Employment in Textiles and Clothing Manufacturing in South Africa:

The Effects of Foreign Competition

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Microeconomics 771 Essay

Topic: Profiling employment in textiles and clothing manufacturing sector in South Africa in the past 5 years.

[1] Excluding figures, tables, bibliography, cover pages and footnotes.

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1. Introduction

Unemployment is South Africa's most prominent issue. Textile industries play an important role in manufacturing and employment in most developing countries. In South Africa, however, poor employment performance and has been a point of contention for the manufacturing sector. Most of the literature cites import penetration, low productivity, and high wages as some of the most profound factors in driving weak employment. The paper seeks to investigate this interplay of factors and analyses the interaction of the components that make up declining textile employment. Firstly, the relevant literature will be discussed. The paper then conducts its own empirical analyis to isolate the driving factors behind decreasing employment. It finds that foreign competition plays a determinant role in employment and that textiles should view trade integration as an opportunity to be exploited, rather than a threat.

2. Overview of the Textile and Clothing Industry

The expanded unemployment rate[2] for South Africa sits at 46.6% for the third quarter of 2021 (Stats SA, 2021:13). Historically, the textile industry was a strong source of employment in South Africa (Wood & Bischoff, 2020:41). However, trade liberalisation and increasing minimum wages, coupled with rising capital intensity and unfavourable labour market policies are among the most prominent factors leading to poor employment performance in manufacturing in post-apartheid South Africa (Natrass & Seekings, 2021:407; Molekwa & Zandamela, 2021:253). Total employment in the textile industry is shown in figure 1[3], where figure 2 shows employment in different textile manufacturing categories.

[2] Defined as persons (aged 15 to 64) who are not employed, willing and able to work, but not actively seeking employment due to discouragement or other reasons (Stats SA, 2021: 12).
[3] The sharp decrease in employment between 2020Q1 and 2020Q2 is undoubtedly the result of the COVID-19 pandemic and subsequent lockdown during that period.

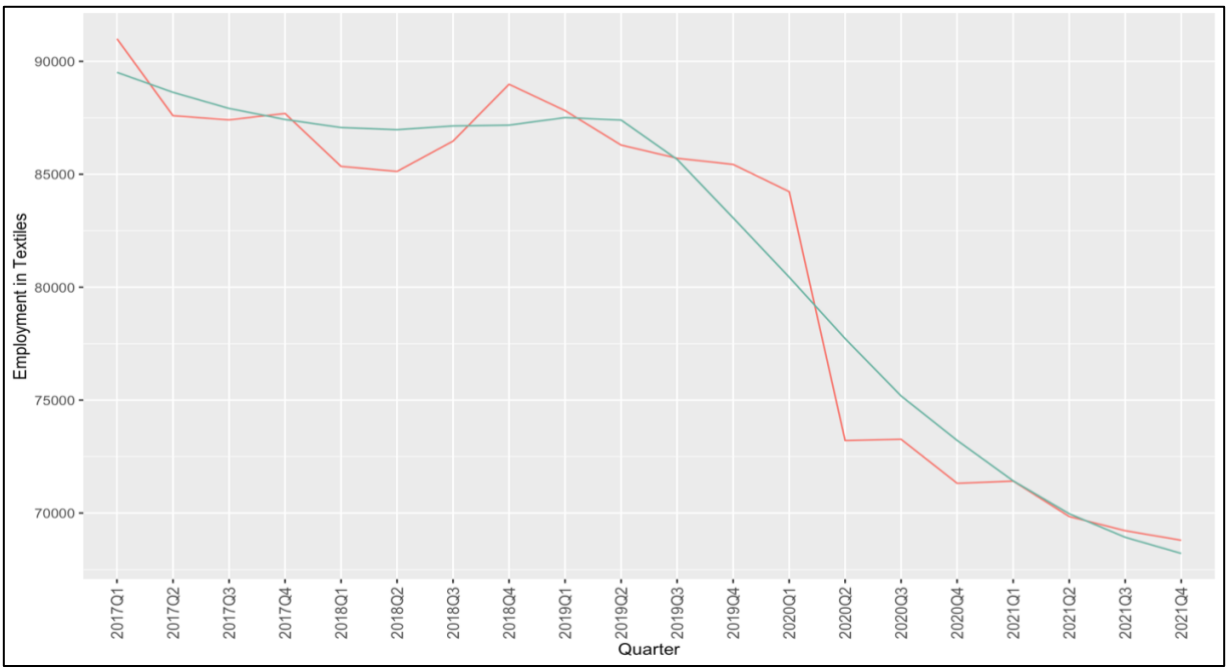

Figure 1: Number of persons employed in textiles between 2017 and 2021. The red line presents the number of persons employed, whereas the green line exhibits the smoothed trend in employment. Source: the author's own graph. Data acquired through Stats SA Quarterly Labour Force Survey (Stats SA, n.d.).

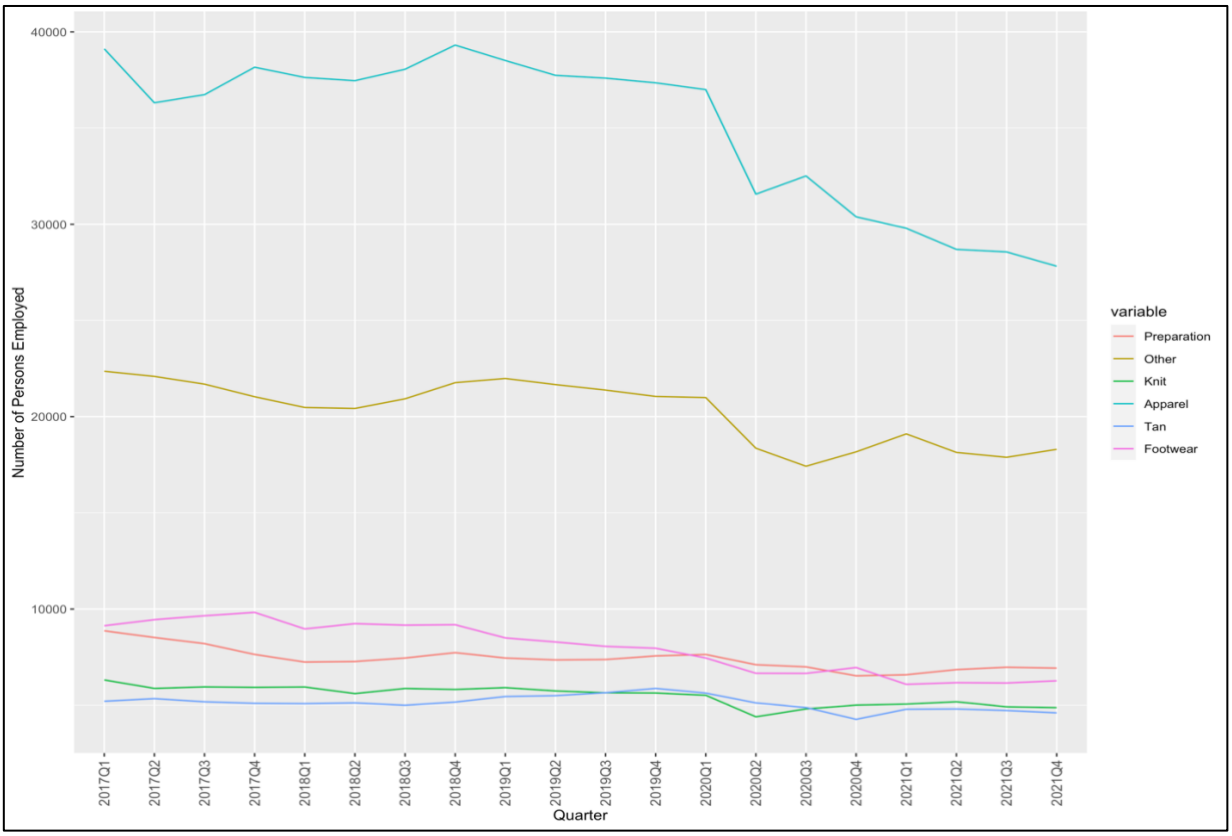

Figure 2: Employment in textiles by manufacturing item category. Source: the author's own graph. Data acquired through Stats SA Quarterly Labour Force Survey (Stats SA, n.d.).

There has been a significant decrease in employment in the textile industry, specifically in apparel manufacturing. This marked decrease is underpinned by decades of numerous complex factors and occurences. Hence, understanding employment patterns in the textile industry requires an understanding of the historical factors that drive (un)employment in this sector.

2.1.Skills and Education

The clothing and textile industry[4] is labour intensive, specifically employing unskilled labour (McMillan & Zeufack, 2022:4). The textile industry in South Africa is characterised by a strong base of informal and industry specific skills, though severe shortcomings in training and education persist (Wood & Bischoff, 2020:49). The South African manufacturing industry as a whole, however, was left unpreprared to compete with foreign human capital capabilities at South Africa's democratic transition and subsequent integration with international trade.

Morris & Reed (2008:9) suggest that this is due to a relative lack of skills development, a historically (and persisting) disproportionate skills base due to unequal access to skills development between race groups, and failing transformation policies. Skills development is a major shortcoming in textiles, which requires significant investment in human capital to be rectified.

2.2.Industrial and Labour Policy

Under apartheid, production was driven by racially segregated labour and mass production with highly protectionist industrial policy (Wood & Bischoff, 2020:36). While there is certainly no shortcoming of industrial policy aimed at gearing a transitioning South Africa toward an open

[4] Throughout the paper, 'textile and clothing industry', 'textile industry', or 'textiles' will be used to denote the 'textiles leather and clothing industry' according to the categorization used by Stats SA in their Quarterly Labour Force Survey.

economy integrated with global trade, Black, Craig & Dunne (2017:7) argue that these policies were mainly focused toward capital-intensive manufacturing.

Concerning labour policy in textiles, government has generally focused on increasing wages following union[5] pressure for supportive policies (Natrass & Seekings, 2016:92). In tandem, productivity in the textile industry has seen a rapid decline, which Morris & Reed (2008:25) argue is caused by inefficient labourers, absenteeism, and high labour costs. Policies biased toward capital intensivity, upward wage pressure, declining productivity, and general lack of skilled labour has made textiles particularly vulnerable to competition from abroad.[6]

2.3.Trade Liberalisation and Competition

South Africa has a comparative advantage with capital intensive sectors but fails to compete globally with labour intensive sectors. This is suggested by the export profile of manufactured goods (Black, Craig & Dunne, 2017:21). Given the labour-intensive structure of textiles, it is unsurprising that employment in textiles as a percentage of total manufacturing employment has declined between 2017 and 2021 (this is shown in figure 3) due to a shift toward capital-intensive manufacturing industries, which have a stronger competitive advantage.

Textiles face a structural crisis of competitiveness (Wood & Bischoff, 2020:33). Even when compared to other emerging market textile industries (such as Madagascar, Egypt, and Morocco), South Africa performs poorly with regards to competitive advantage (Van Zyl & Matswalela, 2016:380). Specifically, cheaper imports (mainly due to Chinese clothing imports) put downward price pressure on domestic clothing manufacturers (Morris & Einhorn, 2008:370). This particularly does not bode well with high domestic wages and low productivity.

[5] Prominent labour unions in the textile industry include the National Bargaining Council (NBC) and the Southern African Clothing and Textiles Workers' Union (SACTWU).
[6] Molekwa & Zandamela (2021) find additional empirical support for this claim.

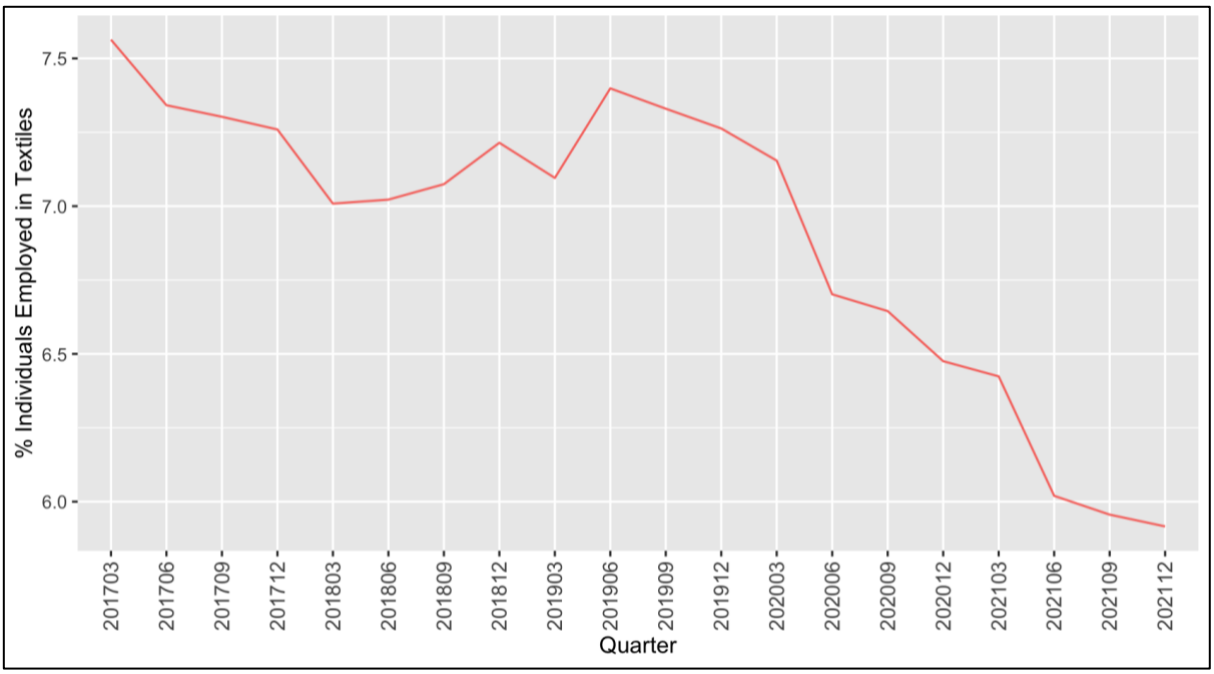

Figure 3: Employment in textiles as a percentage of total employment in manufacturing. Source: the author's own graph. Data sourced from Stats SA (n.d.).

3. Effects of Foreign Competition on Textile Employment

Given the profound effect of foreign competition on employment, the author finds it necessary to analyse the role of imports in the textile industry. While many studies have qualitatively argued that foreign competition plays a significant role in reducing employment opportunities in the textile industry, few[7] have employed quantitative analyses to isolate the effects of imports on employment in textiles in South Africa. This section is an attempt to present a formal model through which to quantify the effect of imports on employment to fill this gap in the literature.

3.1. Data and Methods

An aggregate dataset[8] was compiled and cleaned by integrating data on employment, production, import and export data. The paper makes use of a multiple linear regression model to control for the effects of imports on employment. The proposed model is shown in equation

[7] To the knowledge of the author.
[8] The aggregate dataset is available on enquiry. The paper makes use of three independent datasets to conduct an analysis on employment and imports. Data sources: Stats SA (n.d.); World Bank (n.d.); Codera Analytics (2022).

1. β_n is the coefficient of the variable with β_0 as a constant; log indicates the logarithm of the variable in question; *Employment* is the total number of persons employed in textiles; *Comp* is foreign competition[9], *Ex* represents textile exports from South Africa; *Prod* is textile production output in South Africa; and *Man* is the total employment in the manufacturing industry excluding employment in textiles. The model contains 48 observations comprising quarterly data on the variables between 2010 and 2022.

$$\log(Employment) = \beta_0 + \beta_1 \log(Comp) + \beta_2 \log(Ex) + \beta_3 \log(Prod) + \beta_4 \log(Man) \qquad (1)$$

3.2. Findings

As point of departure, consider textile import and employment trends. This is shown in figure 4. Textile employment decreases along with an observed increase in imports, and vice versa. The decrease in employment may be attributed to poor overall economic performance in the manufacturing industry (Black, Craig & Dunne, 2017:8), as well as the restructuring of the textile industry leading to outsourced production and migration of unskilled labour to micro-enterprises and the informal sector (Morris & Reed, 2008:10). Similarly, trends in imports may be attributed to high demand for clothing and textiles in South Africa and the inability of the South African textile industry to satisfy both foreign and domestic markets (Morris & Einhorn, 2008:362).

Another possibility, however, is that imports have a negative causal relationship with employment in textiles. Consider the results of the statistical model from equation 1 shown in table 1. For a one percentage point increase in foreign competition, employment decreases by 0.14%, controlling for other variables which may influence employment[10]. This result is

[9] Quarterly import data were not easily acquired. As a proxy for foreign competition, the model uses clothing and textile import unit value indices supplied by Stats SA. The value index measures the change in the mean value of imported units, which acts as an indicator for pricing pressure from the foreign market.
[10] This is in reference to column 5 of table 1.

significant and provides evidence that there indeed exists a causal relationship between imports and employment. This conclusion is also suggested by Black, Craig & Dunne (2017:20).

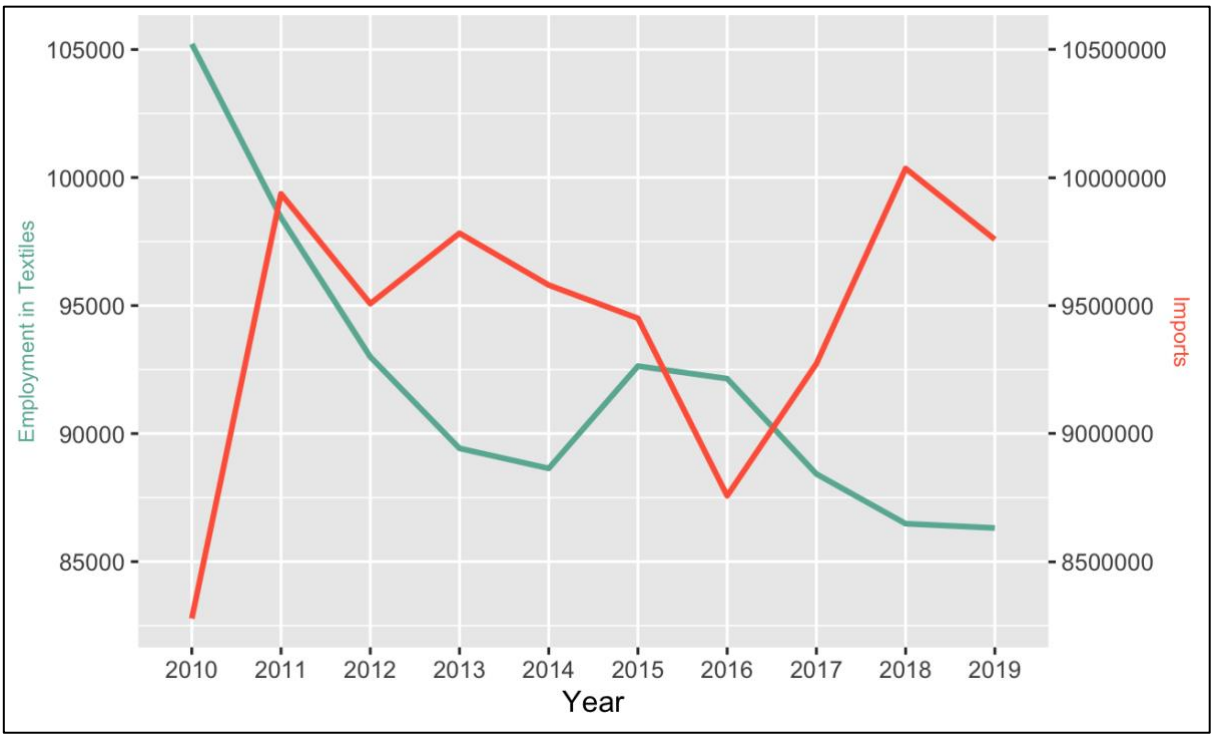

Figure 4: Employment in textiles (left axis) plotted against textile imports (right axis). Source: the author's own graph. Data sources from Stats SA (n.d.) and The World Bank (n.d.)

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Table 1: Effect of Imports on Employment in Textiles in South Africa

	Dependent Variable: Log Employment in Textiles				
	(1)	(2)	(3)	(4)	(5)
Log Comp	-0.215**	-0.233**	-0.173	-0.316***	-0.144
	(0.074)	(0.074)	(0.147)	(0.078)	(0.131)
Log Ex		0.098			0.104
		(0.070)			(0.064)
Log Prod			-0.0986		-0.508
			(0.298)		(0.289)
Log Man				1.744***	2.151**
				(0.619)	(0.647)
Constant	12.38***	10.99***	13.70**	-11.39	-11.60
	(0.340)	(1.047)	(4.022)	(8.447)	(8.200)
Observations	48	48	48	48	48
R2	0.155	0.190	0.157	0.282	0.359
Standard errors in parentheses					
* p<0.05, ** p<0.01, *** p<0.001					

Table source: the author's own calculations. Data sourced from Stats SA (n.d.), World Bank (n.d.), Codera Analytics (2022).

Interestingly, however, an increase in production in textiles has a stronger negative effect on employment, with a more than half percentage decrease in employment for a percentage increase in production output. This may be attributed to technological development and increased labour productivity of high wage- and skilled workers in textiles. McMillan & Zeufack (2022:25) show that trade integration has the tendency to increase labour productivity and automation, but decrease employment in developing countries, citing empirical evidence that this is indeed the case in South Africa specifically. Thus, decreasing employment in textiles is not only attributed to foreign competition, but domestic competition as well.

3.3. Discussion & Policy Implications

The paper's findings indicated that employment in the textile industry–which has in the past been a strong source of employment–has been performing poorly over the past two decades with the downward trend showing no signs of recovery over the last five years. To arrest this downward trend, a few policy implications must be discussed. Policy depends on the context in which the textile industry finds itself, of which a major consideration is vibrant demand[11]. One must also consider the key stakeholders in the industry, namely fabric suppliers, designers, and clothing manufacturers (Matsoma & Ame, 2017:3).

Firstly, labour market flexibility is an important consideration. Morris & Reed (2008:8) argue that the capability to flexibly respond to consumer demand is the hallmark of successful textile and clothing industries. Achieving this flexibility requires value chain alignment between producers and supply chains (Morris & Einhorn, 2008:373). Turning once more to figure 2, the apparel sub-industry of textiles has faced the greatest employment decline. Ironically, decreasing tarriffs on imported fabrics may allow for the harmonisation of value chains for

[11] Importantly, there is decreasing demand of domestic clothing (Molekwa & Zandamela, 2021:254), but increasing demand for imported clothing (Morris & Reed, 2008:13).

clothings producers in South Africa and expand supply capabilities, while also allowing producers to adapt to downward price pressure from cheap clothing imports and increase employment.

Natrass & Seekings (2021:417) find evidence that labourers in the industry are willing to work for wages lower than the legislated minimum. The high-wage low-productivity paradox tainting the textile industry may thus be offset by decreasing wage pressure on manufacturers and allowing them to expand employment. Of course, one must be weary of the resulting union resistance accompanied by such a step. This may be circumvented, however, by creating an environment for legal worker cooperatives to expand low-wage employment, while preserving high wages for established manufacturers (Natrass & Seekings, 2021:417).

Finally, investment in human resource development is paramount to increasing the competitiveness of the textile industry and thus allowing employment expansion. There has been a notable increase in the quality of goods imports, specifically from China (Wood & Bischoff, 2020:43). This is also emphasised by the paper's empirical findings. There is a pressing need to stimulate formal skills development. Morris & Reed (2008:32) suggest that the expansion of specialised education in textiles and clothing represents a large gap in South Africa and that investment in developing specialised skills-developing programmes is an important consideration.

4. Conclusion

Foreign markets should not be viewed as a threat but as an opportunity to source, expand, and increase competitiveness for the textile industry. While competition from abroad has contributed significantly to the decline in textile employment, this was largely due to a failure of the restructuring of the industry, unfavourable policies, and low skills development. The sector, however, continues to perform poorly and employment prospects look dire. If the textile

industry is to be a strong source of employment once more, it will need to focus on capitalising on strong domestic demand.

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