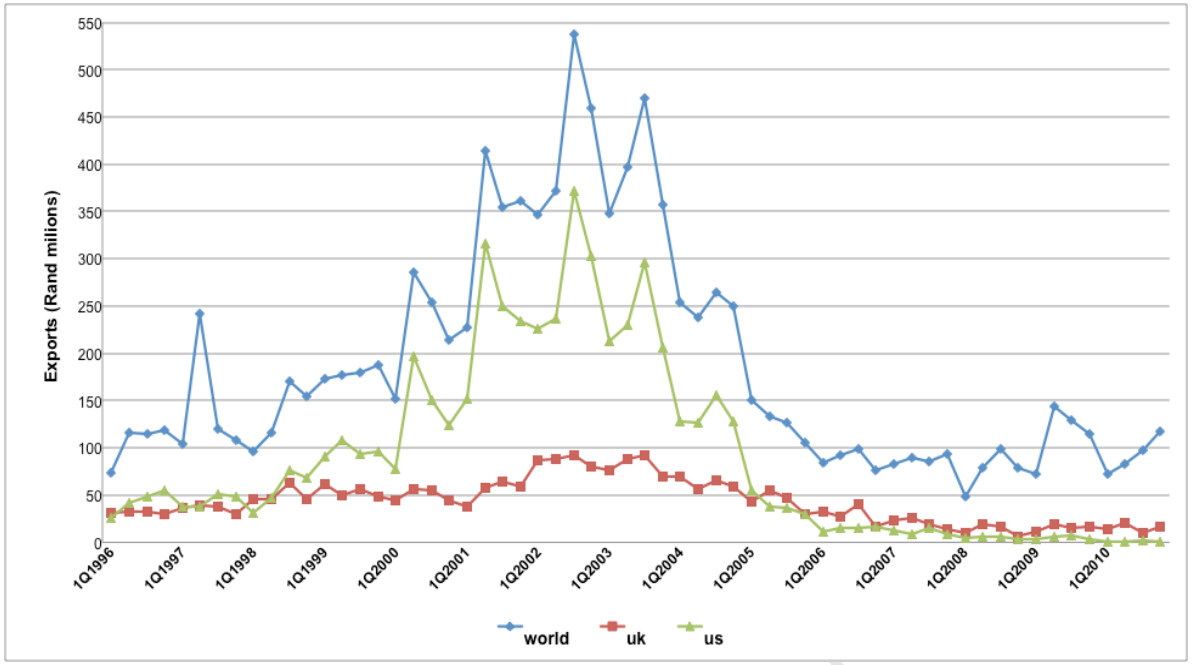
South Africa's exports to the EU also fell, albeit more moderately by 62.76% between 2006 and 2010 and by 48.44% between 2006 and 2008. Deteriorating export performance for South Africa post 2005 mirrored a general decline in exports to the US for all major SSA exporters.

However, the persistent fall in South Africa's exports between 2006 and 2008, this at a time when its SSA competitors had managed their losses and even turned them into gains, suggests that South Africa's export competitiveness was hampered by other factors that did not simultaneously encumber its competitors. The stricter Rules of Origin requirements (RoO) for South Africa's exports under AGOA relative other SSA countries, and in particular, the waiver of those for Lesotho, were undoubtedly a factor here (Sandrey 2006). South Africa is one of the most disadvantaged SSA countries in terms of AGOA, along with Mauritius, both of whom face a triple transformation – or yarn forward - rule compared with the more basic qualification of their SSA competitors of mere garment assembly (Morris 2006a; AGOA 2007). The possibility that prices spiked in response to the China quotas cannot be dismissed out of hand either. Restrictions on fabric would negatively impact on export competitiveness by creating fabric shortages and pushing up production costs.

Exports in quota categories

An examination of the export profile in categories receiving protection from imports, and which by implication, are also those categories targeted in global markets by China, show a similar trend. Figure 56 tracks quarterly exports in quota categories from 1996 to 2010 and shows that aggregate quota exports rose steadily until mid 2002 where after they began to fall sharply. After a brief recovery in the third quarter of 2003, aggregate quota exports fell by 77.71% from R1,572m in 2003 to R351.74m in 2007. Exports to the US, until very recently South Africa's main export destination, fell by a dramatic 93.81% in Rand terms from R945.68m to a mere R441.49m over the same period. The imposition of safeguards did not reverse this trend either. Quota exports to the US almost halved again between 2006 and 2010, falling by a further 93.51% during this period to reach their lowest levels in a decade of just R3.08m in 2010. Although quota exports to the UK showed a brief recovery in 2009, they also fell throughout the period of quota operation, by 54.41%, also to a decade low level of R53.06m at the end of 2008. Exports to the UK as a whole also fell by 40.52% between 2006 and 2008 as well as by a further 5.37% in the post quota period.

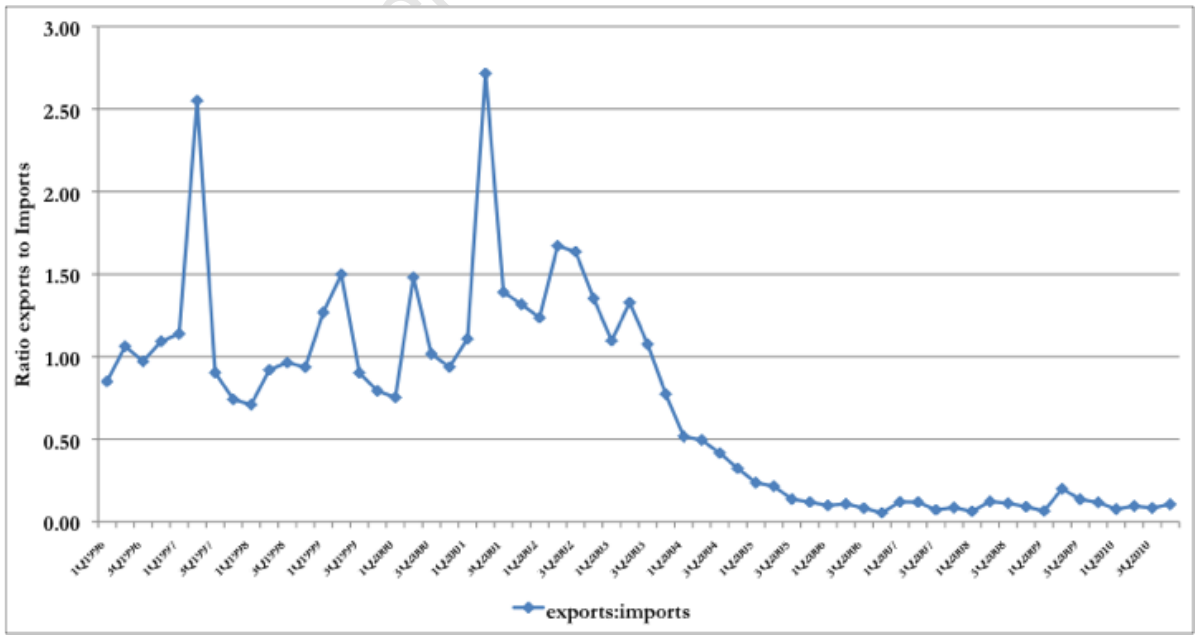
Figure 56: South African export performance in quota categories; aggregate, US, UK: 1996-2007



Source: Quantec and Trade map

Figure 57 below shows the ratio of exports to imports in quota categories between 1996 and 2010. In 2010 the outlook was acutely negative. Despite restrictions exports continued to drift downward to hit their lowest level in a decade in 2009.

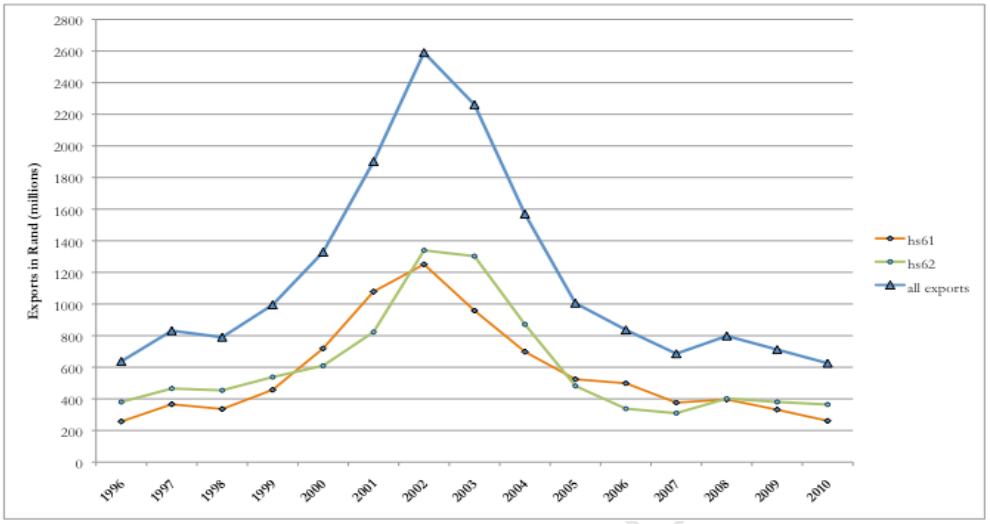
Figure 57: Ratio SA exports to SA imports in quota categories: 1996-2010



Source : Quantec Statistical Database Own calculations

The trend in quota exports mirrored that of clothing exports in general (Figure 58). Between 2002 and 2006 total exports fell dramatically by 67.71% from their peak of R2,590.27m to R836.50m. The 2006 to 2008 period shows some changes to this scenario. Although the tumultuous drop moderated to 4.61% during the period of quota operation, exports did not grow.

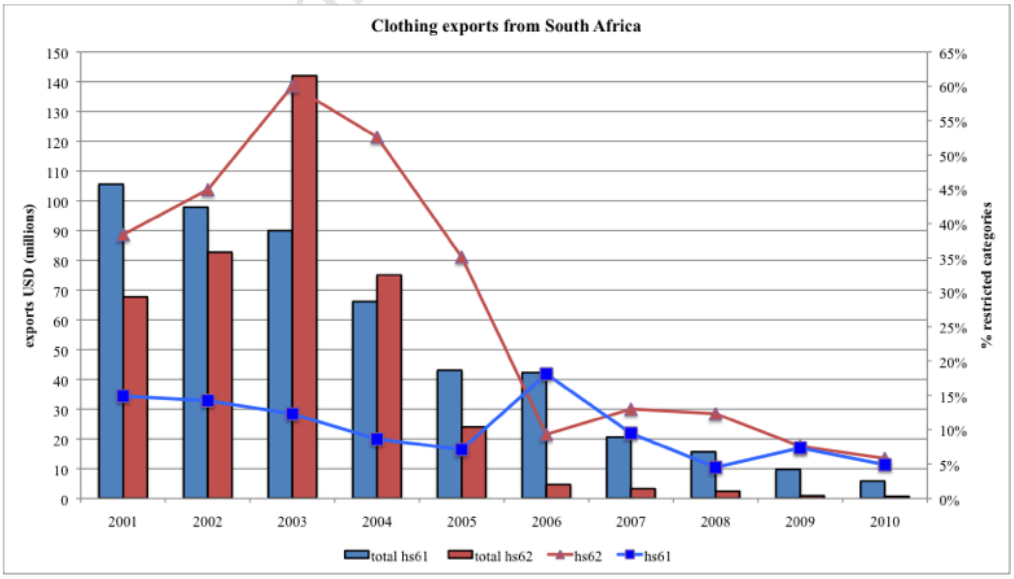
Figure 58: South African clothing exports by HS Chapter: 1996-2010



Source: Quantec Statistical database and Comtrade

The proportion of quota categories in exports to the US in the two clothing Chapters is also noteworthy (Figure 59).

Figure 59: Demonstration of South African clothing exports to the US by HS Chapter

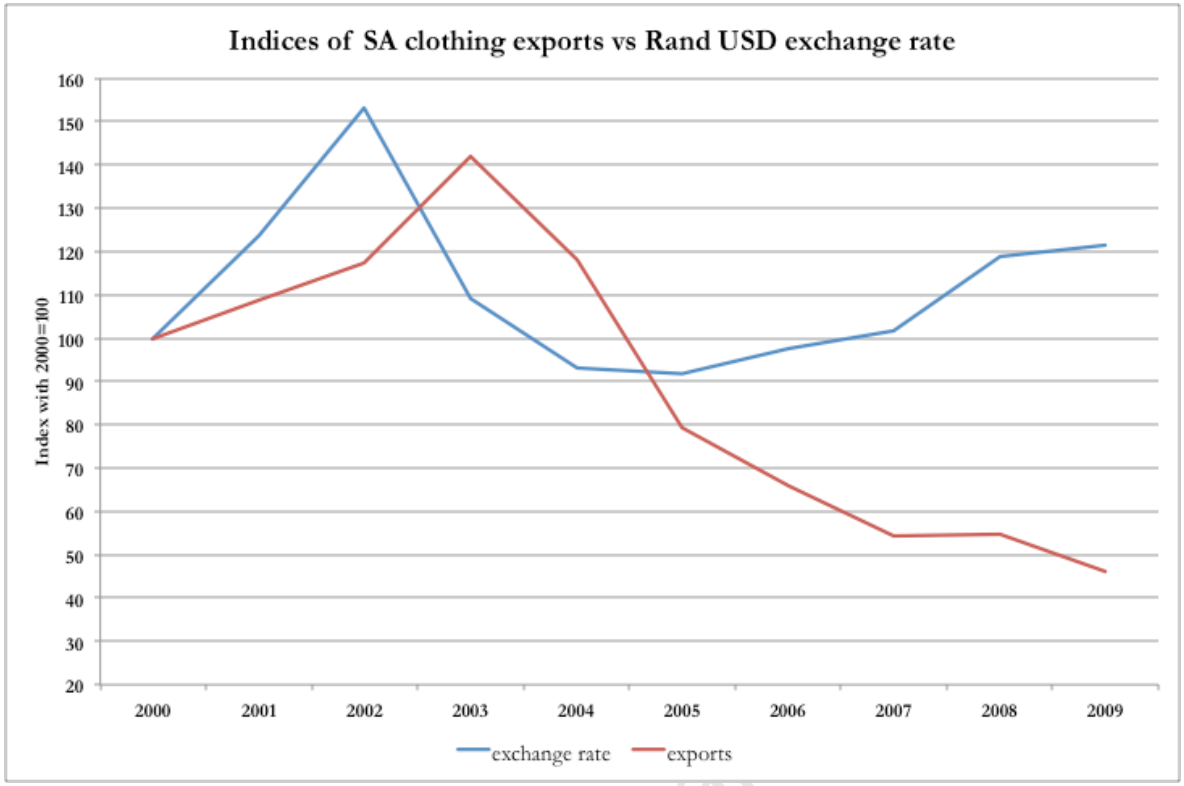


Source: Comtrade Own calculations

For Chapter 62 the proportion of exports in quota categories was a relatively insignificant 5%-10% of total exports in this Chapter to the US before the China quotas. Despite a sharp uptick in 2006, exports in these categories contributed increasingly less to overall Chapter 62 exports to the US during the quota period, comprising only 5% of these exports by the end of 2008. The analysis of exports in Chapter 61 is more informative. In 2001, Chapter 61 exports to the US occurred almost exclusively (98%) in quota categories. This share reduced sharply to 45% in 2002 before climbing again to 60% in 2003. However, between 2003 and 2006, the proportion of Chapter 61 exports in quota categories fell sharply, hitting a bottom of 9% in 2006 and remained at a consistently low level for the duration of the quota period. This has two implications. Firstly, Chinese imports cannot be blamed for the fact that the industry was unable to compete globally until 2005 (Sandrey and Fundira 2008) and secondly, the expectation that the China quotas would improve competitiveness in protected categories has been largely unfulfilled.

One final point in respect of the poor export performance is the fact that for the duration of the quota period South African exporters faced an increasingly favourable exchange rate, which weakened by 21,32% between 2006 and 2008 and was likely the sole impetus to exports during this period (Figure 60). Nevertheless, according to one interviewee, the Rand:US$ exchange rate has some way to go (between 10 and 12) before South African exporters are able to effectively compete on price due to relatively the low levels of worker productivity compared with its competitors in major markets and the disadvantageous RoO facing South African exports.

Figure 60: Rand-dollar exchange rate: 2000-2009



Source: South African Reserve Bank

Export prices and competitiveness

Fieldwork conducted in 2007 suggested that most of South Africa's export activity at the time was concentrated in basic low-value added segments. Aggregate export data gives a rough read on the impact of the China quotas on the manufacturing industry in so far as it measures the level of export activity in the sector. Based on these criteria, the China quotas appeared to have provided little or no stimulus to export – or other - manufacturing activity. However, beyond this the data is inherently limited in its ability to comment on the competitiveness of the industry. An alternative approach to assess whether firms had upgraded their export basket by becoming more competitive due to the quotas is to analyse unit export price data (although this too has its limitations) where greater levels of competitiveness generally reflect as a fall in export prices. The relative position of local firms in the value chain is important; dynamic technology-intensive products are widely regarded to provide developing countries with better opportunities for expansion and the ability to overcome declining terms of trade for their exports, which characterise low technology products (Kaplinsky 2005).

An accurate read on export prices between 2006 and 2008 proved somewhat elusive but I eventually pinned it down by converging a series of analyses of export data commencing at the HTS-2 level, and moving progressively towards greater levels of disaggregation to the HTS-6, HTS-8 and finally, HTS-10 levels. I confined the analysis to US import data given its availability, which as mentioned previously, does not correlate well with South African export data. Sub-Saharan Africa was selected as a sub-group for analysis, although the SSA data in many instances mirrors that for AGOA, which demonstrates the extensive exploitation of this scheme by SSA countries to penetrate US markets. I calculated the average price for the top 25 and top 10 products exported by South Africa in each year between 2006 and 2010 to allow comparison of price movements for these product groupings for South Africa. These I compared with price changes for exports in the same product groups into the US for China and SSA as a whole to assess South Africa's competitiveness in its major export markets. The output of analysis of data for the top 25 products at the HTS 6, top 50 at the HTS 8 and top 10 at the HTS 8 levels appear sequentially in Tables 54 to 56 below.

The average price across South Africa's top 25 export categories spiked alarmingly by 73.10% in 2008, after dipping slightly in 2007, compared with 7.7% for other Sub-Saharan countries and 4.7% for China in the same product groupings. This change might have indicated a change in the composition of exports - a switch to high end, more complex garments would reflect as a higher average export price – but when referenced to the product mix, this theory did not hold up. In fact, the South African exporters slid down the value chain toward low-end basics.

Table 54: Change in value and price of top 50 SA exports by year

Top 50

	2007	2008	2009	2008/06
	Year on year change (%)			
Price	12.92%	48.20%	-1.21%	67.34%
Value	-49.07%	-24.28%	-40.72%	-61.43%

Source: Comtrade Own calculations

South Africa exported more small, low value bulk items under categories 61102020 and category 6115 (pantyhose etc.) in 2010 than previously (Table 57). Higher unit prices showed declining levels of competitiveness which likely reflected cost pressures due to higher fabric prices. These results were robust when tested at the top 50, top 25 and top 10 category levels by HS6 and HS8 digit.

Table 55: Change in value and price of top 25 SA exports by year: SA vs SSA and China

Top 25

	SOUTH AFRICA		SSA		CHINA	
	Value	Price	Value	Price	Value	Price
2007/06	-48.7	-7.7	15.3	8.4	22.5	- 2.0
2008/07	-24.5	73.1	-23.8	7.7	7.2	4.7
2009/08	-40.8	13.3	-31.1	9.3	19.0	-11.3
2010/09	-39.9	31.9	-15.1	7.5	14.3	-18.9
2006-2008	-61.3	59.8	-12.2	1.4	31.3	2.6
2008-2010	-64.5	22.8	-41.6	1.2	36.0	-28.0
2006-2010	-86.3	23.4	-48.7	-0.3	78.6	-26.1

Source: Comtrade Own calculations

Table 56: Change in price and value of top 10 SA exports by year: SA vs SSA and China

Top 10

	SOUTH AFRICA		SSA		CHINA	
	Value	Price	Value	Price	Value	Price
2007/06	-48.0	0.4	21.3	-0.3	38.1	5.6
2008/07	-23.3	18.8	-29.7	-2.1	5.5	3.0
2009/08	-42.2	20.1	-27.1	21.8	14.9	5.1
2010/09	-39.8	-1.7	-46.0	-1.4	-50.0	-34.5
2008/06	-60.1	19.3	-14.8	-2.3	45.7	8.8
2010/08	-65.2	18.1	-60.6	20.0	-42.5	-31.1
2010/06	-86.1	40.8	-66.5	17.2	-16.2	-25.1

Source: Comtrade Own calculations

Table 57: Product description of South African exports in top 10 categories: 2006-2010

2005

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61102020	knit sweaters & pullovers	71%	4,75%
62034240	m&b non knit cotton trousers	130%	2,72%
61091000	knit t-shirts and tank tops	136%	3,81%
61143030	knit MMF garments	74%	7,52%
62046335	w&g non knit wool trousers	385%	1,71%
62046240	w&g non kit trousers	101%	0,26%
62063030	w&g non knit shirts	112%	0,45%
61034315	m&b knit wool trousers	143%	3,66%
62034118	m&b non knit nesoi overalls	143%	3,68%
61034210	m&b knit cotton trousers	164%	5,06%

2006

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61102020	knit sweaters & pullovers	61%	1,70%
61091000	knit t-shirts and tops	90%	8,79%
61051000	m&b knited cotton shirts	72%	4,55%
61061000	w&g knit cotton shirts	80%	3,36%
61159390	knit socks (synthetic)	556%	1,26%
61143030	knit MMF garments	87%	3,97%
62046240	w&g non knit trousers	127%	0,10%
62033310	w&g non knit jackets	186%	7,96%
62063030	w&g non knit shirts	254%	0,14%
62043350	w&g non knit jackets	59%	0,52%

2007

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61091000	knit t-shirts and tops	95%	4,61%
61102020	knit sweaters & pullovers	58%	0,34%
61159690	knit socks (synthetic)	527%	1,27%
61143030	MMF knit garments	264%	0,16%
61061000	w&g knit cotton shirts	74%	1,12%
62043350	w&g non knit jackets	74%	0,68%
62046240	w&g non knit trousers	132%	0,05%
61034210	m&b non knit trousers	66%	2,67%
62063030	w&g non knit shirts	51%	0,54%
61046220	w&g non knit cotton trousers	91%	0,37%

2008

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61102020	knit sweaters & pullovers	46%	0,32%
61159690	knit socks (synthetic)	389%	1,63%
61091000	knit t-shirts	92%	1,86%
62063030	w&g non knit shirts	243%	0,12%
62043350	w&g non knit jackets	81%	0,57%
62046240	w&g non knit cotton trousers	142%	0,02%
61034210	m&b knit cotton trousers	53%	1,54%
61046220	w&g knit cotton trousers	114%	0,31%
61171060	scarves and shawls	66%	1,35%
61112060	knit cotton babies gmnts	647%	0,01%

2009

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61159690	knit socks (synthetic)	521%	1,14%
61102020	knit sweaters & pullovers	61%	0,14%
61023020	w&g knit MMF overcoats	122%	0,37%
61013020	m&b knit MMF overcoats	113%	0,45%
61046220	w&g knit cotton trousers	147%	0,18%
61034210	m&b cotton knit trousers	101%	0,57%
62053020	m&b non knit MMF shirts	456%	0,30%
61012000	m&b knit cotton overcoats	101%	0,07%
62046240	w&g non knit trousers	110%	0,01%
62063030	w&g non knit shirts	279%	0,02%

2010

HTS 8 Category	Product Description	SA/ China Price	SA/ China Value
61159690	knit socks (synthetic)	590%	1,16%
62142000	non knit wool scarves and shawls	136%	0,63%
62034240	m&b non knit cotton trousers	107%	0,01%
61159400	knit wool hoisery	145%	2,00%
61034210	m&b knit cotton trousers	129%	0,11%
62113200	m&b non knit cotton tracksuits	143%	0,19%
61112060	knit cotton babies garments	805%	0,01%
61046220	w&g knit cotton trousers	305%	0,02%
61159560	knit socks (cotton)	249%	2,79%
62092050	non knit cotton babies garments	788%	0,04%

Conclusions on exports and the implications for competitiveness

There is no evidence from the export data that the China quotas assisted domestic manufacturers to upgrade their export production capabilities or to become internationally competitive. The analysis shows that the converse is true; exporters have been sliding down the value chain and in 2010, South Africa exported more basic low value products (socks and scarves) than previously.

South Africa's poor export performance pertains more to its inability to effectively penetrate international markets due to restrictions on export access and extraneous factors, such as the exchange rate, than to domestic factors. In particular, the benefits from preferential access to US markets in terms of AGOA have been outweighed by stricter rules of origin (RoO) requirements relative to its SSA competitors. This protracted the depression in South Africa's exports subsequent to ATC expiry in 2005 compared with export recovery for many other SSA countries.

There are several reasons to speculate that the competitiveness impact of China on export markets, which has been relentless and particularly severe since 2005, may moderate in the future: Firstly, costs and wages in China are rising, although the latter is offset by high levels of productivity; and secondly, and more poignantly, China is refocusing its production efforts towards supply to its own domestic market which offers better prices. As the supply of Chinese-made clothing falls, by pure demand dynamics, prices should rise. This would both alleviate some of the pressure on clothing imports and create better opportunities for South African exports. However, this is likely to be counterbalanced by competition from the proliferation of emerging East Asian countries that have already developed or are in the process of developing sustainable export models based on supply to US and EU markets and who are free from the institutional and infrastructural constraints that hinder competitiveness in the South African clothing industry. As one interviewee put it:

> "The big US retailers only care about price and there are literally hundreds of small East Asian countries who can supply basic garments at low cost. So there is always a new low cost location waiting in the wings to replace the last; the US rapes it and moves on to the next. South Africa will never be able to effectively export to the US based on price. When the Rand is at 10-12 to the US Dollar, then US buyers may be interested, but this is not a sustainable basis for exports. It therefore makes sense for manufacturers to focus on our domestic market rather than exports."

In addition to safeguards, industrial policies that favour movement to higher value products could also have played a role. This trend of increasing unit values (related to the safeguards, rising costs and industrial policy measures in China) reversed after 2008 which can be explained

by quota removal but also by the global economic crisis where a strategy to cope with declining demand was to re-focus again on larger volume, basic products where demand was sustained or even increasing due to changing consumer behaviour (the "Wall-mart effect").

Before closing the discussion on exports, there is a final dimension to exports and competitiveness, which relates to institutional factors and policies. I shall revisit the discussion on industrial policy in relation to the China quotas in Chapter 8, but the principle argument is the same. The institutional framework that dominates the clothing sector is widely regarded to have hindered rather than aided firms to aspire to WCM generally, and to develop an export mentality. The clothing sector is plagued by poorly contrived and implemented policies that often contradict their own initiatives, falling captive to certain interest groups and bureaucrats. In the case of the Duty Credit Certificate Scheme, (DCCS) this was the large retailers whom the scheme assisted by lowering the cost of their imports; and this ironically to the detriment of local suppliers whom it was intended to benefit. Production for export by local enterprises historically occurred largely in the context of 'triangular manufacturing' (Gereffi 1994). Extensive studies showed that schemes such as the DCCS – which allowed exporters to claim duties for their imports - encouraged local retailers to import apparel and textiles by reducing the costs of imported goods rather than serving as an incentive for exporters (Kaplan 2003).

The efficacy of the DCCS, which should have served as a powerful export incentive and assisted with the upgrading of the industry in general, was constrained by a number of factors, most critically, the limited usage to which the DCCS could be applied. On 27 November 2008, the DCCS scheme was extended with some important modifications, including the banning of the sale of duty credits to retailers (Bisseker 2007b). This was hoped to throw a much-needed lifeline to clothing exporters but the persistently poor performance of South African exports suggests that beneficial impact of these changes are still to be realised.

With regard to the China quotas, shortage of local fabric was cited as a major reason why South Africa failed to take advantage of the window of opportunity provided by AGOA, and its failure to assume the anticipated position as the scheme's main beneficiary (Gibbon 2003; 2008; Kaplan, 2003). Rather than assist firms to upgrade their export basket and participate in high value products, quotas imposed additional constraints on firms' competitiveness through

restrictions on fabric (although this was not qualitatively validated). This not only hindered local firms' ability to compete with Chinese imports in their own market, but also to break the dependence on the domestic market by developing an effective export platform.

Chapter 7: The price impacts of the China quotas: Welfare versus competitiveness

> *"Over the past four years, the local fashion manufacturing industry has lost approximately 67 000 jobs, largely as a result of a surge of imports from China. Over the same period, the five big retailers have recorded R18.1 billion in pre-tax profits. It is now time for retailers to work with the local manufacturing industry to place the country and employment before profits. Why can't some of these super profits be deployed to create local jobs and to lower the costs of domestic clothing and textile goods?" (The DTI 2006)*

The core issue in any welfare debate is the impact on consumers. The impact of the quotas on garment price and their effect on consumer welfare via consumer retail prices is of central concern for this thesis. The China quotas were expected to have an inflationary impact on garment prices, which would reduce consumer welfare by lowering the disposable income of consumers (Hazelhurst 2006a). Furthermore, the unemployed and those with temporary work would be particularly impoverished by higher garment prices since clothing is a necessary consumer product and constitutes a larger share of spending for the poor relative to rich consumers[94].

The price deflation from China had two aspects: First, the competitiveness aspect which is concerned with the pressure that imports applied on the competitiveness of local manufacturers forcing them to radically upgrade to meet new price, quality and reliability demands (Barnes and Esselaar 2005; Morris 2007). Second, the welfare aspect which is concerned with the impact of imports on employment in the local clothing industry and the standard of living of the masses of consumers (Morris and Reed 2008a). In order to understand the impact of quotas on welfare in their totality, it is important to understand the effect that

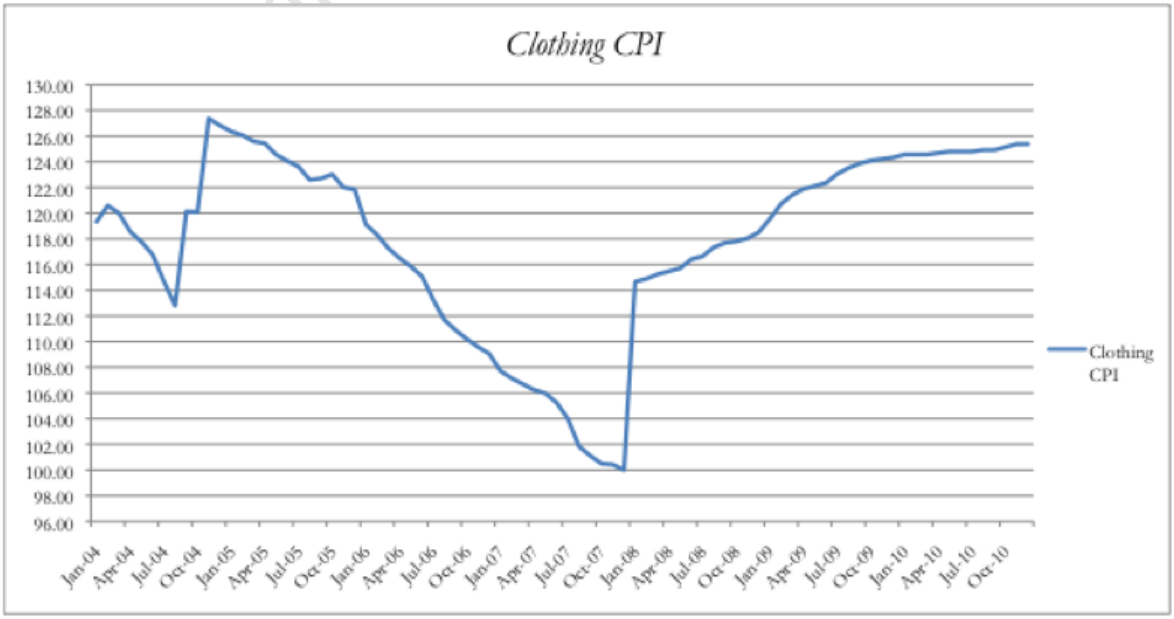
[94] Poor consumers spend on average between 2.83% and 4.05% of their spending on clothing where expenditure groups of over R42000 per year spend on average 2.17% of their spending on clothing (StatsSA 2003).

quotas had on import prices and on the local price of garments generally. Both of these issues are dealt with extensively by Morris and Einhorn 2008 who show that cheap imports from China imparted significant benefits on consumers both directly, and indirectly by lowering the price of both imported garments and their domestic substitutes since "as imported inflation falls, local producers are forced to compete and domestic prices fall into line." (Hazelhurst 2006a; Morris and Einhorn 2008). Demand for clothing is income inelastic implying that with an increase in income, there is a less than proportional increase in expenditure on clothing. (Blackiforti *et al.* 1983 in Einhorn 2006). In this sense, deflation of clothing prices due to cheap Chinese imports helped to combat inequality of incomes (Hazelhurst 2006a). The broader task for this thesis is to explore these two price dimensions – how quotas changed import prices and overall garment prices. Comprehensive analysis of the impact of quotas on consumer welfare requires a threefold analysis – a macro analysis of imports, a sample of retail prices in the stores and a qualitative analysis of price trends elaborated by retailers and pundits. I dealt with the first leg in Chapter 4 where I established that unit prices for imported garments increased during the quota period. I shall now investigate the second and third components.

What happened to clothing prices during the quotas?

An examination of the clothing Consumer Price Index (CPI) in Figure 61 shows that garment prices fell during the first year of the quotas by 8.23% and increased in the second year by 10.40%, implying an overall inflation in clothing prices of 2.17% for the full quota period.

Figure 61: Clothing Consumer price index: 2004-2010



Data source: StatsSA (Own calculations)

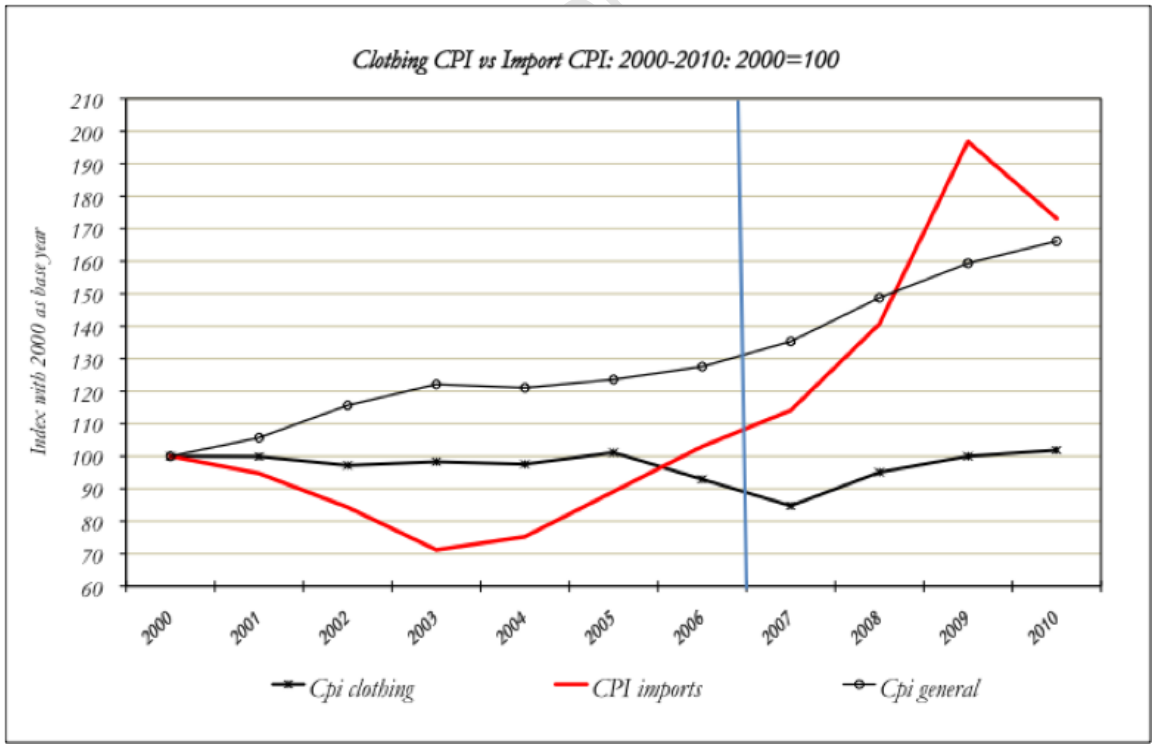
Furthermore, once garment prices started to climb in 2008, they maintained this upward trend after import restrictions were withdrawn to rise by a further 7% between 2008 and 2010. Compared with clothing deflation of 13.67% between 2003 and 2007, which was primarily fueled by low priced imports (Hazelhurst 2006a; Morris and Einhorn 2008), there was broad-based clothing price inflation (shown by a rise in the clothing CPI) of 17.27% between 2007 and 2010.

Direct and indirect impacts of the China quotas on garment price

The impact of the China quotas on import price

The effect of the restrictions on import prices was analysed by estimating an index for the price of imported garments[95]. The constructed CPI for imports, which is presented together with the clothing CPI in Figure 62, shows that prices for imported garments increased by around 40% during the quota period.

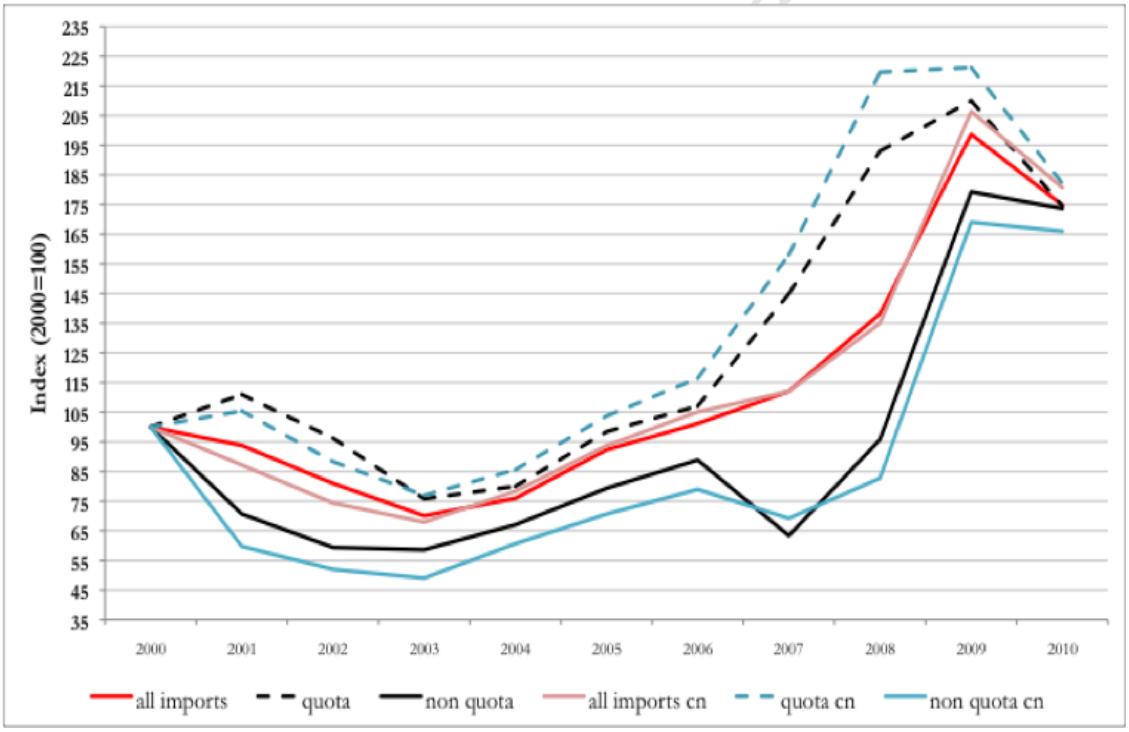
Figure 62: Demonstration of movements in clothing prices: imports vs general



[95] This was borrowed from Einhorn 2006.

Analysis of the components underlying the clothing CPI allows closer scrutiny of trends in the individual factors that caused the variation in indexed garment prices. These were primarily inflation in unit (FOB) import prices which rose by 15% and deterioration of the Rand/US$ exchange rate by 21% (moving from R6.78:1US$ to R8.26:US$1)[96] during the period. However, even at this level of aggregation, the more subtle and important price effects are masked. The full impact of the China quotas on import prices is exposed by analysing quota and non quota categories separately. This reveals that the variation between the import CPIs for quota and non quota categories was due exclusively to differences in FOB prices for quota and non quota imports. This is even more obvious when import prices from China are used to construct the indices (Figure 63). Inflation in aggregate FOB prices from China was driven by quota imports to the extent that the aggregate index tracks the quota index.

Figure 63: The variation in the import CPI for quota/non quota imports



Source: Clotrade Own calculations

[96] Duties and shipping costs are contants in the calculation; duties on clothing imports remained at 40% between 2006 and 2008 and shipping costs at around 24%; the latter was established during interviews with retailers in 2007. These variables exerted no influence on the overall index.

Table 58 below summarises the percentage changes in the average unit price in quota and non quota categories and clearly demonstrates the variation in the magnitude of the price change between these cohorts during the quota period.

The average unit price of quota imports from China increased by 59.13% during the quota period, with 30.47% of this rise occurring between 2006 and 2007 alone; this compares with that for non quota categories, which actually fell by 13.97% (and mainly in 2007 by 15.73% after a slight uptick in 2008). Similar price movements were evident in World quota categories when averaged across the entire quota period; unit prices on average increased by 48.03% in quota categories, and decreased by 11.51% in non quota categories. At an aggregate level, unit prices for imports from China increased by 5.48% and for the World by 12.12%.

Table 58: Changes in Dollar denominated FOB prices in quota and non quota categories

	All categories			Unit categories			Kilogram categories		
	2007/06	2008/07	2008/06	2007/06	2008/07	2008/06	2007/06	2008/07	2008/06
Percentage change in unit price									
CHINA									
Total imports	2.88%	5.57%	8.61%	2.50%	2.91%	5.48%	-7.53%	-7.99%	-14.92%
Quota imports	28.69%	23.65%	59.13%	30.47%	18.69%	54.85%	76.65%	1.65%	79.57%
Non quota imports	-14.44%	2.03%	-12.70%	-15.73%	2.09%	-13.97%	-15.00%	-10.50%	-23.92%
WORLD									
Total imports	7.54%	6.33%	14.35%	6.53%	5.24%	12.12%	2.40%	-7.27%	-5.05%
Quota imports	71.87%	-2.01%	68.42%	30.10%	13.79%	48.03%	72.91%	-1.70%	69.97%
Non quota imports	-13.73%	2.50%	-11.57%	-14.13%	3.05%	-11.51%	-16.80%	-9.46%	-24.67%

Source: Own calculations (Prices have been adjusted for forward purchasing of 40.25m units @ R10.21/unit)

Even within quota and non quota categories, there is substantial variation in prices between unit and kilogram imports.

Table 59 summarises changes in unit values in respective quota and non quota and unit and kilogram categories for both the World and China. These are denominated in Dollars to eliminate the exchange rate effect.

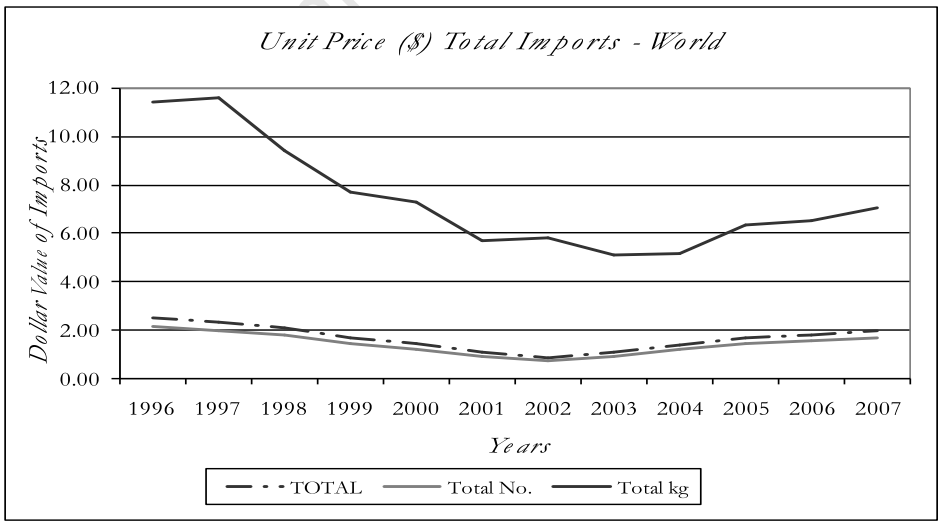
Table 59: Changes in Dollar denominated FOB prices in unit and kilogram categories

	All categories			Unit categories			Kilogram categories		
	% change 2006-2008			% change 2006-2008			% change 2006-2008		
	Value	Vol	Price	Value	Vol	Price	Value	Vol	Price
	CHINA								
All	-9.72%	-31.74%	8.61%	-14.80%	-33.67%	5.48%	15.96%	11.93%	-14.92%
Quota	-37.71%	-67.85%	59.13%	-39.47%	-67.90%	54.85%	-26.33%	-66.31%	79.57%
Non quota	52.64%	43.59%	-12.70%	47.36%	40.67%	-13.97%	69.89%	83.38%	-23.92%
	WORLD								
All	14.70%	-17.63%	14.35%	10.09%	-19.37%	12.12%	39.24%	20.42%	-5.05%
Quota	-3.79%	-53.09%	68.42%	-6.92%	-48.37%	48.03%	18.97%	-42.52%	69.97%
Non quota	52.07%	41.21%	-11.57%	49.50%	38.74%	-11.51%	60.49%	74.95%	-24.67%

Source: Clotrade Own calculations

Figure 64 gives a graphical illustration of movements in import prices; again, the analysis is done in US Dollar terms to eliminate the exchange rate effect.

Figure 64: A demonstration of movements in average Dollar denominated import prices



Source: Clotrade Own calculations

Analysing data at this bare bones level exposes anomalies in the data, which broadly corroborates undervoicing or other irregular import practices. For example, in kilogram categories (quota and non quota combined), the aggregate price fell by 5%; this compared with an increase of 12.12% for unit categories. In quota categories the price of kilogram imports rose by 70%; all of this increase occurred in 2007 with a small decrease of 1.70% in 2008. This compared with a 48% increase for quota imports in unit categories, most of which also occurred in 2007 (30.10%). Finally, in non quota categories the price of kilogram imports fell by 25% compared with a fall of 11.51% in unit categories during the quota period. Again, the distribution of the price change between the two years was uneven; for non quota kilogram imports, 16.80% (2007) and 9.46% (2008); and for unit imports 14.13% in 2007 and 3% in 2008.

The results for China are similar. The aggregate price of kilogram imports fell by almost 15% (which was roughly even between the two years), whilst the price of unit imports increased by 5.48%. In quota categories, the price of kilogram imports rose by almost 80%, whilst the price of unit quota imports increased by only 54.85%. Prices rose on aggregate by 59.13% in quota categories. In non quota categories, the price of kilogram imports fell by 23.92% for the full quota period; 15% in 2007 and 10.50% in 2008. The price of unit imports in non quota categories also fell on aggregate over the quota period but the decrease occurred exclusively during 2007 (by 15.73%). Prices for both unit imports and on aggregate in non quota categories actually increased in 2008 by 2%.

The finding that the price of kilogram imports in quota categories from China and on aggregate increased was an intuitive, but not broadly anticipated and according to some, even quite an ironic result. The fact that the large bulk of imports that fell under kilogram headings was children's and babies' wear (the latter constituted 32% of kilogram imports by value in 2006), which is relatively demand inelastic, implied that restrictions on import quanities would irrevocably fuel prices (Morris and Einhorn 2006). Another rational explanation for the trend was the possibility that, as a result of the quota allocation mechanism, which calculated future allowance on the basis of past import history, importers were having to adhere more strictly to tariff headings and declare items under the correct headings. As a result, prices in these categories increased. The irony lies with the fact that historically kilogram import categories were easy targets for underinvoicing practices given the practical difficulties of policing large

mixed bag imports, in consequence to which declared prices under these headings have always erred on the low side. As Sandrey and Fundira 2008 observed, it would be naïve to believe that the quotas had solved the illegal import problem; the large fall in price for non quota kilogram imports suggested that underdeclared imports were simply re-directed.

The behavior of import prices in quota categories from China may indicate that the Chinese were engaging in price discrimination in these categories. Table 60 shows import values from China in the twelve main quota categories during 2007 and the associated change in these values expressed as imports relative to 2006; 2007 import volumes from China and the relative changes against 2006 values; and finally average 2007 import prices and the changes relative to 2006 prices. Imports in these twelve categories comprised 62% and 69% of quota imports from China by volume and value respectively. The units of measurement for the quantities are mainly given in thousands of units (U) although some are given in metric tonnes (kg).

Table 60: Details of South African quota import values, volumes and prices from China

			Value R(m)		Quantity		Average price R/unit	
HS	**Description**	**unit**	**2007**	**change**	**2007**	**change**	**2007**	**change**
All quota			**1,930.21**	**-50%**	**118,813**	**-67%**	**16.25**	**49%**
62034200	M&B woven cot trousers	U	295.04	-32%	12,592	-49%	23.43	33%
62046200	W&G cotton trousers	U	265.11	-51%	12,203	-59%	21.73	21%
6111	Babies garments	Kg	183.66	-30%	2,195	-41%	83.67	19%
6205	M&B woven shirts	U	157.54	-44%	10,408	-61%	15.14	44%
6206	W&G woven blouses	U	116.17	-53%	7,674	-68%	15.14	47%
6105	M&B knit shirts	U	97.62	-51%	5,404	-67%	18.06	50%
62034300	M&B synthetic trousers	U	85.60	-50%	6,858.93	-58%	12.48	18%
6106	W&G knit blouses	U	78.59	-52%	547.33	-62%	11.16	27%
621210	Brassieres	Kg	69.05	-47%	547	-56%	126.15	21%
6201	M&B overcoats	U	53.34	-22%	1,473.86	-45%	36.19	41%
6202	W&G overcoats	U	50.01	-16%	1,633.58	-54%	30.62	82%
6108	W&G sleepwear	U	41.68	-57%	20,882.65	-59%	2.00	5%

Source: Adapted from Sandrey and Van Eeden 2007

The average value decline for all imports was 50.10% (50.97% for unit and 43.72% for kilogram categories). For the analysed categories, the value range was from a low 16% (6202) to 57.22% (6206) for unit imports and from 29.82% to 46.76% for kilogram imports in 2007. Due to the different units of measurement, an average volume could be calculated across all categories

but it was not possible at a disaggregated level. The average volume decline for unit quota imports was 66.42% and 69.34% for kilogram quota imports. For the analysed categories, the decline ranged from 45.41% to 68.28% for unit imports and from 41.28% to 55.90% for kilogram imports. Average prices increased by an average of 48.93% for all quota imports (46.00% for unit and 83.69% for kilo categories). The price increases ranged from 4.53% (6108) to 81.55% (6202).

The above analysis shows that, whilst import values from China in quota categories halved during 2007, the accompanying fall in import volumes was significantly more than proportionate and in some cases the fall in import volumes was more than double the fall in import values (6201, 6202). This is reflected in rising average prices across the twelve top quota categories as shown in Table 60. In 2008, for the same sample, which comprised 79.18% and 76.45% of quota imports by value and volume in this year respectively, import values increased for ten of the twelve categories by between 0.96% (62046200) and 65.15% (6201), the exceptions being 62034200 and 6205. Import volumes fell in eight of the twelve categories or increased less than proportionately than the value increase. As a result, prices across all the sampled categories rose by between 16.34% (6111) and 44.22% (6108). This compared with an average price increase of 31.38%; a value increase of 11.57% and a volume decline of 14.95% for all quota imports in 2008.

Direct impact of import price on garment prices

The primary source of inflation in the clothing CPI between 2006 and 2008, was rising prices of quota imports, which increased by 48.03% during this period. At the same time, the price of non quota imports fell. Since quota imports had the dominant value share in aggregate imports, 63% and 59% in 2007 and 2008 respectively, the net effect on import values would be positive. This was possibly driven by increases in import prices from China which rose by 54.85%. The similar magnitude of changes in prices from China and World prices suggests that China still drove the latter despite the quotas. The question is how much of this inflation was due to the China quotas? Qualitative evidence suggests that dollar denominated FOB unit prices from China are gradually increasing due to currency revaluations, the weakening of the US Dollar, a reduction in export incentives and increased labour demands. However, these factors would lead to price increases across the board where only those for quota imports

increased. The fact that price inflation was limited to imports in restricted categories implies that quotas were to blame for the sharp increases during the quota period.

In conclusion, my analysis of macro trade unit price data shows that rising import prices during the quota period contributed to the increase in the consumer price of garments of 2.17% during the quota period, driven almost exclusively by rising prices for quota imports from China. What is more, the probability that China was engaging in some price discrimination in protest to the restrictions suggests a pyrrhic victory for South Africa since cheaper clothing imports from China were historically a major deflationary factor on South African clothing prices (Sandrey and Fundira 2008).

Indirect impacts of import price on garment prices (via producers)

The impact of quotas on price distinguishes two separate effects: i) The change in producer prices and its effect on manufacturers (and competitiveness) and ii) the change in retail prices and its effect on consumers (welfare).

Indirect price impacts: Product downgrading

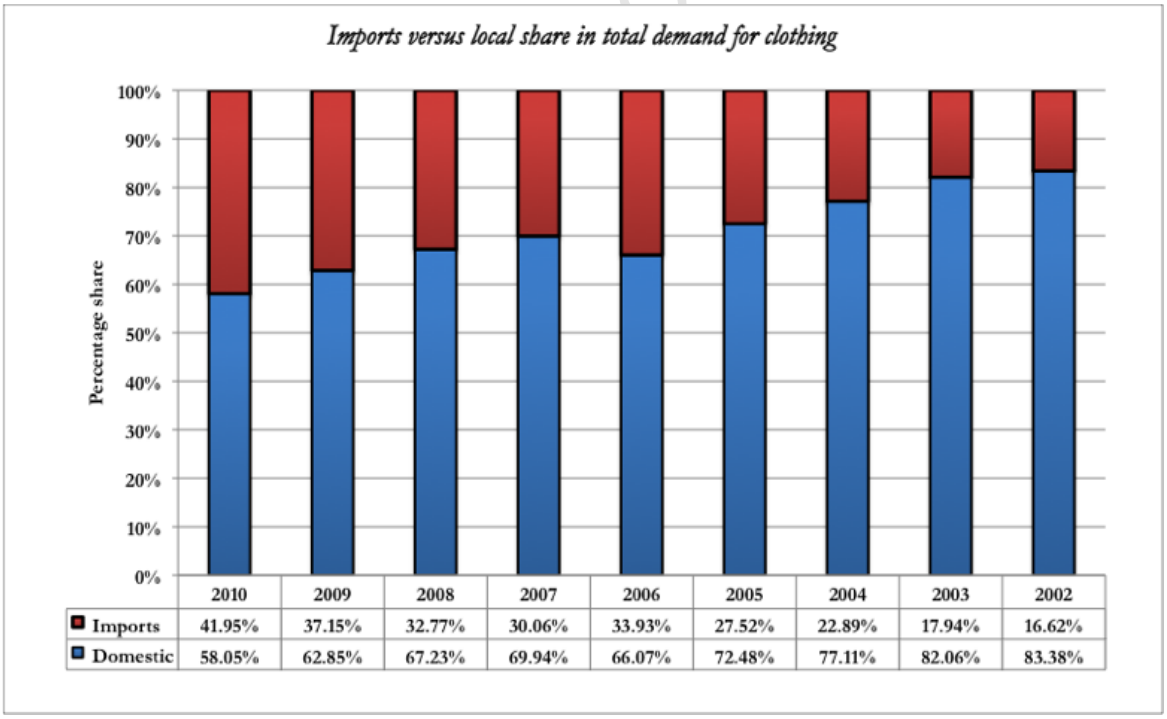
With regard to the impact of quotas on product downgrading, expectations were that quotas would lead to a change in the composition of the import basket. Not only were quotas expected to have an inflationary impact on clothing prices directly, by principles of standard trade theory, but also, indirectly, due to the manner in which they were implemented. To get around the restrictions on fabric, firms "bought" quota from clearing agents at a flat rate of R3.00 per item or they used more innovative methods such as applying for quota on behalf of others as new entrants, albeit at greater cost or using the quota of their customers. In the first case, the flat rate premium is analogous to a fixed cost added to the price of the garment, which provides an incentive to import high cost garments and source the cheap one locally with the obvious effect of driving local manufacturers down the value chain.

A well recognised outcome of quantitative restrictions is a shift in the direction of higher value-added, higher quality goods because margins on these goods are generally higher. Consequently, importers substitute high-end expensive garments for cheap basics in order to maximize the profit on their import bundle (Edwards et al 2006). This appears to be borne out

in the data. Statistics show that aggregate import volumes decreased by 22% between 2006 and 2007 whilst import values fell by only 12% with the implication that less garments of a higher price were imported since the value falls by less than the volume flux. This difference is even more pronounced for quota categories where import volumes fell by 50% with a 27% decrease in the value. In contrast, in non quota categories, import volumes and values (in unit categories) rose by 40% and 25% respectively, indicating a fall in prices.

The statistical evidence on clothing production calculated at the SIC level confirmed that the impact of the China quotas on output was at best temporary and short-lived – the domestic share in sales ticked up in 2007 by around 2% to 70% before falling back to an historical low of 58% in 2010 (Figure 65). Imports have steadily gnawed away at the domestic share in demand, which has shrunk by 35% since 2002. This is a sad indictment on the SA government when one considers that this share was shy of 100% just a decade ago.

Figure 65: Share of domestic production total domestic demand: 2002-2010



	2010	2009	2008	2007	2006	2005	2004	2003	2002
Imports	41.95%	37.15%	32.77%	30.06%	33.93%	27.52%	22.89%	17.94%	16.62%
Domestic	58.05%	62.85%	67.23%	69.94%	66.07%	72.48%	77.11%	82.06%	83.38%

The increased price of imported garments might have provided local manufacturers with some margin of competitiveness had they been poised to exploit this comparative price advantage. Qualitative evidence shows that this was not the case. Producer costs increased due to quota

related contingencies, such as fabric shortages and price increases and skills migration. On the other hand, imports from other low cost supply locations, and under-declared imports exerted downward pressure on import prices and local producer prices, which translated into diminishing margins for manufacturers.

The analysis of macro and trade data showed that the China quotas had a direct effect of raising the landed price of imported garments and an indirect effect on the competitiveness of local firms, which was eroded by rising costs and price suppression.

The welfare impact of the China quotas via clothing retail prices

The foregoing analysis shows that retailers were paying higher prices for both imported and locally produced garments. The welfare impact of higher import prices – i.e. the impact on consumer retail prices - depended on several factors.

Firstly, the extent to which retailers absorbed the higher costs in the form of lower margins would determine how much inflation was passed onto consumers and the extent to which garment prices increased and consumer welfare was reduced. One commentator contended that having created a legacy of low cost clothing, retailers had to keep prices down, but that this had largely been achieved by squeezing their suppliers to breaking point:

> "The retailers' ability to squeeze its suppliers to compensate for its losses is not there any more. Manufacturing has funded the expansion seen in retail in the past few years. The only way to compensate is through closure and we predict a significant closure of stores over the next 18-24 months."

However, retailers consistently expelled the notion that the total cost of alternative sourcing was priced into the product price and passed onto consumers (Retailers Joint Press Release 2006). One retailer claimed that they had absorbed most of the cost increases associated with the China quotas in the form of lower margins to cushion cash constrained consumers from the blow of the restrictions. It must be noted, however, that this opinion of a single retailer that was not validated by other sources and could not be generalised across all retailers:

> "What does happen is that the pressure to keep prices down, especially in tougher trading conditions, has tended to put local suppliers under even greater cost pressure than during the pre-quota period. I think you will see some evidence in annual reports of retail margins under pressure. The key message from retail is that retail *does not set* prices; the customer desire for product and their ability to pay is what sets prices and retailers will compete vigourously to best satisfy their customer segment needs."

Another interviewee argued that compared to small importers who have to take prices as given, their (the large retailers) extensive buying power allows them to maintain constant prices in dealing with China, and to adjust their margins and shuffle them between items to compensate for variance between product prices; items which yielded low margins due to fierce competition were compensated for by higher margins on products that did not have local substitutes. In this manner, large retailers contended, they had performed an important welfare function by redistributing surpluses between different income groups, and inherently in favour of poorer consumers (Retailer Joint Press Release 2006).

Secondly, consumers are impacted by quality as well as price. This is particularly pertinent where the market saturates. In this case, Harrigan and Evans 2003 suggest that focus shifts from price to include a range of issues such as quality, variety, rapid product innovation, fashionbility and delivery reliability. More recently, eco friendliness has also become a consideration for all but the very price conscious consumer. In this respect, a price analysis is limited in its ability to capture non-price dimensions to the wefare impact of the quotas. If consumers were compensated for the price increases by enhancements and improvements in garment quality, complexity and variety, this would mitigate (some) of the welfare loss associated with decreased spending power. Conversely, if in consequence to the China quotas, consumers were paying more, or even the same for a garment of lower quality, the negative welfare impact of the quotas would be compounded.

Whilst the price index can reliably indicate the direction of price changes, it cannot comment on the nature and quality of garments, nor is able to give an accurate indication of market trends. In the absence of a qualitative index to measure changes in quality and style, this had to

be vadidated qualitatively through retailer interviews. Similarly, aggregate import price data may mask real price trends. It was impossible to determine from the trade data whether unit prices increased due to importers buying more expensive high-end garments, or whether they were paying more for existing garments. Retailer interviews and interrogation of store level retail price data would elucidate both these issues.

Retail garment prices and retailer margins

The focus of analysis of the welfare impacts of the China quotas falls on low income consumer groups for two primary reasons. Firstly, although the average South African household apportions approximatey 5% of its income to spending on clothing and footwear[97](IES 2005) equivalent to R2,781.00 per annum, the CPI weights bias the results toward the spending patterns of upper-end consumers. This share increases to between 6% and 6.4% in the lower expenditure deciles.[98] Given their relatively greater share of spending on clothing, poor consumers would be most affected by changes in clothing prices. This is particularly pertinent given the ANC's manifesto commitment to a decent living for all citizens, and especially poor consumers. To explore price movements and margins during the quota period, I aked six large retailers to volunteer data for retail sales prices, sales volumes and cost data for items which had remained relatively constant in terms of composition and style, or where changes were minimal and easily motivated, and for which continuous data was available.

Change in aggregate retail prices and retailer margins

To establish broad trends in garment prices at the two extreme ends of the market during the quota period, I analysed a large sample of data from one discount retailer and one high end retailer. The changes in garment prices are depicted in the graphs and tables below.

Figure 66 and Figure 67 pertain to the discount mass retailer servicing low income and more price conscious consumers, who spend a larger proportion of their income on clothing, and by

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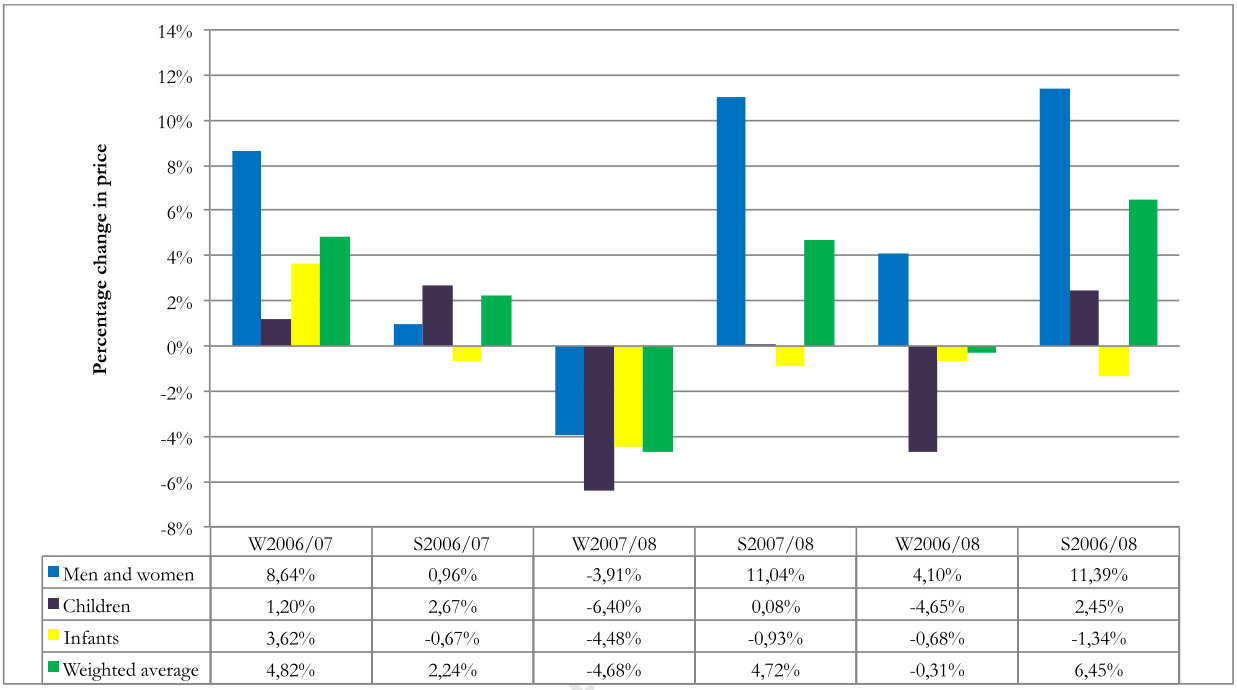
[98] For the following income (per annum) ranges: R0-R6480, 2.83%; R6480-R11090, 3.44%; R11091-R19440, 4.05%; R19441-R41485, 4.04%; R41486 and above 2.17%; Total 2.60% (StatsSA 2003). The results of the Income and Expenditure Survey for 2005 had not been published at the time of analysis.

assumption, Chinese imports. This analysis differentiated only by product group (men's, girls' etc). Table 61 pertains to the retailer servicing the upper market segment.

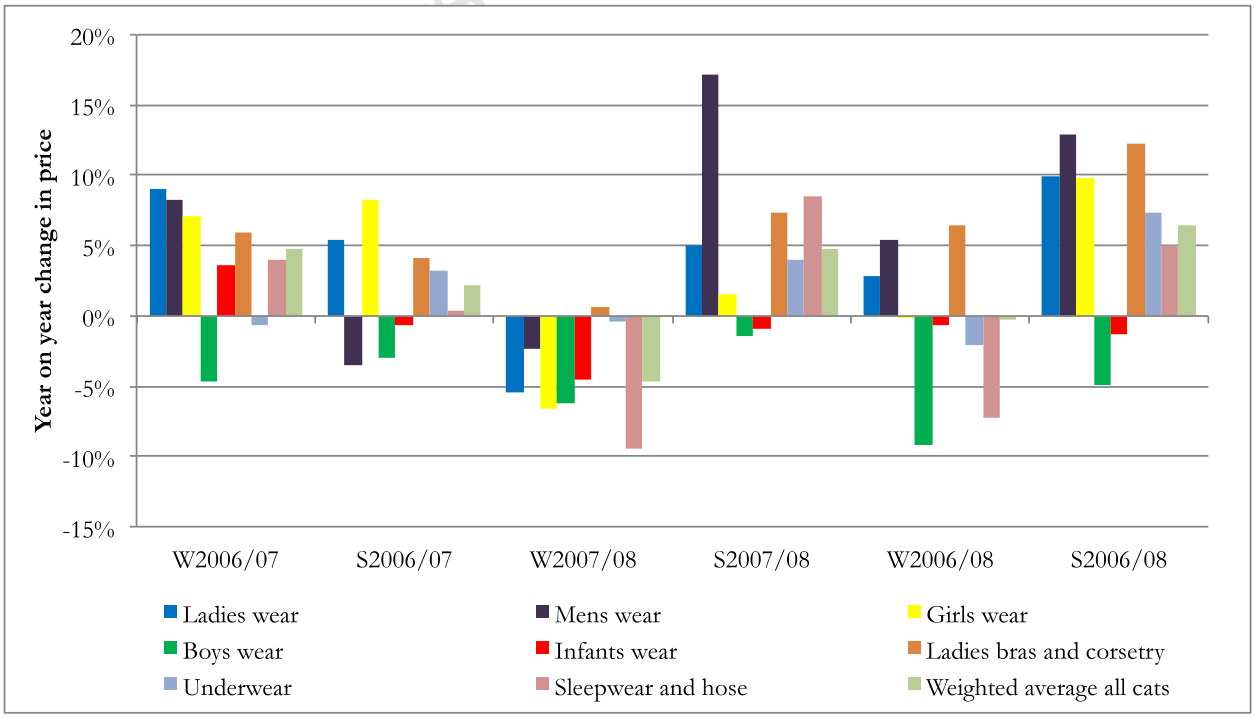
Figure 66: Demonstration of price movements in broad categories for low-end retailer



	W2006/07	S2006/07	W2007/08	S2007/08	W2006/08	S2006/08
Men and women	8,64%	0,96%	-3,91%	11,04%	4,10%	11,39%
Children	1,20%	2,67%	-6,40%	0,08%	-4,65%	2,45%
Infants	3,62%	-0,67%	-4,48%	-0,93%	-0,68%	-1,34%
Weighted average	4,82%	2,24%	-4,68%	4,72%	-0,31%	6,45%

Source: Retailer B

Figure 67: Demonstration of price movements by product category for low-end retailer



Source: Retailer B

Table 61: Demonstration of change in Retail Selling Price for mid to high-end retailer

PRODUCT GROUP	NO OF CATEGORIES	PROPORTION DEMONSTRATING PRICE CHANGE & DIRECTION OF CHANGE			CHANGE IN YEAR-ON-YEAR RETAIL SELLING PRICE (RSP)		CUMULATIVE CHANGE IN RSP
		(+) change	(-) change	No change	2006-2007	2007-2008	2006-2008
Mens	391	74%	23%	3%	3,53%	4,54%	8,27%
Ladies	276	70%	28%	2%	4,23%	4,69%	8,94%
Childrens	147	82%	18%	0%	7,65%	6,06%	14,22%
Average (weighted)	814	74%	23%	2%	4,51%	4,87%	9,57%

Source: Retailer C

The analysis of retail selling prices for 471 product categories[99] pitched at the mid to low end of the market showed a strongly upward trend in garment prices aggregated across three broad categories for men's and women's wear, infants' wear and children's wear. For all categories combined, 59% experienced rising prices (by an average of R7.85); 36% experienced a negative price change (by an average R7.11) and in 4.88% of categories, prices were unchanged during the quota period. A more important finding was that the retailer had faced increased costs in 75.76% of these same categories by an average of R4.67. Input costs fell in only 23% of the categories by an average of R3.62. The analysis also revealed that mark ups for retailers servicing low income consumers were almost half of those at the top end of the market. This suggests that even once Chinese imports were disregarded, competition at the bottom end of the market where imports are concentrated was still very fierce.

For the retailer supplying the mid to upper end of the market, the analysis showed that consumers were paying more in 2008 for existing garments than in 2006. Of 252 garment categories (134 ladies; 84 mens; 34 childrens') analysed, shelf prices increased in 76% of the categories (by an average of R6.72), fell in 20% (by an average of R3.72) with no price variation recorded for 2% of the categories. Furthermore, despite a slight (2%) dip in 2007, mark-ups stayed relatively constant during the quota period. Analysis of a subset of data for 595 garment categories of winter clothes showed that unit sales increased by 10% between 2006 and 2008 relative to a 20% increase between 2005 and 2006. These results were broadly in line with expectations and industry forecasts but at this highly aggregated level the data was a mix of

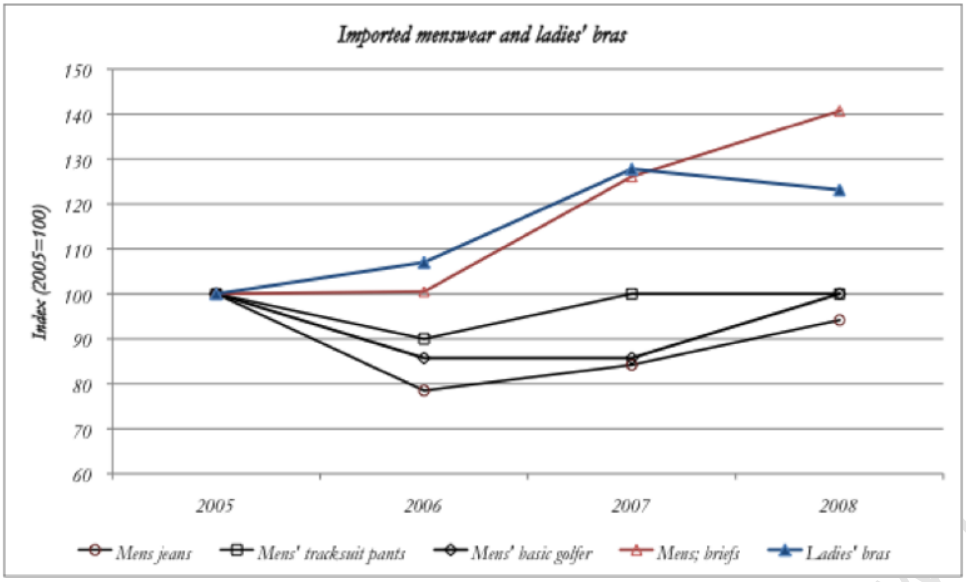
[99] Again this is aggregate data for all garments

import and local prices and garments of different complexities which obscured the precise welfare impacts of the quotas.

Clearer insights were gleaned from a more specific sample analysis of imported products satisfying demand from different consumer goups. To isolate the impact of the China quotas on import prices, I honed the analysis to two samples of imported clothing from a retailer (different to that above) who targeted the bottom segment of the market; the first comprised men's wear and underwear and ladies' bras and the second children's tracksuit pants and infant leggings. All of these items are considered by the supplier to constitute "necessary goods" i.e. demand for these products is income-inelastic. The graphs in Figure 68 and Figure 69 demonstrate the direct negative impact of the quotas on workers and especially in the short term (2007) whilst alternative supply sources to China were still being established. Prices across all categories analysed for men's wear and underwear increased between 2006 and 2008, except for mens' jackets, for which prices remained constant. The largest increase - of 40% - was for men's briefs but in the short term (2007), the price for ladies' bras spiked the most – by 20% - before falling back slightly in 2008. This was unsurprising given that China supplies the world with bras and bra components to which South Africa is no exception. In 2006 South Africa imported R158m (132m kg) of bras. The unit price of imported bras increased by 151.69% between 2006 and 2007.

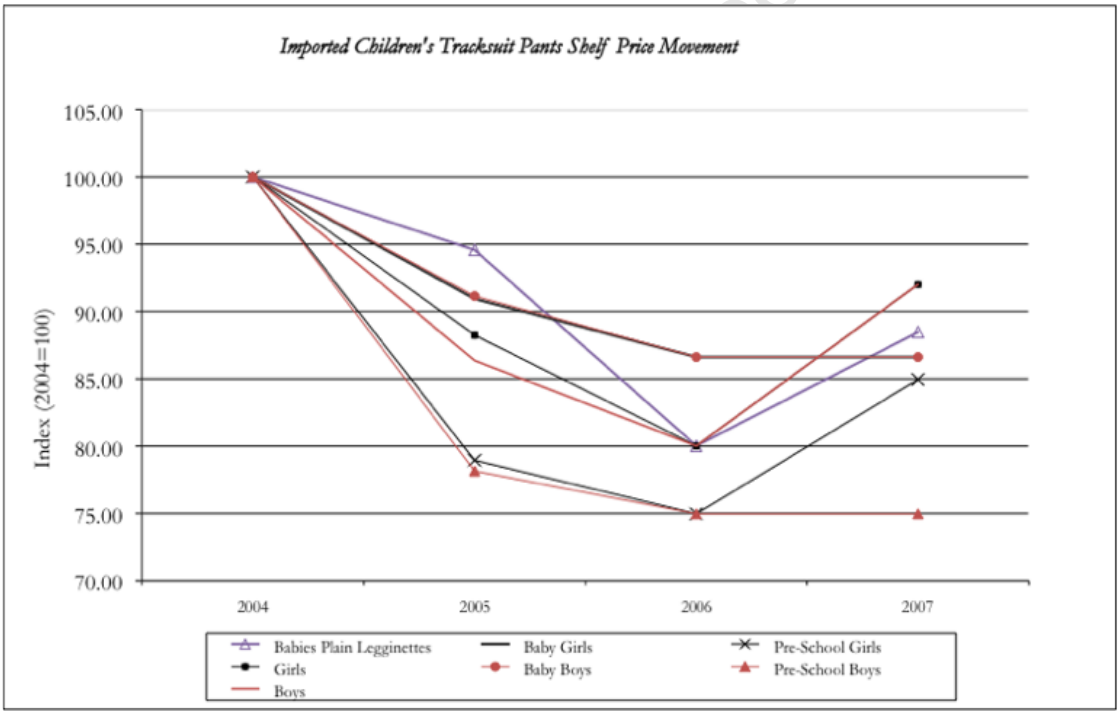
A recent study by Edwards and Rankin (2012) reveals some interesting findings in this respect. They concluded that, in fact, prices for low priced basic garments demonstrated larger price increases than those for higher priced more complex garments. This is explained by the theoretical specific tariff equivalence of quotas which predicts that the addition of a fixed cost to the price of heterogenous garments will cause a disproportionately greater rise in the price of a low priced garment relative to that of a high priced garment (Falvey 1979).

Figure 68: Demonstration of change in RSP for basic clothing items for discount retailer



Source: Retailer C

Figure 69: Demonstration of change in Retail Selling Price of imported tracksuit pants



Source: Retailer E

For the six categories analysed for children's wear, prices increased in 2007 in all but one category (newborn trackpants). Again, even here, prices simply remained constant and did not fall. Prices for girls' and boys' tracksuit pants experienced the greatest increase of 15%, followed by pre-school girls' pants (13.31%) and babies' leggings (10.56%). The picture for the

longer term was based on projections rather than actual data; prices for babies' leggings were expected to increase by a further 5% whilst guidance for all other categories suggested that prices would *at best*, remain constant.

To verify these findings, I cross-checked these predictions against actual data from another retailer with a similar market orientation (i.e. low income groups). The results from this analysis appear in Table 62 below. Price changes across ten clothing categories spanning 1200 products were mixed, although with the exception of boys' wear, sales volumes and revenue for imported products fell significantly season on season between 2007 and 2009.

Table 62: Percentage change in RSP and sales by value and volume in childrens' wear

	Girls Tops	Boys Tops	Toddler Boys Pants	Toddler Girls Pants	Toddler Girls Dresses	Boys Pants	Infant Leggings	Infant Rompers	Teen Girls Tops	Teen Girls Pants
CHANGE IN RETAIL SELLING PRICE										
Sum 08/07	-17,87%	-8,70%	-22,18%	5,05%	-4,00%	40,66%	-16,41%	5,19%	-37,79%	-20,86%
Win 09/08	67,93%	28,77%	-11,56%	-7,81%	-19,15%	12,06%	-18,62%	-20,76%	-25,78%	-13,64%
Sum 09/08	25,81%	-29,19%	-15,43%	-16,03%	-34,09%	7,49%	-31,11%	-13,73%	30,81%	-64,69%
CHANGE IN SALES VOLUMES										
Sum 08/07	-64,32%	-67,86%	-85,32%	-95,92%	-55,25%	-41,23%	-8,47%	-56,32%	-92,89%	34,70%
Win 09/08	-87,45%	595,29%	-97,58%	-96,51%	-16,70%	-28,01%	-2,70%	-72,93%	-98,89%	-74,74%
Sum 09/08	-83,54%	240,96%	-98,38%	-97,00%	-68,58%	-53,74%	-42,40%	-89,25%	-98,94%	-97,50%
CHANGE IN SALES REVENUE										
Sum 08/07	-60,11%	340,72%	-88,57%	-95,40%	-59,15%	-60,34%	-19,95%	-73,64%	-95,79%	-47,92%
Win 09/08	-67,37%	679,07%	-97,86%	-97,14%	-96,10%	-28,03%	-3,50%	-73,64%	-99,25%	-79,24%
Sum 09/08	-74,72%	-76,99%	-98,63%	-97,78%	36,97%	256,91%	-28,39%	-78,97%	-99,36%	-97,97%

Source: Retailer B

A case study on babies' wear threw up some additional insights on the welfare impact of the quotas. Babies' wear is largely imported because labour inputs are high, which makes it prone to sourcing from countries with a comparative advantage in labour (Morris and Einhorn 2008). Price competition in this segment is particularly aggressive and was particularly impacted by globalisation and China.

The data in Table 63 clearly demonstrates both the initial effect of China's liberalisation and its subsequent dominance in babies' wear in the US market from the competitive advantage that it has developed globally, if nothing else in terms of sheer volumes alone, in this particular market segment since WTO accession in 2001. Between 2005 and 2007, imports of babies'

wear from China consistently hovered between 95-100 million kilograms, growing by 3104% between 2001 and 2007. In 2007, 66% of all babies' wear imports into the US by volume and 62% by value came from China, and this despite sustained safeguards on these products. South Africa demonstrates similar reliance on imports of babies' wear. Given its relatively short life span and size, consumers are less willing to pay a premium for this type of clothing, so margins are slim (around 30% compared with the 40% average). Consequently, domestic production for babies' wear had all but disappeared prior to the quotas and since imports constitute the bulk of sales, these products were particularly vulnerable to restrictions. Given the lack of local capacity and China's competitive superiority in imports, it was a foregone conclusion that prices for babies' wear would rise both for imports and local substitutes (if they were available at all), which would have a major impact on consumers.

Table 63: Demonstration of China in US imports of babies' wear

US IMPORTS FROM CHINA OF BABIES WEAR

6111

	Import value US$(m)	% change (YoY)	Import volume (kg)	% change (YoY)	Price/kg	% change (YoY)
2001	67,32		1,72		39,10	
2002	336,23	*399,5%*	21,73	*1162,0%*	15,47	*-60,4%*
2003	648,21	*92,8%*	47,11	*116,8%*	13,76	*-11,1%*
2004	854,45	*31,8%*	71,76	*52,3%*	11,91	*-13,5%*
2005	964,64	*12,9%*	78,86	*9,9%*	12,23	*2,7%*
2006	1064,96	*10,4%*	73,98	*-6,2%*	14,40	*17,7%*
2007	1181,07	*10,9%*	78,83	*6,6%*	14,98	*4,1%*
2008	1095,54	*-7,2%*	66,19	*-16,0%*	16,55	*10,5%*
2009	1002,86	*-8,5%*	60,37	*-8,8%*	16,61	*0,4%*
2010	1118,72	*11,6%*	68,43	*13,3%*	16,35	*-1,6%*

6209

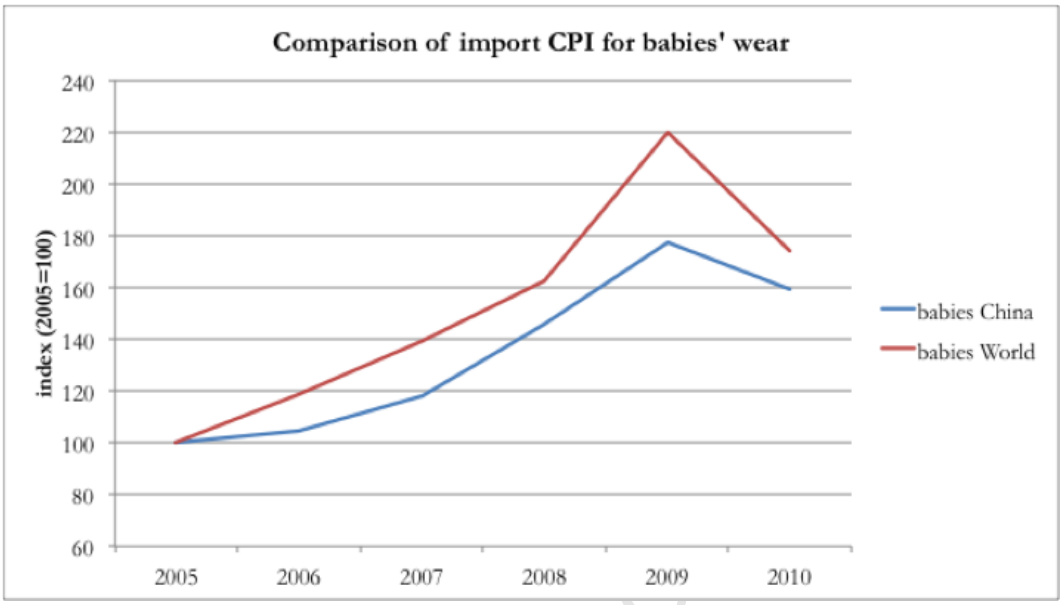
	Import value US$(m)	% change (YoY)	Import volume (kg)	% change (YoY)	Price/kg	% change (YoY)
2001	49,07		1,43		34,33	
2002	138,12	*181,5%*	8,05	*463,2%*	17,16	*-50,0%*
2003	213,68	*54,7%*	14,03	*74,3%*	15,23	*-11,3%*
2004	245,36	*14,8%*	16,03	*14,2%*	15,31	*0,5%*
2005	290,33	*18,3%*	19,25	*20,1%*	15,08	*-1,5%*
2006	333,08	*14,7%*	22,14	*15,0%*	15,04	*-0,3%*
2007	333,58	*0,1%*	22,13	*0,0%*	15,07	*0,2%*
2008	267,95	*-19,7%*	16,32	*-26,3%*	16,42	*8,9%*
2009	220,33	*-17,8%*	13,54	*-17,0%*	16,27	*-0,9%*
2010	230,04	*4,4%*	14,30	*5,6%*	16,08	*-1,1%*

Imports in category 6111.20 (cotton garments) have consistently been in the top 10 imports from China by value since 2001.
In 2006, imports into the US in this category alone were US$916,52m in 2006 and US$1032,26m in 2007 by value.

Source: OTEXA (Own calculations)

A quantitative analysis using unit import price data indicated that the landed price of babies' wear (HS categories 6111 and 6209) increased significantly during the quota period, both for China (41.20%) and overall (44%) (Figure 70).

Figure 70: Demonstration of inflation in import price for babies' wear: China vs World



Source: OTEXA Own calculations

This result was referenced to a very restricted data set of retail prices spanning 9 product categories for babies' and infants' wear sourced from a retailer pitched at the high end of the market between 2005 and 2008, for which output appears in Table 64. This shows that the retail selling price across all categories increased on average by 9.2% during the quota period; this compares with price deflation of 7.1% between 2005 and 2006. Furthermore, although the retailer's cost price also jumped by 11%, almost all of this increase was passed on to consumers. Compared with a negative year-on-year mark up of 2.2% for 2005-2006, the retailer mark-up increased between 2006 and 2008 by 6%.

Where garment prices remained stable i.e. did not rise significantly, this had been achieved either through a change in packaging (more conservative); economising on fabric (a switch to lighter cotton fabric); or destyling (mainly through the substitution of mock flys and pockets). Furthermore, where quotas had compelled a switch back to local sourcing, there was an increase in the cost price in four out of five cases, which rose on average by 35%. The most

significant cost increase, however, came from switching to local fabric, which was 50% more than its import substitute. Three out of the eleven categories analysed showed cost increases of between 2.6% and 30.8% as a direct result of higher import prices for garments and where only the fabric was imported, costs increased by 4%. The impact of quotas was also evident in the sales volumes, which grew by 50.8% between 2005 and 2006 but shrank by 19.3% whilst quotas were in place. Only one category, i.e.toddlers T-shirts demonstrated robust sales growth during the quota period and coincidentally experienced one of the smallest price increases.

Table 64: Demonstration of change in RSP and mark up for babies' wear at top end of the market

	% Change in Retail Selling Price		Mark-Up	Unit Vol
Product line (age)	**2005/6**	**2006/8**	**2006/8**	**2006/8**
Boys hoodie (6-10)[a]	0.0%	16.7%	2.4%	-22.9%
Woven Tracksuit pants (6-10)[b]	-16.7%	20.0%	22.8%	-65.3%
2 Shorts (3-8)[b]	-7.1%	23.0%	9.4%	0.5%
Knitted Boy's tracksuit pants (6-10)[c]*	0.0%	0.0%	-4.7%	-80.0%
Infants leggings (0-1.5)**	-11.3%	0.0%	-6.0%	56.0%
Basic T-Shirts (3-8)[d]	-20.1%	25.2%	-16.7%	-11.9%
2 T-Shirts (0.5-3)[e]	0.0%	-1.3%	-11.0%	97.3%
5 pairs underwear***	-16.7%	0.0%	-5.8%	-27.9%
2 T-Shirts (3-8)	-9.2%	-20.0%	-15.8%	-41.6%
5 piece baby suit[e]	-10.0%	33.4%	40.1%	-83.3%
5 body vests (0-1)	0.0%	40.0%	39.4%	-33.5%
Average	*-8.3%*	*12.5%*	*4.9%*	*-19.3%*

Change in quality/composition key

a Shifted more money into zip-thru version

b Destyled - mock pockets and fly

c New packaging

d Shifted to local fabric - cotton/lycra; 2 pack

e Switched from 160 to 145gms cotton fabric.

Other information key

* Negotiated better prices with suppliers; very key item so important to maintain low constant price

** Calculated by halving repail pack and costs for 2 pack to make item comparable with 2006

*** Negotiated better bulk price with supplier and cheaper packaging helped with price

**** Switched to local sourcing due partly to quotas but also partly since garment requires flexibility in production. Intend to maintain local sourcing unless the price changes significantly.

Source: Retailer A

In theory, the inflationary impact of the China quotas could be guaged from the reversal of the price trends after quota removal. Analysis of price data for 92 babies' and infants' wear categories spanning Summer 2007 to Winter 2009 sourced from a high end retailer showed that prices rose by 47% on average year-on-year between Winter 2008 and Winter 2009 (Table 65). This was explained by the sharp depreciation in the Rand (from R6.85 in December 2007 to R10 in December 2008) which coincided with the buying season. Some retailers postponed their orders for Winter 2009 from December 2008 to January 2009 in the hope of a better exchange rate (although some of this was motivated by the fact that they could resume unrestricted sourcing from January 2009). The exchange rate movements hinder clear interpretation of price movements which showed an average price increase of 6.64% for children's wear year-on-year (W09/08) and of 10.88% season-on-season (W09/S08); and for infants' and babies' wear (across the 11 categories) an increase in price of 36.67% (W09/W08) and price deflation of 143.53% (W09/S08).

Table 65: Change in retail selling price (RSP) for children's wear after quota removal

	s08/07	s09/08	w09/08	s07/w08	w/08/s08	s08/w09	w09/s09
	YEAR ON YEAR CHANGE IN RSP (%)			SEASON ON SEASON CHANGE IN RSP (%)			
Rompers	15,0	40,2	36,0	43,0	-19,6	69,1	-17,1
Boys sets	29,4	-27,4	10,9	23,7	4,6	6,0	-31,5
Girls sets	29,0	-7,3	37,5	4,7	23,3	11,5	-16,9
Zerbit sets	21,1	-16,6	20,3	18,6	2,1	17,8	-29,2
Pre boys bottoms	-40,4	5,8	26,1	-31,9	-12,5	44,1	-26,6
Pre girls woven dresses	27,0	-15,6	-4,8	22,1	4,0	-8,4	-7,9
Boys pyjamas	-17,2	9,5	-5,2	-15,2	-2,3	-3,0	12,9
Girls pyjamas	13,7	-62,3	34,6	-12,3	29,6	3,9	-63,7
Boys T-shirts	-52,4	294,6	0,0	-34,3	-27,5	0,0	-23,0
Dungaree sets	-12,1	-12,4	5,1	-20,0	9,8	-4,2	-8,5
Girls T-shirts	59,8	22,8	89,3	-35,2	146,5	-23,2	59,9

Source: Retailer B

A comparative analysis of sales volumes was more enlightening (Table 66). For children's wear averaged across the 19 broad categories, volumes increased by 6.64% year-on-year (W09/W08) and by 24.19% season-on-season; the increases in sales volumes for babies' and infants' wear were just as decisive; these were 210% year-on-year and 1,361% season-on-season, although the averages were skewed by a few outliers. In babies' and infants' wear, the year-on-year increases in units sold were significant; infant sets (633%); infant pants (1,277%); pyjamas (495%). Although the drop in sales volumes during 2008 may be partly attributed to the China quotas, a more compelling and likely explanation is the deteriorating economic conditions,

which intensified during 2008. In their financial statements, retailers emphasised the danger that the tightening credit cycle posed to their sales outlook. Their comparative lack of commentary on the impact of the quotas (at all) suggests that they were largely inconsequential from a retailer perspective by 2008 due to their imminent withdrawal.

Table 66: Change in Retail Selling Price (RSP) for children's wear after quota removal

	s08/07	s09/08	w09/08	s07/w08	w/08/s08	s08/w09	w09/s09
	YEAR ON YEAR CHANGE IN RSP (%)			SEASON ON SEASON CHANGE IN RSP (%)			
Boys long sleeve T-shirts	4,9	21,8	-8,9	-21,0	32,7	-31,4	77,6
Boys short sleeve T-shirts	-21,8	176,0	-32,0	-23,5	2,2	-33,5	314,7
Girls woven dresses	-2,5	43,5	31,2	12,9	-3,6	30,2	-35,1
Girls Skirts	-67,2	-51,4	-83,7	-40,4	-44,9	-70,4	64,0
Boys knitted tops	21,7	5,9	15,9	12,0	8,7	6,7	-0,7
Girls knitted tops	-24,2	-2,0	-0,4	-2,1	-22,6	28,7	-23,8
Boys Bottoms	-45,5	43,7	-39,1	-35,2	-15,8	-27,6	98,6
Girls Bottoms	13,0	1,0	74,3	-38,4	83,3	-4,9	6,2
Girls tracksuits		28,8	47,7		-25,6	98,5	-35,1
Boys Tracksuits	9,6	-63,7	-3,2	1,4	8,1	-10,5	-59,5
Girls Active Tops	-23,2	29,3	11,5	-12,0	-12,8	27,8	1,2
Boys Active Bottoms	-25,1	18,7	-31,3	-26,2	1,5	-32,3	75,4
Boys clamdiggers	16,6	21,7	42,4	-46,7	118,7	-34,9	86,9
Boys golfers	-33,5	86,7	57,3	-23,4	-13,2	81,3	3,0
Boys summer pyjamas	-10,8	-49,5	4,2	-26,5	21,2	-14,0	-41,3
girls summer pyjamas	-26,4	-23,4	0,8	-24,9	-2,0	2,9	-25,6
Winter tights	-16,2	17,8	3,6	-12,6	-4,2	8,1	9,0
Girls underwear	-8,9	-36,8	-21,3	0,6	-9,4	-13,1	-27,3
Boys underwear	-13,9	-87,1	-52,5	-3,1	-11,2	-46,5	-75,9

Source: Retailer B

An alternative way of appraising the retailers' stance that they had partially borne the costs of the quotas to minimise the negative impact on consumers is through an analysis of their financial statements during the period that quotas were in operation. This analysis comes with several caveats: Firstly, most retailers are not exclusively clothing retailers (and even where this is the case, footwear is included) so that the profit before tax figures are an aggregation across a vast range of products with varying profit margins. Secondly, as shown in Chapter 6, retailers engaged numerous combative actions to mitigate the impact of the restrictions on their bottom line, both in the initial period by bringing forward a bulk of their purchasing and in the paeriod pending quota removal by deferring 2008 orders to 2009.

Table 67 shows the turnover of South African clothing retailers for 2004 to 2008. Despite the restrictions, total retail sales grew steadily during the quota period.

Table 67: Retail sales growth 2005-2008 in 2008 prices(Rand millions)

Year	Sales (clothing, textiles and footwear)	Year on year growth in sales
2005	67,964	
2006	76,587	11,2%
2007	84,727	9,6%
2008	96,032	11,7%

Source: Stats SA Statistical Release P6242.1 – Retail trade sales

What is more, South Africa's six largest clothing retailers continued to grow their operating profits throughout the quota period, albeit at a diminishing rate (Table 68). Again, the simultaneous impact of the economic crisis and the import restrictions on retail performance in 2008 hinders clear interpretation of the financial impact of the China quotas. However, commentary in the Retailer Financial Statements suggests that the sharp drop in operating profits between 2007 and 2008 was attributable to the former rather than the latter .

Table 68: Demonstration of retailer profits before tax

Rand (Milllions)	2004	2005	2006	2007	2008
Edcon	R930	R1,733	R2,074	Delisted	Delisted
Mr Price Group	R296	R336	R580	R672	R770
Foschini Group	R753	R1,146	R1,488	R1,782	R1,786
Truworths	R761	R979	R1,244	R1,617	R1,880
Woolworths	R898	R1,079	R1,246	R1,521	R1,504
Total	R3,638	R5,273	R6,632	-	-
Total (ex Edcon)	**R2,708**	**R3,540**	**R4,558**	**R5,592**	**R5,940**
Growth in comparative profit	**41%**	**45%**	**26%**	**23%**	**9%**

Source: Financial Statements of Edcon, Mr Price Group, Foschini Group, Truworths and Woolworths

Although one interviewee racked his firm's incongruously robust financial performance up to enhanced supply chain management and judicious sourcing decisions (again this was not validated to be a generalised practise), the fact that retailers continued to grow their profits despite quotas and weak economic conditions calls into question their claims that they cushioned cash-constrained consumers from the blow by absorbing the cost increases from the quotas in the form of lower margins. It also undermines the credibility of the retailers' self professed station as an effective welfare mechanism (Retailer Joint Press Statement 2006). This

said, commentary in the financial reports citing high volumes of mark downs due to large stock imbalances as a primary source of falling profitability in ladies' and mens' wear in 2007 and 2008 suggests that some retailers may have been bitten by their forward purchasing strategies. To this extent, quotas may have been an inconvenience to large clothing retailers but beyond this it is impossible to say definitively what the precise impact of the restrictions was on them financially, or to quantitatively validate their claims that they had partially borne the cost of the quotas.

Changes in consumer trends: Substitution in demand

The second issue that could not be established through price trends was whether the higher import prices reflected substitution in demand i.e. were a result of demand-side shifts - consumers "buying up" and demanding more complex garments, or whether they were in consequence to importers upgrading their import basket in response to limitations on import quantities. A lower import volume accompanied by a higher import value implies a higher average price, which may be an indication that higher value items are contributing more to the import basket. Whereas statistical interrogation of trade data could confirm quantitatively whether or not this had occurred, there are two caveats to this approach. First, data inconsistencies and distortions may yield dubious results. Second, consumers may have been "buying-down" in which case this effect would not be evident in the first place. Consequently, qualitative evidence from local firms on changes to output composition during quotas may be a more reliable indicator of local firm performance. In the first instance, deterioration in quality for local and alternative foreign subtitutes to Chinese garments may create an incentive for consumers to substitute relatively more expensive clothing.

Analysis of import data for the top 25 import categories by volume (Table 69) and value (Table 70) into South Africa from China between 2006 and 2008, shown as a percentage change on the previous year's values as well as the change for the full quota period, indicated that some changes in import composition had occurred during the quota period. Furthermore, for some categories, this change was quite significant. For instance, South Africa imported a lot more overcoats and women's suits and babies' wear from China in 2008 than in 2006, but less women's and men's woven trousers. However, even within specific categories, products are

highly differentiated by complexity and quality which are masked by aggregate price data even at the category level and I was unable to draw definitive conclusions about consumer trends on this basis.

Table 69: Top 20 imports from China by volume in 2008

TOP 20 IMPORTS BY VOLUME IN 2008		VOLUME CHANGE (%)			PRICE CHANGE (%)			CHINA % VOL	% PRICE
		2007/06	2008/07	2008/06	2007/06	2008/07	2008/06	2008	
61099000	Knitted t-shirts	119.5	-1.0	117.3	-45.1	-1.4	-45.9	92.5	70.3
61091000	Cotton t-shirts (knitted)	-1.5	-1.0	-2.5	5.0	19.9	25.9	63.3	90.2
61103000	MMF Jerseys	34.8	16.4	56.9	6.9	26.3	35.0	94.2	96.5
62041900	Other womens suits	415.7	348.9	2214.9	-61.2	-50.0	-80.6	96.4	90.4
61082100	Womens panties (knitted)	-38.7	66.3	2.0	7.3	1.7	9.1	46.3	90.2
62034200	Mens cotton trousers	-20.4	-29.9	-44.2	29.7	45.9	89.2	55.9	84.7
62046200	Womens cotton trousers	-37.9	-25.8	-53.9	19.4	24.2	48.3	64.2	104.7
61082200	Womens MMF panties (knitted)	-44.6	-17.2	-54.1	134.4	63.4	283.0	65.1	52.9
61071100	Mens cotton underpants (knitted)	55.5	67.4	160.3	-0.7	140.9	139.3	36.1	98.6
62034300	Mens synth fibre trousers	-40.8	0.0	-40.8	28.1	35.6	73.7	75.1	80.0
62052000	Mens cotton shirts	-27.5	-12.9	-36.8	12.9	36.7	54.3	47.2	76.5
61051000	Mens cotton shirts (knitted)	-2.1	-1.7	-3.7	19.0	32.0	57.0	36.0	87.2
61102000	Cotton Jerseys	161.5	-16.8	117.6	-32.1	60.6	9.1	77.2	80.1
61171000	Shawls & scarves (knitted)	11.3	-28.1	-19.9	-21.3	89.3	49.0	97.3	91.6
62063000	Womens cotton blouses	-45.6	82.2	-0.9	37.4	57.8	116.9	53.5	88.8
61013000	Mens MMF overcoats (knitted)	42.9	407.9	626.0	-6.4	-41.6	-45.3	94.8	92.0
61061000	Womens cotton blouses (knitted)	-22.4	-10.8	-30.8	1.5	46.1	48.3	69.6	92.1
61149000	Other knitted garments	-29.5	17.4	-17.2	55.7	64.9	156.8	91.1	98.4
62045200	Cotton skirts	-59.7	-1.5	-60.3	22.3	22.7	50.1	57.5	101.9
61109000	Other jerseys	4.5	-44.3	-41.8	12.5	58.2	78.0	74.9	90.5

Table 70: Top imports from China by value 2008

TOP 20 IMPORTS BY VALUE IN 2008		VALUE CHANGE (%)			PRICE CHANGE (%)			CHINA % VAL	% PRICE
		2007/06	2008/07	2008/06	2007/06	2008/07	2008/06	2008	
61091000	Cotton t-shirts (knitted)	3.4	18.7	22.8	5.0	19.9	25.9	57.2	90.2
62034200	Mens cotton trousers	3.3	2.2	5.6	29.7	45.9	89.2	47.3	84.7
62046200	Womens cotton trousers	-25.8	-7.9	-31.7	19.4	24.2	48.3	67.2	104.7
61103000	MMF Jerseys	44.1	47.0	111.8	6.9	26.3	35.0	90.8	96.5
62052000	Mens cotton shirts	-18.1	19.1	-2.4	12.9	36.7	54.3	36.1	76.5
61051000	Mens cotton shirts (knitted)	16.5	29.8	51.2	19.0	32.0	57.0	31.4	87.2
61102000	Cotton jerseys	77.6	33.6	137.3	-32.1	60.6	9.1	61.8	80.1
62092000	Babies cotton garments	284.7	47.4	466.9	-11.2	13.2	0.4	95.5	98.3
61099000	T-shirts (knitted)	20.4	-2.4	17.5	-45.1	-1.4	-45.9	65.1	70.3
62034300	Mens synth fibre trousers	-24.2	35.7	2.8	28.1	35.6	73.7	60.1	80.0
61112000	Babies cotton garments (knitted)	-13.3	17.3	1.7	23.4	17.7	45.2	75.4	102.1
62063000	Womens cotton blouses	-25.5	28.5	-4.3	28.6	29.4	66.4	47.5	88.8
62121000	Brassieres	-16.4	23.4	3.1	28.6	30.4	67.7	49.0	82.3
61113000	Babies synth fib garments (knitted)	-5.7	67.5	58.0	27.2	16.9	48.7	88.4	102.0
61109000	Other jerseys	17.6	-11.9	3.6	12.5	58.2	78.0	67.8	90.5
61061000	Womens cotton blouses (knitted)	-21.2	30.3	2.6	1.5	46.1	48.3	64.1	92.1
62045200	Cotton skirts	-50.7	20.8	-40.4	22.3	22.7	50.1	58.6	101.9
62113290	Other cotton mens garments	439.1	1.3	446.0	55.3	8.6	68.6	1.4	105.9
62019300	Mens MMF coats	-20.7	72.1	36.6	46.0	12.2	63.8	78.9	90.1
61013000	Mens MMF overcoats (knitted)	33.8	196.7	296.9	-6.4	-41.6	-45.3	87.3	92.0

The best read on local consumer behaviour came from global trends, which denoted a shift away from higher priced apparel in response to tightening credit conditions[100] (Emerging Textiles 2008e). As one US commentator observed, this is a global trend with major retailers worldwide feeling the squeeze from consumers: "Brand loyalty is being tested and only lifestyle brands which reflect the consumer's taste and attitude, overriding price concerns, are surviving the crunch" (Barbaro 2007)[101]. However, the notion that importers switched their import basket due to quotas was soundly rebutted by one large South African retailer, who argued that allocated quota was apportioned across all firms in the group who supply different market segments[102].

> "The DTI does not realise that there is not one buyer per quota classification in big organisations. Each classification is shared across divisions with differing age groups within gender such that it is not unusual for a single classification to be split between 6 or 8 buyers who then manage this to ensure that we do not overbuy."

Again, I note that since this opinion was not qualitatively validated by other sources, it may not be generalised as representative for the retail sector at large.

Conclusions on the welfare and competitiveness impact of quotas via price

Whilst cautioning about the pitfalls and shortcomings of using macroeconomic price data to estimate price trends, the main findings from the analysis of the price impacts of quotas are: i) Retail prices increased for both locally produced and imported garments. For the low-end consumer, who is particularly price keen and thus dependent on Chinese imports, the price movements were particularly important. ii) Local and foreign substitutes did not match up in quality or durability to Chinese imports of similar price. By all accounts, quotas reversed the fortuitous position where consumers were getting "more spend for their buck". Even where prices stayed constant due to intense competition at the discount end of the market, the

[100] Wal-Mart retail sales rose by 0.75% in March 2008. Comparable sales at Gap, for instance, who services the upper-end of the market, fell by 18% and J.C. Penney, which services the middle market segment, by 12.30% (Emerging Textiles 2008e).

[101] Edwards and Rankin 2012 find statistical evidence that prices fell for relatively higher priced garments, which they postulate may evidence a switch in demand toward high-end substitutes in response to quotas.

[102] Established during an internet interview with Interviewee#1

consumer was buying a product of lower quality and durability, or one that was considerably destyled. Higher shelf prices of imported garments which remained relatively constant in composition and complexity suggested that consumers were paying higher prices for existing garments; and iii) quotas may have motivated importers to upgrade their import basket and import more high-end, sophisticated garments, with the implication that local manufacturers may have been forced towards supplying the low end of the market where competition is most fierce from alternative foreign suppliers. The limitations of the price analysis to prove down-grading, however, makes this final point at best a cautious conclusion. Higher import prices alone cannot be interpretted as evidence of downgrading. They may reflect a change in consumer preferences i.e. consumers were "buying up", which I was unable to rigorously prove or disprove.

Chapter 8: Putting it all together: An evaluation of the success of the China quotas as an industrial policy

In this Chapter, I shall evaluate the China quotas as an industrial policy. In Section One, I shall assess the consistency of the actual outcomes of the China quotas with their own industrial policy objectives and those of the DTI and I shall tie these to my anecdotal findings from the research. In Section Two, I shall engage the body of academic discourse on industrial policy, quotas and protectionism to establish a theoretical framework for the evaluation of the China quotas. I shall review what the major opponents or proponents of quotas say in relation to their to establish what the trade and industrial policy literature says about the potential for short term quotas to alter industry development trajectories and I shall examine whether there is any evidence suggesting or proving that quotas work in reversing negative trends in sectors that are supposed to be the beneficiaries of their implementation. I shall conclude by drawing on the academic theory to substantiate my claim that the China quotas failed as an industrial policy.

Section One: An evaluation of the success of the China quotas in meeting their own policy goals and the DTI's objectives

I shall now evaluate the China quotas as an industrial policy in relation to its industrial policy goals and the objectives of the DTI. There are four fundamental points that emerge from the research that underpin my evaluation.

Domestic focus

The first point is that the South African clothing value chain is domestically orientated. The reason for the domestic focus is two fold: Firstly, South Africa, unlike most other SSA countries, has a large and diverse domestic market that is capable of supporting a clothing industry. For this reason, it does not necessarily have to pursue an export-oriented industrialisation path to grow its clothing sector, although an export path added to domestic market growth would be desirable. However, this has to be qualified by the second point, lack of domestic competitiveness.

Lack of competitiveness

The South African clothing sector is by and large uncompetitive on a global basis, weighed down by physical and infrastructural capacity constraints, skills shortages, the ideological trappings of an import substitution regime and last but not least, a lack of systemic functionality. All of these factors impacted directly on the competitiveness of firms who failed extensively to adopt WCM principles into their factories. This was a major comparative weakness, which culminated firstly, in an intensified dependence on the domestic market since firms struggled to develop an effective export platform; and secondly, in a surge of imports, since local firms were unable to compete even in their own market against foreign competitors (and mainly China).

Buyer driven value chain

The third point that emerges from the research is that the domestic value chain is driven by local retailers, who demonstrate global characteristics. The high concentration of buying power at the top end of the South African retail sector implies that large retailers are able to wield significant power over local manufacturers; they are extremely demanding in terms of price, quality and delivery and their sourcing behavior and strategies are deterministic for the development of the local clothing sector. Given the rise of China, and more recently, South East Asia, who together have taken a large bite out of the global clothing and textiles market, sourcing has increasingly shifted towards these locations.

Institutional rigidity

The fourth and final point is that the sector is dominated by one particular institution in the form of the clothing National Bargaining Council, which does not serve the interests of the industry due to the power of the union, which buttresses high wages and inflexible working hours despite the negative ramifications on employment and competitiveness. SACTWU's modus vivendi on various bureaucratic bodies in the clothing sector undermines the credibility of the initiatives that they champion (Morris and Reed 2008b; 2008c).

I shall now show why the DTI's attempt to implant the China quotas in this framework failed. There were three key reasons for this: i) the timing and motivation of the quotas; ii) their manner of implementation and iii) the modus operandi of the quotas. I shall deal with each systematically.

The timing and motivation of the quotas

Clotrade and Jack Kipling argued that the crucial error lay not with the intervention itself, but with the timing[103] - the quotas came too late. Clotrade asked for quantitative controls first in 2003 and again in 2005, emphasizing the need for swift and decisive efforts to curb illegal and unfair imports. Action by the DTI only came in 2007. By the time authorities acted, the industry had lost much of its critical mass that it depends on to create cost-effective production. Remaining firms found it hard to compete effectively on a global stage where they were forced to compete on the basis of efficiency and flexibility. Kipling concluded that:

> "Had the Voluntary Restraint been imposed in January 2004, even at the current level proposed, before 20,500 jobs had been lost in the clothing industry and when the restraint would have been equal to 80% of the imports of the previous year 2003, when 215 million units and 8 million kilos were imported, it would have been a successful intervention (…)" (Kipling 2008)

Whilst this is true, the evidence from this thesis shows that this is an inadequate statement that requires qualification. The China quotas were, in concept, similar to safeguards in the US and EU, which responded to escalating job losses and a contraction in domestic output. Evidence from the US shows that safeguards acted, at best, as a handbrake on Chinese import penetration in the short run and in the longer run, led to import diversion to alternative foreign suppliers (and a large reversion to Chinese sourcing upon quota removal). This suggests that whilst trade remedies such as safeguards may afford short-term and temporary relief to an uncompetitive domestic industry, they will be ineffective in the medium to long run unless domestic firms are encouraged (incentivized) to restructure and undertake the necessary reforms required to achieve WCM excellence and global competitiveness.

[103] This was established from personal communication in 2008.

Not only was the South African case unexceptional to this rule, there were additional caveats to invoking a superficially similar safeguard mechanism to address rising unemployment as prescribed by the DTI. Unlike the US and EU where rising imports were generally a direct consequence of trade liberalisation, the fundamental problem in South Africa did not lie with profiteering by retailers or the surge in Chinese imports, but in the lack of competitiveness of the domestic clothing sector relative to Asia as a whole. China was simply the "vanguard of the wedge"; a symptom of greater underlying problems, such as the fact that local firms generally lacked the production capabilities – technology and knowledge of World Class manufacturing – to compete on price, quality and flexibility (Business Alliance 2006). The China quotas responded to the wrong problem – unemployment - they did not address the real problem at its source i.e. the lack of firm level competitiveness. Whether this was simply a case of misdiagnosis of the real cause, or a correct diagnosis with the wrong prescription, is controversial. The point is that in the absence of other sustainable industrial policy and value chain alignment measures to bolster competitiveness, the outcome of this particular intervention, the China quotas, would have been the same whether the intervention was made in 2004 or 2007. In this broader context, the issue of timing is relatively unimportant.

Related to the point about misdiagnosis of the problem is the second issue raised by Kipling, which speaks to the motivation for the quotas. When implemented correctly and timeously, Kipling (2008) argued that quotas would have been an effective mechanism for dealing with illegal imports:

> "Clotrade was, and is in favour of quantitative controls as a mechanism for addressing disruptive surges of imports brought about as a result of unfair trade practices, gross under-valuations or dumping of product in the SA market." (Kipling 2008)

In 2003, Clotrade wanted the state to take swift action against illegal and undervalued imports that had escalated alarmingly post 2001 (ref Chapter 5) and were open to any WTO compliant measure, including safeguards, to address this problem. By 2006, however, Clotrade and the manufacturers were opposed to quotas in principle, since they threatened their relationship between with retailers, value chain alignment and the CSP and hence a competitiveness path out of the problem. The DTI's claim of Clotrade's support for its China quota intervention in

2006 as an industrial policy to address unemployment and competitiveness issues, was unfounded and was indeed openly rejected and publically rebuked by Clotrade itself.

Skills constraints

The reluctance of firms to extensively incorporate WCM practices into their factories penetrated far deeper than competitive pressure from the Chinese. Morris and Reed (2008c) revealed that local manufacturers faced significant skills shortages, which inhibited and retarded efforts to make the transition to WCM. Firms identified skills shortages as the *greatest* constraint on growth and the key reason why they were unable to use the period of relief from Chinese import competition to upgrade and participate in production of more complex garments, or even to expand their output of basics. Rising production costs (due in principle to fabric prices) put additional pressure on already tight margins which led firms to scale down their own manufacturing operations and outsource production to garage CMT's who work on a job rate. Many firms simply closed doors. This implied further attrition to an already diminished skills pool available to firms operating in the formal sector and erosion of core production capacity, which undermined the acquisition of dynamic production capabilities by remaining firms. Rather than assist firms to upgrade and improve their position in the value chain, the quotas had the antithetical effect of downgrading the value chain. Local manufacturers were forced toward low margin basics as skills shortages precluded participation in production of more complex garments. Here they faced even greater competitive pressure than before the quotas due to imports from lower cost locations from China (and especially at the discount end of the market where illegal imports were rife).

Institutional constraints

Competitiveness is closely associated with wage costs and working hours (Edwards et al 2006). The former is rooted in general labour market rigidity in the South African economy toward which the considerable power of unions is a major contributor. The latter is a controversial point with many manufacturers arguing that a shift or piecework system would significantly raise productivity and better enable them to compete with Asian countries which operate along these lines. The quotas amplified institutional pressures in respect of non-compliance as firms struggled to meet high and inflexible wage agreements in the face of rising production costs;

and in respect of union membership, as firm closures and retrenchments intensified flight into the informal sector.

Systemic inefficiency

Finally, there was insufficient obligational cooperation along the value chain to achieve systemic efficiency and alignment of the value chain, both of which are important mechanisms for competitiveness.

The single most significant input into the clothing sector is fabric, which ties the clothing and textiles industries together. The endemic shortage of local fabric was recognised as a binding constraint on the productivity of the South African clothing industry with the lack of vertical integration in the domestic value chain affecting the ability of domestic firms to effectively compete both in their own market with Chinese imports and in export markets. Once again, the cause of the problem does not map directly back to Chinese competition but has political and historical roots. Whereas the clothing sector responded to trade liberalisation post-1994 by intensifying its dependence on product and functional diversification and producing for the domestic market, the textiles sector restructured through greater specialisation, finding it more profitable to export (Gibbon 2002b). This culminated in a lack of strategic co ordination and cooperation between the apparel and textile manufacturers and the functional divergence of (what should be) two dependent sectors. As Kipling argued:

> "The idea that clothing and textiles are joined at the hip is a fallacy. One third of textiles output supports the apparel industry and yet we have a policy that says that you must be joined at the hip whilst clothing manufacturers are penalized (through the 20% duty on imported fabric) into supporting a textiles industry that cannot produce the fabrics anyway. And then it says that we must compete against China with their massive comparative advantage in fabric that they've built up over the past 20 years!" (Kipling 2011)

The lack of obligational relationships between clothing and textiles manufacturers implied that the requirement for systemic efficiency could not be fulfilled. This should have formed the fundamental basis for any intervention in the sector. Rather than encouraging greater collaboration between textiles and clothing manufacturers the quotas resonated the

historically fractious relationships between clothing and textiles manufacturers causing the pipeline to fracture further. The temporary nature of the intervention discouraged textiles manufacturers from refocusing production toward the domestic clothing market and away from exports. At the same time, clothing manufacturers were placed on the back foot because quotas on imported fabric left them beholden to a textiles industry that could not or was unwilling to meet their demands. Apart from higher prices and fabric shortages, manufacturers reported increasingly poor delivery performance and product quality from local fabric suppliers due to quotas, which strengthened the bargaining position of textiles firms.

Lack of value chain alignment

Retailers are the critical link between the value chain and local firms. One of the major hypotheses of GVC theory is that development requires linking up with the lead firms in the industry (Gereffi and Memedovic 2003). The ability of local firms to become integrated into the upper segments of the value chain and the possibilities for upgrading are critically dependent on their relationship with local retailers. Local firms have a comparative advantage over their foreign competitors; their proximity to the local market gives them the ability to get goods to the stores fast, which allows retailers to respond to customer-buying patterns (Barnes in Bisseker 2006c). However, this advantage has been rapidly eroded by China and other East Asian suppliers, who have upgraded their production capabilities and invested in world-class manufacturing techniques and human resources to meet the new demands of lean manufacturing. To exploit its locational advantage, the domestic industry must do the same. However, given the dimensions of the investment needed, manufacturers need to be sure of a market by entering into obligational relationships with retailers who undertake to buy certain quantities of their goods (Morris in Bisseker 2006c). Pundits argued that the local industry was uncompetitive because of a lack of trust between domestic retailers and manufacturers, which precluded alignment of the value chain. Greater levels of competitiveness achieved through strategic obligational and collaborative buyer-supplier relationships would innately lead to greater demand for local output. If manufacturers believed retailers' commitments to source more from them in the future, they would reciprocate by striving to become more competitive and innovative by investing in capital equipment, technology and resources. Again, this should have formed the basis for intervention in the sector.

In the run up to quotas, manufacturers and retailers had embraced cooperation as the most constructive way of laying a foundation for a sustainable future for the industry and some beginnings of trust had been established through the Business Alliance. The quotas had the potential to break down this trust and prompt retailers to view the industry with extreme suspicion and to hedge their bets and further diversify their supply chain to foreign countries to reduce their exposure to protectionist domestic policy in the future. As Morris in Bisseker 2006c argued:

> "The DTI has started a dynamic that it can't control. It will now take a great act of will for retailers not to source more offshore. The only thing that will stop them is the Business Alliance and the relationships they have forged with manufacturers."

Under an import substitution regime, where the textiles firms drove the chain, it was possible to penalise retailers into sourcing domestically. However, in the post MFA era of globalisation, this approach is highly inappropriate and this is even more trite where, as in South Africa, the value chain is domestically focused, the development of the internal market is key to the future success of the clothing industry and the potential for local firms to partake in this growth process (or to be completely excluded from it), lies in the very hands of these retailers. *In this particular context*, an industrial policy that makes the retailers the principle enemy of manufacturers simply does not make sense[104]. This is the bust: In so far as the China quotas were antagonistic to the retailers, not only were they were an inappropriate industrial policy for the task at hand, they were intrinsically self-defeating.

The implementation of the quotas

With regard to the quotas themselves, the Business Alliance (2006) observed that without consultation with key players (retailers and manufacturers), and direct feedback from key players - manufacturers and retailers - who are the direct recipients of the intervention, the DTI would lack the detailed knowledge necessary to design a quota mechanism with the necessary flexibility to handle ongoing production incapacities and market distortions. From a manufacturing perspective, restrictions on fabric were particularly problematic. The limited production capacity of local fabric firms to meet demand, and in some cases, the complete

[104] This observation was made by Professor Mike Morris during an interview in 2011.

inability of local firms to produce the fabric at all, was a key reason why the quotas failed to stimulate output and foster competitiveness in the industry. Fabric is the lifeblood to the clothing industry. Restrictions on fabric implied that without an effective local supply base clothing manufacturers could not expand their output and exploit the opportunity that quotas created. Choking off supply to Chinese fabric placed local manufacturers at a distinct competitive disadvantage relative to their Asian competitors, who all source fabric from China (Edwards et al 2006; Clotrade 2006a). In addition, some of South Africa's neighbours, such as Mauritius and Lesotho, have developed vertically integrated value chains (Morris, Staritz and Barnes 2011), which enabled them to exploit their strategic position in relation to the South African market and fill the void left by the quotas to the detriment of local firms.

The fixed allocation basis for the quotas locked manufacturers into pre-formulated business plans that were insensitive to changes in fashion and seasonal demand whilst the allocation criteria ironically prejudiced firms who were historically the least supportive of local industry since more quota was granted the greater the quantity imported in the past. Firms who tried to source mainly locally received no quota. Furthermore, since quota was allocated against previous imports, new firms were prevented from entering the market and existing firms could not innovate and develop garments using new fabrics embodying the latest technology. SMEs were particularly disadvantaged in pledging for concessions given their relatively low levels of bargaining power, which undermined rather than improved their position in the industry. Quota on fabric but not on the made-up garments, led to contradictory and bizarre consequences of increasing the incentive to import the ready-made garments whilst quotas on garment components and trim were also problematic.

A key question was how many of the multitude of problems and disruptions to the industry that the China quotas caused in their particular form and prescription, and in their manner of allocation and implementation, were by default or design? Precedent to the China quotas, the industry was in a process of restructuring, principally in response to the competitive impacts of clothing imports from China. A key part of this process was a move towards sub-contracting and informalisation in an effort to lower overhead structures and a concurrent large shift away from formal to informal sector employment, and out of the union's reach. Ironically, the loss of formal sector employment, which was largely borne by the union in terms of lower

membership, had in many respects been fuelled by the challenges posed by the Bargaining Council structure itself. In their self appointed role as arbitrators of the China quotas, SACTWU was empowered to address this problem.

The prescriptive and inflexible nature of the interventions, the overly broad and conflicting range of products affected, the allocation basis for initial and additional quota and the short timing of its implementation all played into SACWTU's hands. The DTI granted SACTWU oversight of the Implementation Committee – on the basis that it was the applicant - which was tasked with sanctioning additional quota. The function of the Implementation Committee in the first few months of quotas was effectively negated by the lack of statistics on the quotas, which ostensibly delayed the application process for additional quota. The upshot is that large retailers and manufacturers caught in a tight position were compelled to conclude private deals with SACTWU for additional quota. In the eyes of many, this was precisely what these conditions were written to do. Most manufacturers interviewed dismissed quotas as a thinly disguised political pool to achieve leverage with respect to Bargaining Council compliance. As one interviewee put it,

> "SACTWU decides who get additional quota. We import most of our fabric and use a fabric that is not available anywhere in South Africa. Our quota has been used up. But to get additional quota, you have to prostitute yourself in terms of additional machinists, committing a percentage of turnover for training and undertaking to buy more local fabric. Quotas have nothing to do with the needs of the industry, they are a political instrument."

Retail reinforced this view:

> "(…) some retailers sold their souls for additional quota so that playing fields were manipulated at labour whim."

The modus operandi of quotas

In formulating their China quota plan, there was no process and there was no "discovery" by the DTI. The quotas were in principle, a pre-formulated response to a problem (membership loss) that was being experienced by one stakeholder, the union. The China quotas violated all three principles of sound industrial policy (Chapter 2); there was no political leadership, no coordination or interaction between stakeholders and government (except for SACTWU), no

transparency and finally, no accountability for their bungled implementation (Bisseker 2006c). The quota proposals came as a *fait accompli* to the industry, having been finalized without any collaboration with business and industry experts. A flawed policy process in the "wrong" institutional setting generated a policy that was inherently incapable of fulfilling the requirements of sustainable industrial policy, or meeting the objectives of the DTI. This was broadly confirmed by retailers who scored a zero when asked to rate on a scale of 1-5 to what extent they believed quotas achieved their objectives of stimulating local manufacturing activity, improved productivity and efficiency of local producers.

As one source commented:

> "There have been no published success stories, there are no new factories, the ones that are operating are hanging in desperately, local suppliers have got even more clever at taking product out to come in at a price, deliver performance is no better, quality is worse, turnaround time is worse, innovation is no better, factories have still closed, suppliers are complaining that it's all our fault because our price expectation is too high."

The welfare dimension of industrial policy

Sustainable industrial policy concerns welfare (consumer and employee) and competitiveness. As an industrial policy, the China quotas must be tested against how it meets and balances both of these agenda. Morris and Einhorn 2008 elaborate the trade-off between these two dimensions: Imports impart significant benefits on consumers and they act as a necessary stimulus to domestic competitiveness, but at the same time, they lead to the erosion of productive capacity. Since the industry depends on a critical mass of firms and employment to achieve scale efficiencies, this can undermine the acquisition of dynamic capabilities. An appropriate industrial policy response would seek to use imports to stimulate competitiveness so that this trade off is minimised (Morris and Einhorn 2008). In the case of the China quotas, balancing these foci was to chart a precarious course through the well being of consumers, who benefitted from cheap imports and of manufacturers, who were adversely impacted by rising import competition (Morris and Einhorn 2008). In the run up to quotas, imports were at unprecedented high levels which had precipitated a steep decline in employment and productive capacity. The broader welfare requirement for the quotas was to raise

competitiveness (and thus employment) without reversing the deflationary trend in clothing prices.

In respect of employment welfare, the employment impact of the quotas on the industry as a whole is complicated by the growth of the informal sector. The quotas were accompanied by further job losses and factory closures in the industry; and probably accelerated the trend as firms buckled under higher production (fabric) costs and mounting supply chain pressures. Even if displaced workers were reabsorbed into the industry in informal subsistence employment, this occurs at a lower wage-benefit than formal employment. If unemployment is more welfare enhancing than employment at a subsistence wage, the China quotas undermined employment welfare by reducing the number of formal sector employees and possibly also by lowering the social wage.

Consumer welfare was also lowered by the quotas. The consumer welfare impact of the quotas is confined to the assessment of how consumers were impacted through garment prices that are a proxy for the standard of living. This distinguished a direct and an indirect effect. Quotas impacted on consumer welfare directly by raising import prices; this fuelled a rise in garment prices, which lowered disposable income of consumers and hence spendable income available for the purchase of other goods. The quotas also impacted on consumer welfare indirectly by undermining the competitiveness of local manufacturers. Rising fabric prices contributed directly to higher prices for locally made garments. Although retailers claimed that they absorbed some of this inflation in the form of lower margins in the short term, there is no evidence that were able to do this on a sustainable basis. Not only have the retailers served an important welfare function by directly lowering garment prices through imports, they have also generated a positive welfare spin off to consumers by playing a constructive role in upgrading the sector which indirectly lowered garment prices (Morris in Bisseker 2006c). Quotas alienated retailers from their local supply base and urged them to switch an even greater proportion of their sourcing to other countries, some of which were even cheaper than China. This led to even greater price suppression for basics, whilst skills shortages constrained firms' ability to graduate to more complex garments. Diminishing margins and a shrinking order base would more likely have stifled innovation and upgrading in local firms, which would feed into higher garment prices in the run long run.

Section Two: An evaluation of the China quotas from an economic and theoretical industrial policy perspective

In this Section, I shall situate the evaluation of the China quotas as an industrial policy in the context of some contemporary industrial policy literature and in doing so, I shall try to address a final hanging question: Were short-term quotas on Chinese imports capable of reversing the development trajectory of the South African industry?

Contemporary industrial policy literature overwhelming features four prominent industrial policy theorists; Justin Lin (World Bank Chief Economist), Ja-Hoon Chang (Author of 'Kicking away the Ladder'), Dani Rodrik and Ricardo Hausmann. Whilst these four practitioners commonly agree on a central role for the state in facilitating structural change, they are nuanced in their definition of this role i.e. *how* the state should constructively intervene to promote structural upgrading; and what form this intervention should take.

The conflicting approaches to the problem of industrial upgrading of Chang, a staunch heterodox and active advocate of protectionism (and quotas) and Lin, a neo-classical loyalist and fierce opponent of protectionism, mark the extreme boundaries of contemporary industrial policy terrain. A prominent protagonist of protectionism, Lin argues that the central concern for reformers is to promote industrial upgrading without generating industries and economies that are kept on artificial life support by state subsidies and protectionist policies. In Lin's paradigm, which he labels a "Comparative Advantage Following" (CAF) approach, the facilitating state is seen to provide a "helping nudge to overcome externalities, but then is able to let industries grow and advance organically because of their comparative advantage." A "facilitating" state provides the necessary coordination to remove obstacles that are preventing existing firms from upgrading their products or to lift the barriers that are discouraging new firms from spontaneously entering the industry and related industries. In effect, the government picks "winners" - industries that have already developed according to their *current* comparative advantage and for which success is thus reasonably certain – and implements policy to remove the binding constraints on competitiveness. The role of the facilitating state is to encourage the emergence of firms, industries, and sectors that, once launched, will make effective use of the country's current comparative advantage and to consciously push a country towards upgrading

by imitating neighbours that are similar, but have travelled further along the upgrading path. This is essentially the East Asian "flying geese" model. When industrial upgrading occurs this stepwise fashion, in conjunction with the accumulation of capital and changes in comparative advantage, rather than if a country attempts a big leap (which Chang proposes), Lin argues that growth is more sustainable with lower adjustment (learning) costs. This is akin to an idea developed by Hausmann and Klinger (2006), which describes a country's upgrading path as analogous to monkeys in a forest; they first jump onto the low branches of a nearby tree and then traverse to the higher branches of the tree before moving to the next one. Sequentially over time, the monkey (country) moves both further away from its initial tree (infant industry) and to higher branches of subsequent trees (the production more advanced products).

The virtues of his CAF approach according Lin are numerous. Firstly, since firms are globally as well as domestically competitive, they are able to export their products, which negates the need for a large domestic market to achieve scale economies. New entrants are encouraged to enter the industry, which enforces vibrant domestic competition. Industrial clusters form naturally as the capacity of the industry grows and complementary investment in related activities occurs. Furthermore, he contends, when a government opts to protect firms or sectors that have a long window of viability, the diversion of resources away from activities which have a current comparative advantage will slow the pace of absolute capital accumulation and upgrading of the country's endowment structure, which will protract the infancy stage of new industries. Lin concludes: "Excessive protection risks institutionalizing a culture of rent seeking especially where the quality of governance is poor in which case, the indirect effects of protection may be even more damaging than the direct effects."

In support of his paradigm, Lin offers China's transition from a planned economy to a market approach as a sterling example of a gradual liberalisation process of phasing out CAD industries whilst simultaneously facilitating growth of CAF industries. In sum, China's success stems from the fact that it started with many industries (clothing, textiles and toys) that were consistent with their areas of current comparative advantage (labour and fabric) and progressively transitioned into more technologically demanding industries as its capital and labour reserves allowed. Korea and Mauritius are other cited examples. In the former case, a "facilitating state" in Korea ensured that protected sectors were managed in a way that kept them subject to

market discipline, which made large-scale deviation from the country's comparative advantage impossible (Lin and Chang 2009). Industries benefitting from subsidization and protection were required to prove that their competitiveness on export markets was increasing over time. In addition, the government ensured that Korean manufacturers could access to intermediate inputs at world prices through duty drawback schemes and export-processing zones. In the latter case, Mauritius identified Hong Kong as its "compass economy" and in addition to protection, developed export-processing zones (EPZs) where a flexible labour employment regime operated different to the rest of the economy. Conversely, Lin argues, many of the losers from liberalisation followed comparative advantage-defying (CAD) strategies that their governments had adopted in the past: "The pervasive failures in developing countries are mostly due to the failure of governments to come up with good criteria for identifying industries that are appropriate for a country's endowment structure and level of development." (Lin and Monga 2010; p. 2) When protection was removed in a shock therapy manner – such as the lifting of MFA quotas – this caused the inevitable collapse of non-viable firms.

The key message from Lin is that industrial upgrading is best achieved when countries develop an effective export platform by focusing on industries and sectors in which a latent level of sector-specific capital and labour inputs already exists – there are already firms in the industry - and in which success has already been demonstrated by countries with similar industrial structures. Foreign investment should be encouraged to fund development, since it is accompanied by knowledge. Once enough knowledge transfer has taken place, the investment becomes an "incubator " for new entrants. According to Lin and Monga 2010, Bangladesh's vibrant clothing industry started with direct in investment from Daiwoo, a manufacturer. Furthermore, Lin argues that since the likelihood of capture is proportional to the magnitude of protection and subsidies, if targeted sectors are consistent with a country's inherent comparative advantage, the protection and subsidies required to compensate firms for information externalities are small and provide little incentive for the elites to use their political clout to capture the small rents. The corollary to this is that targeting non-viable sectors will entrench the culture of rent seeking since the subsidies required to keep uncompetitive firms viable will be large and likely to become the subject of political capture.

In contrast to Lin, Chang is a staunch proponent of protectionism. From Chang's perspective, whilst comparative advantage is a useful baseline to determine how much a country is sacrificing by protecting its infant industries - the greater the deviation, the higher the cost - it is not the absolute constraint on a country's growth. Rather than adhere to its comparative advantage, Chang contends that a country needs to defy it in order to upgrade its industry. In short, a country does not need to wait until it has accumulated the optimal factor endowments to support a new industry before doing so. Chang's approach, dubbed by Lin as Comparative Advantage Defying (CDA), by nature implies a highly interventionist role for the state to allow (usually poorly endowed) developing countries to "leap up the industrialisation ladder".

Chang gives two principle motivations for his reasoning: Firstly, the time that it will take for a country to acquire the necessary technological capabilities is uncertain, and may be substantial. Secondly, much of the learning is achieved by doing so that until the country has actually entered the industry, it is impossible to know how long it will take before a country can become internationally competitive. As Chang posits: Weighing the costs of technological upgrading against the expected future returns using comparative advantage as a measuring rod is a logical but ultimately misleading way of looking at the process, because it is very difficult to say how long the acquisition of the necessary technological capabilities is going to take and how much 'return' it will bring in the end. Chang's argument is premised on the assumption that factors of production are fixed in ther physical quantities – due to their specificity – which implies that structual adjustment costs will be higher and adjustment times longer than neo-classical models (such as the Heckscher-Ohlin model) admit. Chang argues that the assumption of non-specific inputs underpinning neo-classical models (e.g. the H-O model) ignores pertinent realities: Firstly, a country's absolute capital to labour ratio does not correlate with the quantities of capital and labour that can be costlessly and seamlessly deployed to new activities. Secondly, many technological capabilities are acquired in an industry-specific manner through actual production experiences so that it is, by definition, necessary to defy comparative advantage if a country is going to enter new industries.

These two factors justifiy long term protection whilst industries accumulate the necessary technological know-how to become globally competitive. Chang highlights the four decades of

protection afforded to Japan's car industry through direct and indirect subsidies and a virtual ban on foreign direct investment that preceeded its competitiveness in global markets. In addition, he notes that learning by doing was an invaluable part of Nokia's success, although protectionism was not a core element of their strategy. Chang concludes: "In the real world, firms with uncertain prospects need to be created, protected, subsidised and nurtured, possibly for decades, if industrial upgrading is to be achieved." (Chang and Lin 2009; p.19).

I shall now examine the "in between" policy terrain, in which Dani Rodik and Ricardo Hausmann (amongst others) position themselves. Despite being ardent critics of 'neo-liberalism', Rodrik and Hausmann find some common ground with both Lin and Chang. However, whereas Lin and Chang's models focus on comparative advantage and implicitly assume that states possess the necessary information to intervene effectively in their industries (whilst at the same time avoiding capture), Rodrik and Hausmann emphasise the importance of institutions and the institutional setting in which the policy process occurs. Increasingly, their literature offers institutional convergence as an explanation for the inexplicable outcomes of neo-liberalist policies that conventional economic theorists have grappled with. Consequently, Rodrik and Hausmann's have dedicated much effort to develop a "blueprint" for the institutional architecture of industrial policy paradigms[105]. And here Rodrik and Lin diverge, whereas Lin advocates a follower-strategy based singularly on similarities in comparative advantage and development, Rodrik 2003 shows that failure or success is largely determined by the institutional environment into which these growth strategies are transplanted. Since growth-promoting strategies are context specific, requiring considerable local knowledge and where the success of reforms is dependent on the institutional structure which varies from country to country, Rodrik notes that: "Successful reforms are those that package sound economic principles around local capabilities, constraints and opportunities. Since these local circumstances vary, so do the reforms that work." (Rodrik 2003 p.17).

The main challenge for industrial policy from the Rodrik-Hausmann perspective lies in identifying where the binding constraints or promising opportunities lie. Compared to Lin, who glosses over this issue, Rodrik and Hausmann 2006 place particular emphasis on the

[105] Rodrik 2003 describes a growth strategy as economic policies and institutional arrangements aimed at achieving economic convergence with the living standards prevailing in advanced countries.

importance of policies that go beyond a macro level approach that aim to create a "business enabling environment" to micro level interventions, and the importance of collaboration and a mutually enforcing learning relationship between the private and public sector. These theorists stress the relational interdependency between state and business, the necessity but uncertainty of any state directed interventions, and hence the crucial role of learning in the process (Morris 2011).

Hausmann, Rodrik and Sabel 2007 distinguish between industrial policy "in the small" and industrial policy in the large. They propose that initial reforms that stimulate growth may not lead to sustained long term growth, so that a two pronged strategy is needed to get growth started and to keep it going. Industrial policy "in the large" is a difficult challenge as it "requires constructing a sound institutional underpinning to maintain productive dynamism and endow the economy with resilience to shocks over the longer term." (Rodrik 2003; p. 3). Industrial policy "in the small" refers to the initial and often unorthodox strategies that reformists can employ to bring about a short-term growth spurt, where the focus falls on existing activities and putting mechanisms in place that identify and remove roadblocks facing these activities where the best source of information for the identification and co-development of public inputs are existing firms (p.5). These reforms need not overly tax the institutional capacity of the economy.

The industrial policy discussion in this thesis concerns industrial policy "in the small", since the primary question here is: How can the DTI effectively intervene to achieve growth in the South African clothing sector? However Rodrik, Hausmann and Sabel (2007) note that governments face three problems in this respect; an information problem – they do not know where the obstacles to and opportunities for growth lie; an incentive problem – bureaucrats are fallible to corruption and bribes; and finally, a resource problem – the government does not have an automatic mechanism like the market to efficiently allocate resources. These simple facts make private embeddedness a necessary condition for success and particularly where sectoral capacity of government is limited. The mechanism to overcome these problems is sound industrial policy architecture. The importance of institutional design in Rodrik's theoretical framework, a significant part of which is precisely built around the importance of creating the conditions for mutual learning and cooperation between the private and public sectors, is duly

heavily emphasised (Morris 2011). Rodrik (2003) posits that "reformers can creatively package first order economic principles into institutional designs that are sensitive to local opportunities and constraints" (p.1) whilst adhering to three basic principles.

First, industrial policy is a state of mind rather than a list of specific policies (Rodrik 2003). The importance of creating a climate of collaboration between government and the private sector overrides that of providing financial incentives. Collaboration aims to elicit information about investment opportunities and bottlenecks. To these ends, there must be an open dialogue structure to allow the free flow of information between the public and private sector such as through a deliberation council or supplier development forum. This requires a government that is "embedded" in the private sector, but not in bed with it.

Second, industrial policy needs to rely on both carrots and sticks. Incentives to spawn new industries need to be short-lived and based on performance. Hausmann and Rodrik 2002 show that the success of many East Asian countries and the failure of many Latin American countries to achieve growth through import substitution reform maps directly back to the balance between incentives and competition, with the former striking the right combination – by delivering an effective combination of carrot (incentives from protection) and stick (discipline from foreign competition) and the latter one with too much carrot (incentive) combined with too little stick (discipline). There must be a feedback mechanism and a monitoring council (possibly in the form of benchmarking clubs) to assess the performance of industries on an ongoing basis.

Third, industrial policy needs be carried out in a transparent and accountable manner, and its processes must be open to new entrants as well as incumbents. Transparency is important to minimise rent-seeking and corruption but also to ensure that an intervention is selected on its ability to improve productivity rather than to provide life support for unproductive sectors and firms. Rodrik 2003 argues that success in industrial policy is not determined by the government's ability to pick winners, but the capacity to let the losers go (which is a much less demanding requirement). Uncertainty ensures that even optimal policies will lead to mistakes so that the trick is for governments to recognize those mistakes and withdraw support before they become too costly.

The China quotas cannot be merited on their conformity or consistency with any of the contemporary industrial policy paradigms outlined above. On one hand, it could be argued - with a lot of latitude - that the China quotas formulated an attempt by government to engage some of the principles of Lin's CAF paradigm. Since clothing production is labour-intensive but not skill-intensive, given South Africa's comparatively large endowment of unskilled labour, one of the basic conditions of the model – pick industries that are consistent with latent comparative advantage - is satisfied. What is more, South Africa's development status is on par with Mauritius who has successfully developed a vibrant, competitive clothing industry. This satisfies a second condition of the model – imitate neighbouring countries of similar per capita income that are slightly further along the path of upgrading.

At first glance, the South African clothing industry appears a perfect fit to the theoretical mould. The practical application, however, is mired with pitfalls. Firstly, the comparative advantage from a large labour endowment - i.e. a hypothetically flexible labour regime - is countered (and largely negated) by the institutional framework that governs the South African clothing sector. The unprecedented (and predatory) power of the union and its influence in wage negotiations ensures that wages remain at rigidly, and uncompetitively, high levels and that working hours are fixed (ref Previous sections). Secondly, a precondition for a globally competitive clothing industry is the reliable supply of affordable, good quality local or imported fabric. In the first instance, the lack of pipeline development and systemic efficiency in the domestic value chain is a major constraint on competitiveness, with only a small portion of fabric production geared for supply to the apparel industry and even this, often not satisfactorily to requirements. This compares with Mauritius and Lesotho who have both developed vertically integrated value chains (Morris, Staritz and Barnes 2011). In the second instance, quotas on imported Chinese fabric not only placed local firms at a distinct disadvantage relative to their global counterparts, who all source from China, but created a whole host of problems of their own (Ref previous section). The inconvenient (and ugly) truth for the South African textiles industry is unavoidable here. Within this paradigm, the demise of the South African textiles industry in the post-Apartheid era was inevitable; it was a product of a politically charged industrialisation path, where the criteria for designing industrial policies and selecting specific sectors were largely politically driven, which implied that the industry

required significant surreptitious state subsidies to survive. When these were withdrawn post Apartheid, the South African textiles industry systematically collapsed.

On the other hand, whilst the China quotas were unambiguously a protectionist policy, they do not fit Chang's theoretical model either. If the imposition of quotas was an attempt to adopt Chang's paradigm for growth - to shield the industry from foreign competition whilst it metamorphosizes into a dynamic global player - a short-term selective quota was a dire mis-prescription. Chang's paradigm is premised on the assumption that under conditions of limited (foreign) competition, local firms will undertake the necessary operational and technological upgrading required for World Class Manufacturing and that the institutional framework will both foster and reinforce this transition. In the context of the clothing and textiles sector, industrial upgrading requires simultaneous large-scale investments in technologies and skills in both upstream (manufacturing) and downstream (textiles) industries, which in most successful East Asian cases, was heavily or in the case of China, fully subsidized by the state. Furthermore, the "incubation period" is not pre-determined since one of Chang's pivotal arguments is that the time that it may take for an industry to develop a globally competitive advantage is one of the great unknowns – and precisely why comparative advantage cannot be used as a measuring stick for the returns on protectionism. The China quotas were a short-term, isolated intervention that was unaccompanied by any effort – industrial policy or otherwise - to address the lack of pipeline development, low levels of investment and lack of skills in the sector or to improve systemic efficiency by fostering collaboration between clothing and textiles manufacturers. Textiles firms perceived the quotas as at best, a temporary bridge (although they were quick to exploit the price advantage that it afforded them) and were unwilling to commit to long-term restructuring of their output plans whilst clothing manufacturers suffered rising fabric prices and shortages, and deteriorating fabric quality (Ref previous section).

The thrust of the argument in this thesis is that the fundamental problem with the China quota intervention lay not with the policy tool itself but with its pedigree – a flawed policy process and "wrong" institutional setting. A key message from Rodrik and Hausmann 2006 is that a second best policy tool in the correct policy setting will yield more optimal results than the first best policy tool in the wrong institutional setting (Rodrik 2004). The theoretical models of Chang and Lin both suggest that quotas should not be ruled out a priori but can serve as a

useful policy instrument when implemented in the correct manner. In response to a study commissioned by the South African government on policy formulation for ASGISA, Rodrik, Hausmann and Sabel 2007 concluded that "(…) there is too much disconnect between government and the private sector such that information flows are inadequate, needs are not properly identified, instruments are not appropriately targeted and self-correction mechanisms are not in place." (p. 12). A recurrent theme in South Africa's industrial policy literature is the inability of government to effectively engage key stakeholders. Rodrik, Hausmann and Sabel (2007) posit that the acid test for an industrial policy framework is whether there exist institutions that engage policy officials in an ongoing collaboration with the private sector; whether government has the capacity to respond quickly and selectively to identified economic opportunities and constraints and whether there exist effective monitoring and feedback procedures to ensure that the policy is self correcting. When tested against these criteria, the China quotas, which were formulated without consultation or collaboration with industry (Ref previous section), failed dismally as an industrial policy from a theoretical perspective.

Chapter 9: Conclusion

The evidence from firms suggests that the China quotas snuffed out the beginnings of recovery of the sector in 2006 in response to the global economic boom and several cluster driven initiatives that were beginning to have a positive impact on productivity in some firms. Not only did the quotas fail dismally as an industrial policy, they did not meet their objectives even on their own terms. My empirical findings show that quotas had little impact on employment and output. In the short run, the delay between quota announcement and their imposition provided retailers with an opportunity to stockpile product to mitigate the impact of the restrictions; and in the longer run, consistent with the US experience, retailers were encouraged to prematurely identify alternative supply bases. Macroeconomic trade data shows that whilst quotas effectively curtailed Chinese clothing imports, especially in quota categories, local firms were challenged by competitors from emergent supplier locations which were even cheaper than China. This had a deleterious effect on the reprieve from foreign competition that quotas were intended to afford the local industry. Quotas neither prevented further haemorrhaging of the employment base, promoted skills retention nor meaningfully assisted local firms to upgrade and improve their position in the value chain.

On the contrary, quotas in many cases frustrated already tenuous supplier-buyer relationships with many local manufacturers believing that the increase in the use of local suppliers by retailers was at best merely a bridge until the quotas were withdrawn and supply from China resumed. Given rising costs in China, this robbed local manufacturers of a window of opportunity to lure orders back to the domestic supply base before alternative foreign suppliers were established. According to one firm interviewed, whereas retailers previously "just imported from China, they have now developed a whole import strategy". Furthermore, imports from even lower cost locations than China exerted additional downward pressure on local supplier prices that undermined their bargaining position relative to their customers, swinging the balance of power more towards local retailers.

The government demonstrated a tunneled vision perspective on the clothing sector crisis, bowing to the narrow political agendas of sectoral interest groups. This is despite considerable international evidence that import restrictions would not be the silver bullet that would boost employment and revive output. The belief that low cost Chinese imports are the cause of the crisis reflects a simplistic and shallow understanding of the complexity of the problems that engulf the sector. Not only does discriminate trade action against the Chinese fly broadly in the face of sustainable trade relations, but it will bear no fruit unless domestic firms are able to take advantage of the opportunities that are created by protectionist policies such as quotas.

The policy messages from this thesis echo some of those of other studies. Imports are not the big bad, but serve as a healthy stimulus to domestic competition (Morris and Einhorn 2008) provided local firms are able to compete on a comparative basis with their global counterparts. The transformation that has occurred in the South African clothing sector over the past decade must be recognized and captured at an industrial policy level. Rather than as a threat, globalisation should be perceived as an opportunity to upgrade the sector using global competitors as a benchmark. The domestic clothing market is diverse and growing but the extent to which the local clothing industry will reap the rewards from this process will depend critically on its ability to utilise its locational advantage – i.e. speed and flexibility – to meet the requirements of domestic retailers (Business Alliance 2006).

In this new era of globalisation, competitiveness must be achieved by raising the production capabilities of individual firms to drive costs down in a sustainable long-term manner and by driving these efficiencies down the value chain to raise the systemic competitiveness of the sector. China derives a major competitive advantage from the production of low cost inputs. Although China's wages are on a par with South Africa's, its productivity is much higher due to its piecework system [106]. Furthermore, many Asian countries are rapidly developing a comparative advantage from access to cheap fabric and low wages and may present an even greater threat to the local industry in the longer term. Efficiency gains are the only way that local firms can sustainably counter rising fuel and electricity costs and low levels of labour productivity, weighed down by high rates of absenteeism, inflexible wage rates and working

[106] This was established anecdotally during an interview with a large retailer in 2011.

hours. This requires a sustained initiative around WCM standards and techniques aimed at both small (mainly PDI) CMTs and large firms (Nordas 2004; Business Alliance 2006). It also requires educating retail buyers in the principles of best practice supply chain development to ensure that competitiveness is driven down the value chain. Failure to upgrade would leave local firms to compete on the basis of low wages, which as Morris and Einhorn 2008 observe, would be an exercise in futility and would leave the South African market vulnerable to attack from imports from mushrooming low cost Asian clothing suppliers in the future.

Meanwhile, a significant barrier to any meaningful transformation in the sector is the present constitutional structure of the National Bargaining Council – i.e. COSATU's partnership in the Tripartite Alliance - that allows SACTWU to suck up resources through the constitutional and operating provisions of other bodies in the clothing sector and to penalise non-compliant firms. For example, the low levels of training in the industry have contributed to the overall skills attrition that is a major constraint on competitiveness. However, access to critical training resources is being withheld to non-compliant firms by SACTWU's reach through the CTL SETA:

> "In present industry support structures SMMEs are starved by Big Business and SACTWU of resources and training desperately needed to improve their efficiencies as a consequence of their non-compliance. These efficiencies are sorely needed by them to become sustainable before they can afford the cost of the regulation imposed on them. It's a catch 22 situation. The purpose is to ensure that through starving them of resources, the compliance managers of the Bargaining Council and the threat of jail, they will eventually be forced to comply. The fact is as much as they want to… they have no means to…" (Morris and Reed 2008c)

In its current institutional form, the National Bargaining council does not serve the diverse and concrete needs of the industry. It is generally highly problematic and inappropriate and runs counter to any sound industrial policy to use one separate and independent institution to solve problems encountered in another. If the National Bargaining Council has a massive problem of non-compliance (as is clearly reflected in the data), then it should solve that problem on its own and within its own parameters. This is all the more so given the critical and crying need for assistance in the industry, especially when the firms being penalised are the smaller enterprises struggling to remain afloat.

Depending on one's perspective, the China quotas can be viewed as i) a genuine response to the loss of 67 000 jobs in the clothing and textiles industry during 2003 and 2006; ii) a true belief by government of SACTWU's assurance that the quotas would increase jobs by 60 000; iii) an attempt by SACTWU to punish retailers for the failed Section 77 Application through Nedlac; iv) a strategy to increase SACTWU's power to reward or penalize manufacturers as regards other challenges that SACTWU was facing, such as non compliance or finally, v) a coup d'état by government "to cover their a**es" upon a late realisation that they were directly responsible for the massive job losses; that the industry had not been crying wolf, and that the clothing sector was in fact teetering on the verge of crisis[107].

In this thesis, I found qualitative support for (iii) to (v); government had both neglected clothing sector firms, who had a reputation as "whingers and whiners" and failed to the take the enormity of the situation on board or were benignly neglectful given their historically fractious relationship with the clothing industry. When the climax gripped the industry, government had to take hasty and public action against the unemployment situation to avoid a backlash from their constituency. SACTWU shrewdly stepped in and exploited the situation to gain leverage over the industry. From an industry standpoint, the China quotas were racked up as just another industrial policy initiative, along with a host of others, past and present[108], which conceptually aimed to improve productivity and employment levels in the sector, but was in practice hijacked by SACTWU to get leverage over the industry to gain in other areas where it was losing (Morris and Reed 2008b).

I am now able to say, in conclusion, that the China quotas were a political and an institutional failure in respect of the major stakeholders. The DTI was anti-business and the failure of business and government to reconcile their historical differences blocked constructive progress towards a cooperative solution.[109] The shelving of the CSP and the lack of political will to drive the process forward without union backing was largely testimony to this. As one commentator put it:

[107] These proposals were offered by an industry expert during an interview in 2011.

[108] One example here being the SETA (Morris and Reed 2008b)

[109] This commentary was made by an interviewee in 2011.

> "In the end we are all victims of the past. We all came into the process with too much baggage. The sheer lack of skills in the DTI and SARS customs, the failure of government to get a strategy together that was right, was deterministic for the ultimate outcomes of the quotas."

There were no clear winners.

The negative impact on the clothing industry has been highlighted. Output levels fell; margins were diminished by rising fabric prices; and poor fabric availability and quality undermined manufacturing firms' competitiveness. These consequences were amplified at the small and medium sized enterprise level where many firms simply shut down. Consumers lost because of the inflationary impact of the quotas on garment prices and restrictions on their choice set. Retailers (may have) lost due to falling margins; they claimed that they had absorbed the bulk of the price increase to protect consumer welfare (although this was not empirically validated as factual). Skills were drained from the sector as retailers set up sourcing agencies abroad.[110] The position of smaller importers was further undermined due to their limited sway with the unions in quota concessions and honest retailers were penalised for their integrity as the quotas encouraged dishonest ones to cheat more. Clothing workers were immiserised by the quotas, which spurred retrenchments and firm closures that forced workers into unemployment. The legacy of the quotas still lingers. An interview with a small clothing manufacturer who recently closed her factory, suggests that competition in the industry has intensified significantly since quota abolition in 2008. With China back in play alongside the newly established foreign supply sources, South African firms battle against renewed pressure from retailers to lower their prices:

> "The industry is dog-eat-dog. Many of the large buyers source directly from their foreign suppliers. They all have their own agents in foreign countries and they come to us and tell us that we must make something for R2, which doesn't even cover our cost. The constant haggling just wore me down…"

[110] For a retailer to source locally they require a certain support level of skills. Many large retailers have achieved this by exporting their expertise. However this implies drawing against a skills pool that is small to start with; hence, as one commentator argued, "the business model that you have strategized will get undermined by your own actions."

Finally, in respect of the DTI and SACTWU, the quotas did not evidently drive greater levels of unionization since formal sector employment did not rise. This was qualitatively confirmed by a key source in 2011: "To the best of my knowledge, the retailers did not deliver on any of their commitments, and SACTWU never raised it as an issue." [111]. However incontrovertible proof that the China quotas failed hands down to deliver on the union's and the DTI's expectations in respect of employment came in October 2011 when SACTWU capitulated and agreed to 30% wage cuts for entry level employees (Phakathi 2011). The deal was hailed as groundbreaking; a platform for other South African sectors to emulate. It begs question as to why the industry had to be put through the China quota wringer before SACTWU saw the light.

[111] Information on non-compliance showed that high levels of non-compliance also trend persisted. According to an industry consultant, in 2008 43.6% in the Western Cape and 78.3% of firms in KZN were non-compliant. In KZN most non-compliance was minimum wage violations whereas in the Western Cape it was non-payment of bargaining council levies. This was established via telephonic interview with Leon Deetlefs in May 2009

Appendix A

Sample of questionnaire for 2007 fieldwork

1. What is your market orientation?
2. What is the size of your labour force? How may machinists, cutters, patternmakers, designers do you have?
3. Has your workforce profile changed since 2006? Where were the biggest cuts?
4. Are you currently short of machinists?
5. Have you encountered problems with recruitment of machinists? How many machinists did you employ in the past year?
6. How do you recruit new production staff?
7. How long does it take to fill a vacant machinist position? And other production staff?
8. What are the greatest obstacles to filling positions? What is your rate of absenteeism? What is your labour turnover?
9. How do you fill senior management positions; through recruitment or internal promotion of existing staff?
10. Why do you think there is a shortage of skills?
11. Do you train staff internally? Do you use the SETA funding mechanism to fund training?
12. Does the Bargaining Council/Industrial Council/SETA assist with recruitment in any way, shape or form?
13. Does any institution assist with technical training?
14. How many learnerships do you have? How many people have you trained through the SETA in the past twelve months? What proportion of training comes from the SETA and what proportion from yourselves?
15. What percentage of those who complete the learnerships are placed?
16. Has the BE made it more difficult to recruit new staff? Are you under pressure to recruit more Africans?

17. Would a piecework system make you better off?

18. How important has the rise of CMTs been?

19. What have been the greatest constraints on your growth?

20. How have the China quotas impacted on your business? Has your employment/output increased/decreased since quotas were implemented?

21. What are your projections for output in the next twelve months?

22. Do you plan to increase/decrease the number of production staff in the next twelve months?

23. Did your suppliers increase their prices off the back of the quotas?

24. Have the quotas impacted on the availability and quality of local fabric? Does local fabric match up to fabric from China? Have local textiles firms been able to take up the slack?

25. How have your sourcing practices for fabric changed in response to the quotas?

26. Is there any evidence that quotas are driving firms up or down the value chain? Have you changed your output mix in the past six months?

27. Are you getting more or less orders since the quotas began?

28. Have you applied for additional quota? And if so, was it conditional?

29. Have the clusters provided you with assistance in upgrading your capabilities?

30. How have the quotas impacted on your relationship with your customers?

Appendix B

Sample of questionnaire for 2008 survey of 32 clothing manufacturers

1. Have you been adversely affected by the quota on fabric
   - Yes …….
   - No ……..

   If yes, would you regard the adverse effect as
   - Serious negative impact ……..
   - Negative but manageable ……..

2. Do you think quotas have resulted in local fabric prices increasing excessively?
   - Yes ……
   - No……..

3. Following the introduction of quotas in 2007 are you producing
   - More garments ……..
   - Less garments ……
   - Same garments ……

4. Since the implementation of quotas, have your margins

Grown				Maintained		Dropped			
Major		Minor		No change		Major		Minor	

5. Have you changed your product mix due to quotas?
   - Yes ……
   - No ……..

   If yes, has your product mix become
   - More complex ……..
   - High value added ……..
   - Less complex ……
   - Low value added ……

6. Have quotas provided relief from imported competition?
   On a scale of 1-10 (with 1 = lowest and 10 highest) …….

7. When quota restrictions expire end 2008, do you anticipate your order book will
   - Grow ……..
   - No change ……..
   - Reduce (minor) ……..
   - Reduce (major) ……..

8. How have the quotas affected your relationship with your customers?
   - Positively ……..
   - Negatively ……
   - No Change ……..

   Can you briefly describe the change?

9. Have you had difficulty recruiting new machinists or skilled production staff in the last year?
   - No ……..
   - Yes ……. (Please indicate the average recruitment lead time)

   If yes, why do you think there is a shortage?
   ……
   ……

Name of Company ……

List participants in survey

Alley Cat
Levi Strauss and Co (SA)(PTY)
Johnson Sportswear (Pty) Ltd
Bernadotte (Pty) Ltd
The New Clothing Company
Sock It Manufacturing (Pty) Ltd
Big Bay Trading CC
Genelli Clothing
Pep Clothing
Elle Boutique
Cape Underwear Manufacturers
Pals Clothing (Pty) Ltd
Capestorm
Davinscot Group
Bonwit
Comet Undies
Thousand Hills Clothing
Balsch knitwear (Pty) Ltd
TGFM
Tern Sportswear (Pty) Ltd
Blue Jeans Traders (Pty) Ltd
House of Monatic
Monviso
Ellen Arthur (Pty) Ltd
Ninian and Leicester
Kingsgate Clothing Group
Soskolne Clothing Enterprises
Bibette Clothing Manufacturers
DB Apparel (Playtex)
Allwear
SA Clothing
Prestige Clothing

Appendix C

Sample of questionnaire for survey of small clothing manufacturers

Please note that full assurance is given regarding the confidentiality of all information volunteered and participants will remain anonymous at their request.

1. What is your market segment and orientation?

Upper		Middle		Lower	
Basics		High fashion		Both	

2. How many factory workers did you employ in:

Jan 2006		Jan 2008	
Jan 2007		Jan 2009	

3. How many machinists did you employ in:

Jan 2006		Jan 2008	
Jan 2007		Jan 2009	

4. Have you (or your CMTs) had difficulty recruiting new machinists and skilled production staff?

Yes		No		Please indicate the average recruitment lead time	

W

Why do you think there is a shortage? Please rank in importance from 1-10 (1=lowest;10=highest)

Provident fund		Migration out of clothing sector	
Aging workforce with no new skills influx		Switch to informal self employment	

5. Do you use imported and/or locally produced fabric? Please indicate the % local and imported fabric use in your production?

Local		Imported	

6. Did you experience fabric shortages during the period that quotas were in effect?

Yes		No	

7. If yes, was this due to:

Shortages in the supply of locally produced equivalent fabric		Non-availability of these fabrics in South Africa – ie they are not made locally	

8. In response to quotas on fabric imports from China, did you:

Switch to sourcing fabric locally?		Source from an alternative foreign supplier	

If the latter, please indicate which country/ies……..

Did you switch supply back to China when quotas were removed?

Yes		No	

9. What happened to fabric prices between 2006 and 2008 and what was the average price change was for:

a) locally produced fabric

Increase		%	Decrease		%

W

What reasons, if any, did your suppliers give for the change?……..

b) imported fabric

Increase		%	Decrease		%

What reasons, if any, did your suppliers give for the change……..

10. How does the quality of local fabric compare with foreign fabric?

Same		Better		Poor	

Please quantify the percentage change in total number of units ordered from you and in turnover between the periods (Note actual figures are not required, just percentages).

	Units	Turnover
Jan 2006 - Jan 2007		
Jan 2007– Jan 2008		
Jan 2008– Jan 2009		

11. Since quota withdrawal, with respect to your supply to the South African market, have margins:

Grown				Maintained		Dropped			
Major		Minor		No Change		Minor		Major	

12. Did you change your output mix due to the restrictions ie produce more complex or basic items? Yes | | No | |

If yes, did your garment output mix move to:

More complex		Less complex		High value added		Low value added	

13. Has this changed since quota withdrawal?

Yes		No	

14. Did the quotas provide relief from import competition?
Scale 1-10 (1=lowest;10=highest) ……..

15. Between 2006 and 2009, did your supply base (please circle)

Grow	No change	Reduce (minor)	Reduce (major)

16. If you found that demand for your output fell between 2006 and 2009, please rank in importance the following reasons for this change:

Competition from imported garments	
Competition from other locally produced garments	
A fall in consumer demand for clothing generally	
A fall in demand in your particular market segment	

Other (please specify) ……

17. How did the average shelf price (RSP) of your garments change between: (you need only to indicate movements in % terms not actual figures)

	Increase	Decrease	No change
Jan 2006 - Jan 2007			
Jan 2007– Jan 2008			
Jan 2008 – Jan 2009			

18. How did your margins change between: (again in % terms only)

	Increase	Decrease	No change
Jan 2006 - Jan 2007			
Jan 2007 – Jan 2008			
Jan 2008 – Jan 2009			

19. Many small manufacturers argue that their buyers put a considerable amount of pressure on them to keep their prices low even though their costs have been rising whilst the retailers themselves are

unwilling to compromise their own margins. As a result, manufacturers are forced to deliver a lower quality product to meet price demands. Please comment on this.

……
……

20. The China quotas were intended to help small manufacturers to boost their output and raise overall employment in the sector. Do you believe that they were an effective intervention that achieved these policy goals?

Yes		No	

Please motivate:

……
……

21. Do you know of any firms that went out of business over the past five years and if so, how many? …….

22. What role do you believe that government can play in assisting small clothing manufacturers in the future? What policies would you like to see implemented?

……
……
……

23. .Do you export any of your product?

Yes		No	

If yes, to which country/ies? ……..
And roughly what percentage of production? ……..
If no, please motivate …….

List of (consenting) firms that volunteered data

Aruna Clothing
Kazak Clothing
B's Swimwear
Peter Bond
Parallel Clothing
Evolve
Swag Clothing
Romeo and Juliet
Texcetra
Jack and Gill
D and C Clothing

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