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The Emperor's New Clothes

A political economy study of the South African
textiles and clothing industry

Thesis submitted for the degree PhD in Economics 2015

Department of Economics

School of Oriental and African Studies (SOAS) University of London

by

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Declaration for SOAS PhD thesis

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Hanna Lotta Takala-Greenish

Signed: 

Date: 30 June 2015

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Abstract

The decline of South African textiles and clothing has been explained as the outcome of different influences depending on various ideological and methodological inclinations as well as theoretical traditions. For example, the rise in labour inflexibility or costs, or increased import and cost competition, are perceived to explain both South African and global textiles and clothing trends. Though these are important features of the decline, other factors precede and contribute to the poor production, trade, or employment trends, suggesting that it is misleading to focus on a few dominant factors. Instead, exploring the nature, evolution and the background to multiple, shifting, and interconnected causes, enables the emergence of new research questions concerned with the importance of situating the industry decline within a political, historical and structural setting.

The findings point to the need to reconceptualise industry evolution as an outcome of a specific labour process in South African textiles and clothing, moving away from a homogenous or cost-based categorisation of labour. It is also argued that the particular developments be seen as the outcome and an integral (albeit marginalised) part of the SA economy, rooting explanations for sector trends within a unique set of industry processes and tensions. These lead the study to challenge the relevance of existing policy and production remedies, and to argue that prominent theoretical debates around sector development, such as the GVC or the information imperfection approach, are limited in their explanatory power and in their ability to generate appropriate research questions. The research concludes that a case-driven understanding of the complexities of the industry decline opens the space for new insights in theoretical and methodological approaches to exploring and explaining textiles and clothing industry development in South Africa, with relevance for broader debates on industrialisation.

Key words: textiles, clothing, South Africa, industrialisation, industrial policy, labour process, global value chain, trade liberalisation

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List of abbreviations and acronyms

AGOA	African Growth and Opportunities Act
ANC	African National Congress
ARMSCOR	Armaments Development and Production Corporation (later Armaments Corporation of South Africa)
ASGISA	Accelerated Shared Growth Initiative South Africa
ATC	Agreement on Textiles and Clothing
BTI	Bureau of Trade and Investment
BTT	Board of Trade and Tariffs
CMT	Cut-make-and-trim
COSATU	Council of South African Trade Unions
DTI	Department of Trade and Industry
DEP	Department of Economic Policy
EOI	Export-oriented industrialisation
EROSA	Economic Research on South Africa
ESKOM	Electricity Supply Commission

ET	Economic Trends Group
GEAR	Growth, Employment and Redistribution
GCC / GVC	Global Commodity Chain /Value Chain
IMF	International Monetary Fund
ISCOR	Iron and Steel Corporation
IDC	Industrial Development Corporation
ISI	Import substitution industrialisation
ITAC	International Trade Administration Commission of South Africa
ISP	Industrial Strategy Project
LPT	Labour Process Theory
MEC	Minerals-Energy Complex
MERG	Macroeconomic Research Group
MFA	Multi-Fibre Agreement
MVA	Manufacturing Value Added
NDP	National Development Plan
NIE	New Institutional Economics
NSE	New Structural Economics
NGP	New Growth Path
PWC	Post-Washington Consensus
PX	Parcel Delivery
RDP	Reconstruction and Development Programme
RIDP	Regional Industry Development Programme
SA	Republic of South Africa
SABC	South African Broadcasting Corporation
SAA	South African Airlines
SACTWU	South African Clothing and Textiles Workers Union
SASOL	South African Coal, Oil and Gas Corporation
T&C	Textiles and Clothing
TES	Temporary Employment Services
TELCOM	Telecommunication provider for South Africa
WB	World Bank
WC	Washington Consensus

Figure 1 Map of South Africa



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Source: http://www.lib.utexas.edu/maps/africa/south_africa_pol_2005.jpg

Preface

This research presents a collection of insights into the decline of textiles and clothing manufacturing in South Africa. The investigation into the nature of textiles and clothing seeks to highlight the role of factors specific to these sectors, together with the influences from the national economy and policy, as well as pressure arising from the global economic and policy environment. It seeks to elucidate the range of interlinked factors that contribute to the trends in textiles and clothing and to draw parallels between the evolution within these sectors and the evolution of policy. Ultimately, it aims to identify how these sectors are shaped by broader South African industry and policy drivers and dynamics. In doing so, the research aims to move beyond a number of popular beliefs or misconceptions attributing the decline to narrowly defined dominant factors or interests behind the trends, and to challenge the reductionist explanations that stem from the mainstream literature.

Organising and analysing the material from an approach combining a multi-source case-study, together with the parallel exploration for a theoretical framework, has proved to be a challenging process. Whilst the limited breadth of theoretical engagement in the textiles and clothing literature presents the space for debate on the importance of developing analytical frameworks, exploring alternative frameworks is constrained by the complexity and continuous evolution of the material under research. Existing research relies heavily on a descriptive approach; useful to understand the nature of the sectors, but with a tendency to focus on a dominant factor or interest and favour focusing on a particular subset or segment of the textiles and clothing activities. Again, identifying this as a limitation to understanding the longer-term developments is relatively straightforward. Bringing together the wide range of influencing factors and forces, in a meaningful way beyond the descriptive, is not straightforward, and perhaps explains to some extent why there have been few comparable efforts at such syntheses in the South African textiles and clothing literature. Further difficulty arises from the attempt to capture the nature of industry tensions, in the context of a number of conflicting interests within the SA political economy, during the transition from apartheid to democratic rule in South Africa. In itself, the opaque and changing nature of these interests and tensions makes it an elusive subject for research let alone that they are but one of several interacting forces within the SA economy. Finally, the unique context and particular nature of these interests and tensions does not easily map onto existing theoretical frameworks. In sum, the process of identifying an organising framework that would allow for a parallel exploration of the evolution of industry, policy, the underlying tensions and interests, whilst also

embedding an understanding of the interaction or linkages between these influences, continued to present practical and theoretical obstacles for this research.

In light of the challenges outlined above, the research has not been structured around a traditional approach where a predetermined theoretical framework is placed in contrast with evidence contributing or contradicting, with conclusions reflecting the limitations of theory, of empirical evidence, or the interaction between the two. Instead, both the methodology and theoretical framework have been subject to interrogation in the space created by the on-going dialogue between the research questions and evidence on what lies beneath the decline of textiles and clothing. The research is informed by the notion of cumulative, circular development as detailed by Myrdal (1957), drawing attention to the need to consider the role of interests, interaction and interlinking of a variety of factors and forces. It also draws on the understanding of development and accumulation as the outcome of linkages and agencies within the context of the SA economy, as put forward by Fine & Rustomjee (1996). From a theoretical perspective, the exploration of textiles and clothing was initially considered from a number of perspectives including a traditional value chain analysis, exploring the sources of competitiveness and comparative advantage, the role of the state and state capacity, and systems of accumulation. More specifically, and given their prominence in the literature, the role of trade and trade liberalisation, the forms of labour marginalisation and structural change in employment, were also the subject of investigation, especially in terms of identifying potential explanatory frameworks. All of these contributed a more nuanced understanding of the industry trends and dynamics. Yet none led to adequate analytical frameworks that would cover the multiple angles and scope under investigation.

The insights from the research pointed to the importance of understanding the tensions between different interests, which to some extent could be captured by the balance between capital and labour at multiple levels of the SA economy. Though not entirely satisfactory, this description does present a number of advantages. First, it enables an interrogation of how labour, within textiles and clothing and in the economy at large, had evolved and achieved a position of greater influence. It also allowed for a parallel discussion of the evolution of the nature of capital in the industry and economy. Secondly, this approach provides an insight into how the balance between labour and capital, again at the sector level and across the SA economy, had reproduced the historical tension and bias in favour of capital, despite change in the nature and form of both labour and capital. Third, this approach presented flexibility in

accommodating for change, in what constitutes labour, capital or the balance between the two, and the ability to incorporate new interests and influences on the industry in question. This flexibility remains one of the strengths and contributes to the relevance of the capital-labour balance as a way to capture key insights from the research. In spite of these advantages, several weaknesses remain. Notably, the scope for variation aside, labour and capital are broadly speaking still reduced to distinct rather than overlapping, homogenous, and opposing entities, and as such, the critique of polarity and misleading juxtaposition is not entirely done away with. Some of the identified influences, such as the pressure from global policy trends, exploration of policy capacity, or the evolution of global trade structures and patterns are not fully represented. Although beyond the scope of this research, it is also noted that this framework is limited in its ability to draw out differences in comparing with other South African labour-intensive industrial activities outside textiles and clothing.

Mindful of the relationship between choice of theoretical framework and methodology, the research approach that was selected could be characterised as interpretive drawing on inductive traditions from heterodox economics. The focus of the investigation included identifying explanations for the decline of textiles and clothing, an exploration of the role of SA policy and economic environment, and in the search for a suitable theoretical approach in which to situate the findings. The use of both qualitative and quantitative insights with some degree of triangulation presented a set of strengths, but also retained a number of limitations. Amongst the strengths, the case study methods approach incorporated inputs from multiple sources and across several levels of influence and was a useful way to capture the complexity. This approach also acknowledged the existence of continuity, variety and evolution amongst the influencing factors, and extended to cover both the evolution of textiles and clothing as well as policy. It helped identify industrial policy as a key but not only important influence on textiles and clothing, but also allowed policy to be viewed as a parallel evolutionary process to textiles and clothing, in some instances also influenced by trends and developments in the industry.¹ Both the evolution of industry and policy could thus be seen to reflect the historical and economic context in South Africa, as well as provide insight into the role of global pressures and interests. From this perspective, industrial and policy evolution are seen as part of a broader policy and economic setting, shaped by their own dynamics, effects on each other,

¹ With the advantage that industrial policy could be investigated beyond narrow categorisations that define distinct periods in time as either a pro-market or pro-state.

and as connected components of the SA political economy with its unique set of tensions and interests.

Some methodological limitations also emerged during attempts to detail the nature of this variation or continuity across the multiple forms and types of factors and forces. Data quality and availability explain some of the difficulties in mapping out trends, missing data or sources of information constrained the effective description or defining of select influencing factors that were identified. No doubt there were also important influences, possibly only present in subsections of the industry or for short periods of time, that were not captured through the multiple data sources. It is recognised that the issues of data availability, representation and other methodological concerns to some extent constrain the process of drawing conclusions. The broad and integrative approach also risks the loss of specific detail and depth that might emerge through a more clearly defined focus. For example, the role of local and global retail, though acknowledged, is not explored in detail. The interpretive and investigative approach provides good insights into the different explanations, but is limited in the depth and the extent to which quantitative or other evidence can conclusively substantiate claims. Though a number of interlinked causes for the decline of textiles and clothing were identified, the method adopted does not permit statements about their relative importance, causality, or magnitude of influence on the industry. As these influencing factors or forces are the product of the political and economic setting specific to South Africa, generalisations are not possible even when similarities to other countries textiles and clothing or tensions between different economic interests are visible. As a result, concluding statements on the significance of select influencing variables, changes in the form of their influence, the nature of and changes in the interaction between, or build-up of, downward effect across multiple influences, rely on anecdotal evidence, subjective though informed interpretation, and are thus liable to selection or interview bias.

The study makes a number of original contributions regarding how to explore the decline of textiles and clothing from theoretical and methodological perspectives, as well as specific insights into what explains the particular developments and nature of the industry and the decline. The sector analysis, situated in the context of the SA political and economic realities also allows for contributions to debates around processes and theorising on industrial development, understanding the role of tensions between interests both within an industry as well as across different sectors within the domestic economy, and in the way an industry is

influenced by global markets and policy developments. The research also contributes to a better understanding of how particular industry and national tensions are reflected in industrial and macroeconomic policy, and how policy in turn reinforces or reduces the space for industrial development in ways that are context-specific as opposed to universal or generic.

It is worth noting that the structure, research method, analytical approach and discussion on the theoretical framework presented in the research that follows are the outcome of an evolution in the research as dictated by the findings. They are also one of many different ways in which to address the topic and evolving research questions. Though this research generates a number of insightful and novel contributions to the understanding of textiles and clothing, industrial policy, and the tensions within the SA economy, the very weaknesses of the textiles and clothing literature that were the starting point of this research are also reproduced. This is arguably inevitable given some of the research challenges arise from the nature of the textiles and clothing industry; the complexity, interlinking and on-going evolution of factors and forces that explain the developments. Taking a macro approach to capture the full extent of influences behind the industry decline also leads to the loss of detail and depth. It is argued that an approach that is mindful of these challenges and how they might affect the structure, findings and conclusions and is open to other conclusions is a partial solution to these research challenges. This research concludes that the presence or potential for some degree of perpetuation of the same weaknesses that also triggered or drove the need for this investigation, creates justification for further research in understanding the trends and developments in textiles and clothing together with the evolution of policy, in order to advance the empirical and theoretical debates on industrial development.

Chapter 1: Introduction

“The materialist conception of history starts from the proposition that the production of the means to support human life and, next to production, the exchange of things produced, is the basis of all social structure; that in every society that has appeared in history, the manner in which wealth is distributed and society divided into classes or orders is dependent upon what is produced, how it is produced, and how the products are exchanged. From this point of view, the final causes of all social changes and political revolutions are to be sought, not in men’s brains, not in men’s better insights into eternal truth and justice, but in changes in the modes of production and exchange.” Engels (1880)

As introduced by the above quote and falling firmly within a Marxist political economy approach, this research seeks to investigate a very particular instance of production by exploring the nature and characteristics of the products and processes, the way value is created, the particular capital-labour relations, and the obstacles and challenges in South African textiles and clothing. The industry investigation provides a platform for exploring the disjuncture between current neoclassical approaches to understanding industry evolution and policy and Marx’s contributions regarding the centrality of wage-labour and surplus accumulation within a systemic understanding of capitalist accumulation.²

In this light, this research proceeds to investigate the nature and changes in the production and exchange of South African textiles and clothing as part and parcel of a broader social, political and economic structure and associated range of objectives, mechanisms, tensions and dynamics. This chapter introduces the research in terms of the contributions (section 1.1.), background to the country setting, and justifications for the industry under analysis (sections 1.2 and 1.3), the theoretical and methodological approach (section 1.4), concluding with an overview of the structure and findings of each chapter (section 1.5).

1.1 Contribution and aims of the research

This is a study of the evolution of textiles and clothing manufacturing in the South African economy during the transition from, and period following the end of apartheid. This research explores the industry developments within the context of the policy, structural, historical and

² Burawoy (1983, p.588) argues that the “Marxist tradition offers the most sustained attempt to understand the development of production within a systemic view of capitalism – that is a view which explores the dynamics and tendencies of capitalism as well as the conditions of its reproduction.”

political developments that have shaped the economy. The investigation centres around the on-going decline of two labour-intensive sectors, and has been linked to a number of factors operating and originating at the sector, national and global level. The literature exploring the decline has touched on the role of industrial and to a lesser extent macroeconomic policy, the role and influence of global T&C markets, changes in global policy, weaknesses emerging from within SA T&C, the characteristics and structure of the domestic T&C value chain and more. Though each of these factors can be linked to the decline, there is a gap in understanding what influences these factors, how they interact and combine in the SA economic setting, and what are the implications for the future of T&C, and what are the challenges in constructing an appropriate theoretical and methodological research platform.

These developments are puzzling for two reasons. Firstly, not all manufacturing is in decline. Secondly, the state withdrawal from different forms of direct industrial support has not been uniform across industrial activity. Notable exceptions concentrate around South Africa's economic core, the capital-intensive mining and minerals extraction activities known as the minerals-energy complex (MEC). This exposes weaknesses with the popular belief that the economic and policy transition paralleling the end of apartheid can be described as a shift from a policy stance favouring the state to one of a uniform pro-market position. This suggests that there is both policy capacity and space for the state to intervene extensively in the management of select sectors and components of the economy. It also implies that the state has had an influential role (either through direct and planned or indirect and unintentional intervention) in determining which industries do well and which do not.

It is argued that the trends in SA T&C manufacturing, as well as the changes in industrial policy, cannot be explained as discrete or unconnected developments, but instead need to be considered in the context of the underlying forces that shape and influence the overall economy. These forces reflect the dominant interests and can be loosely and broadly grouped under the interests of capital and of labour. Their interaction, and the evolution of this interaction, informs the balance or relationship between capital and labour. Given the heterogeneous composition of both labour and capital, on a general level, and at a sector or industry-level, there is variation in the way in which this balance and the underlying forces affect different parts of the economy. At its broadest level, this study sets out to explore the evolution of both the T&C manufacturing and industrial policy within the context of South African capitalist accumulation.

Approaching the analysis with the contributions and caveats of multiple theoretical perspectives on industrial development (neoclassical, structuralist, global value chain, labour process) presents a number of advantages. Rather than testing a pre-determined theoretical framework, this approach seeks to investigate what aspects are important, omitted or misleading by creating the space for dialogue between theory and empirical findings. It seeks to ground the research within a context that is drawn from the political and economic history of South Africa, rather than being externally imposed. It allows for the capital-labour balance within the industry to be brought to the fore, but positioning this within the South African form of accumulation as determined by tensions at multiple levels. This approach also allows for an exploration of the changes that are taking place within T&C manufacturing and industrial policy, and also opens the door for a comparative perspective where T&C are seen in the context of the entire economy and positioned with regard to other manufacturing or industrial activities that have been more successful. Similarly, it enables industrial policy to be viewed in the context of other macroeconomic policies such as monetary, trade and investment policies that influence industry performance and prospects.

The broad research approach, together with the evolution of the industry relationships, challenges, and policy, also presents a number of challenges to the analysis. The capital-labour relationship and consequently the South African form of accumulation affects different parts of the economy in varying and often invisible ways or through indirect channels. Data availability and quality issues, the subjective element of categorising the type and impact of influencing forces presents practical complications. Likewise, operating across multiple levels covering (at least) the sector, industry and national economy in terms of scale, influences arising from within different markets (input, output, labour, exports etc.) together with the various forms of influence by the state (investment, range of policies etc.) contribute to the research challenges. Industry development also reflects the peculiarities of global market and policy developments, seen to reinforce views about the explanatory power and scope for coordination associated with market mechanisms. These add to the challenges and render the framing of developments within the economy (and textiles and clothing) a complex and subjective endeavour. These complications are heightened by the dynamic nature of the organisation and relations of T&C production, as well as the changes in how underlying interests and forces are played out at the sector and economy-wide level.

The central question of this research is to explore the evolution of the SA political economy and to identify how this influences particular industry and policy. Within this question, the substantive aim is to explore the particular, and in many ways parallel, developments in T&C manufacturing and industrial policy, and to link these to the underlying political economy. These chapters form the core of the thesis and aim to make direct contributions to the literature on SA T&C as well as to the literature on the evolution of SA industrial and macroeconomic policy. Exploring the specific trends in T&C and industrial policy raises a number of important theoretical questions about the nature and role of the research framework. It allows for an exploration of the way in which the research framework influences the research assumptions, methodology and outcomes of analysis, but equally it also allows for an exploration of the way in which a focus on specific trends can inform the construction of the research framework. In addition to the theoretical questions about the research framework, the investigation of specific areas of manufacturing and policy also contribute to three broader areas of theoretical literature: debates about industrial policy and policy space, debates about industrialisation and the role of manufacturing, and debates about accumulation. Within these, the interaction between the influences and roles of the state and those arising from various markets also emerges as an on-going theme and area of contribution. A final area of contribution is in the realm of research design. The qualitative and interpretative research methodology brings together primary and secondary data and attempts to weave together insights from existing case studies and policy analyses, statistics, and empirical evidence from fieldwork interviews with a range of different representatives and experts on both the T&C sector evolution as well as on the evolution of industrial policy.

The complexity arising from the multiple areas under investigation, covering activities within the two manufacturing sectors, relevant elements of macroeconomic policy, domestic and global influences, policy and political change with the end of apartheid, from the fluid linkages between them, and from the changes they undergo over time, present a significant challenge for this research. Each one of these areas of study alone could be the subject of investigation. Combining them in a selective fashion does raise issues of objectivity, diffuseness, compromise and generalisation. These challenges are complemented by the exploratory nature of the research, the evolution of the research questions, and thus the evolution in the interpretation of the findings. Nevertheless, it is argued that bringing together multiple influences and fields of study makes an original contribution. First, it shows how debates on the different influences and themes are framed and shaped by specific theoretical constructs. Second, the

contextualisation and the joint focus on sector and policy analysis draws attention to the role of the South African setting. Third, by placing the emphasis on the historical, political and economic context and evolution, this research challenges the deductive research methodologies and externally constructed research frameworks favoured by the mainstream. Fourth, though the focus is on an improved understanding of South African industrial and policy trends, the inductive and interpretive approach is relevant for broader theoretical questions of industrialisation and accumulation, as well as for the study of capital-labour tensions in other countries and sectors.

The genesis of this research dates back to a previous postgraduate study by the author on manufacturing in South Africa. Investigating changes to manufacturing brought attention to the on-going decline of T&C. These two closely connected sectors had experienced a decline since the 1980s despite a range of targeted interventions by successive governments exploring different styles of policy support. They were not infant industries struggling to establish themselves as components of the national and world economy, but instead had in many ways been important sources of employment as well as quality produce. An initial survey of the literature on SA T&C revealed a wealth of studies covering the perspectives of the firm, employees, policy impact and issues, and an equally broad debate about the causes of the decline. Given the range and extent of existing research, it seemed intriguing that there was so little consensus about the causes of decline for a sector that most agreed to be a critical part of the post-apartheid creation of employment and redistribution of wealth. Why had an array of policies, representing different political and ideological perspectives, and targeting different parts of the T&C value chain failed to alter the decline? How could the linkages and interaction between the different forces and factors be understood?

This research is framed by questions about how different interests interact and influence the economy, how tensions between them channel external influences, and how the balance is itself subject to change from forces within and external to the economy. In light of the various challenges described above, this thesis does not seek to provide definitive answers or some alternative grand unified theory to these questions about explanatory frameworks. Instead, it maintains a more inductive focus that establishes the need to enable an on-going dialogue between the theoretical and empirical, and to navigate between the general/abstract and specific areas of industrial development debate.

In addition to seeing SA T&C within the context of domestic/historical accumulation around the MEC, the evolution of the industry has taken place against a backdrop of increasing competition within global T&C markets. The phenomenon of a race-to-the bottom where priority is given to questions of costs (as opposed to for example quality or developing markets) has parallels in other countries. There are also questions about the extent to which the changes in SA industrial policy (or macroeconomic policy relevant to industry) have been influenced by global market and policy trends. These questions are considered in the light of the perceived dependence and independence of South African policymaking and internal markets and within the context of the internal policy and market pressures arising from the domestic capital-labour balance.

1.2 South African manufacturing

South Africa, classified by the World Bank as a middle-income country, has an established industrial structure and a strong history of mining and manufacturing. The discovery of gold and diamonds in 1867 enabled the economy to grow and expand into manufacturing and services related to the extraction industries. This had a significant impact on the development of financial services, energy provision, infrastructure, and a range of other services to the industry. Though gold and diamond extraction have declined, minerals and mining remain central to the economy with SA leading world production in chrome, manganese, platinum, vanadium and vermiculite, in second position as a supplier of ilmenite, palladium, rutile and zirconium, and was in 2011 the third largest exporter of coal.³ As Table 1 shows, 57.5% of the economy in 2010 was classified as a service: finance, real estate and business services at 21.2%, government services at 16.1%, wholesale and retail trade, hotels and restaurants at 13.9%, and other services at 6.3%. Manufacturing was estimated to represent 14.6% and mining 9.6%.

Table 1: Contribution to GDP by sector (%)

Sector	2005	2010
Agriculture, forestry, fishing & hunting	2.7	2.5
Mining and quarrying	7.6	9.6
Manufacturing	18.5	14.6
Electricity, gas and water	2.4	2.8
Construction	2.8	3.8
Wholesale and retail trade, hotels and restaurants	13.9	13.9
Transport, storage and communication	10	9.1
Finance, real estate and business services	21.1	21.2

³ Mining Artifacts (accessed 18 Nov 2011), USGS (Minerals Commodity Summaries) website and Wikipedia (Economy of South Africa) websites accessed 18 Nov 2011

General government services	14.9	16.1
Other services	6.3	6.3
Gross domestic product at basic prices / factor cost	100%	100%

Source: AfDB Statistics Department, StatsSA, African Economic Outlook data

Manufacturing in SA grew in response to the production needs of the mining and minerals extraction industries, as well as through downstream processing activities such as the growth of the chemical industry. Parallel to the development of the economy around mining and minerals extraction, manufacturing also grew in consumer goods such as textiles, clothing and footwear and other non-mining sectors such as forestry, food and beverages. Manufacturing contributes in the region of 14-18% of total value added, with T&C typically covering 2-3% of manufacturing output, with contracting value added reported for these sectors at -1.4% for textiles and -3.8% for clothing over the period 1997-2001.⁴ However, the contribution of manufacturing to GDP has steadily fallen, and as the two figures below show, the contribution to manufacturing value added and manufacturing employment is stagnant. Only natural-resource manufacturing displays growth in MVA, with mining MVA remaining high but not growing. Employment growth is recorded in business, retail and government services.⁵

Figure 2 Contribution of Manufacturing Groups to Value Added

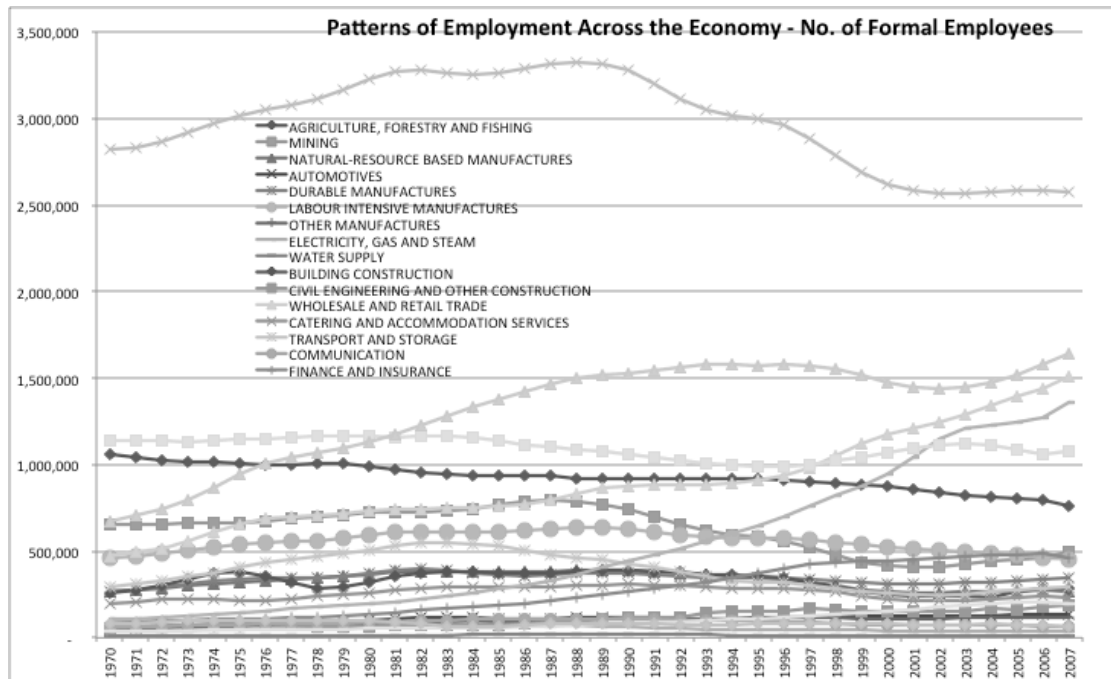


Source: DTI Sector Data 2008 using SA Standardised Industry Data (Quantec/Stats SA)

⁴ This data is compiled from various sources and presented in Takala-Greenish (2009) CSID T&C Case Study

⁵ The nature, sustainability, and limited multiplier effects of service employment growth have been discussed by Tregenna (2008, 2009, 2010)

Figure 3 Contribution of Different Industries to Employment



Source: DTI Sector Data 2008 using SA Standardised Industry Data (Quantec/Stats SA)

Table 2 gives a breakdown of SA manufacturing by income. Manufacturing income remains dominated by coke, petroleum, chemical products, rubber and plastic representing 28% of manufacturing, followed by basic metals, metal products, machinery and equipment estimated to represent 22% of total income.

Table 2: Contribution of subsectors to South African manufacturing

Sector	Total Income (R million) 2005	Total Income (R million) 2008	% of manufacturing 2008
Food products and beverages	156 693	225 421	15%
Textiles, clothing, leather and footwear	38 337	41 550	3%
Wood and wood products, paper, publishing and printing	79 143	101 905	7%
Coke, petroleum, chemical products, rubber and plastic	218 982	427 934	28%
Glass and other non-metallic mineral products	31 161	46 924	3%
Basic metals, metal products, machinery and equipment	188 090	325 304	22%
Electrical machinery and equipment	23 412	32 324	2%
Telecommunication and professional equipment	8 716	11 306	1%

Transport equipment (motor vehicles, parts and accessories and other transport)	149 446	238 749	16%
Furniture and other manufacturing (including tobacco and recycling)	32 533	57 250	4%
Total manufacturing	926 513	1 508 667	100%

Source: StatsSA, P3002 - Manufacturing industry, 2005, 2008⁶

Manufacturing decline in SA is widely acknowledged as a longer-term post-war trend affecting labour-intensive manufacturing in particular (see Figure 4 below).⁷ Trends across a number of indicators (employment, value added, total factor productivity and also in increasing import penetration, declining investment and weak export performance) continue to puzzle researchers and raise questions about the theoretical, policy and sector implications. Despite a wealth of natural resources, the economy has failed to diversify out of basic production activities or to consolidate the existing wealth of manufacturing. Exports remain dependent on raw materials (mining and minerals output) and manufacturing remains dominated by the metal products and engineering sector. The decline is also of concern given the potential loss of benefits in terms of employment and redistribution and in light of the poor economic growth, limited industrial diversification, and evidence of de-industrialisation.

T&C manufacturing provides a good example of how this decline reflects sector-specific trends and forces as well as factors shared across manufacturing and the economy. In addition, T&C provides a useful case study to investigate the issues around policy and labour, given the status it has enjoyed in terms of on-going policy support, and the high labour-intensity and employment propensity relative to other manufacturing sectors.

⁶ These statistics are based on a survey of firms and do not necessarily cover the entire manufacturing base in the country. They do however provide an overview of the balance between different manufacturing sectors. In 2001 there were 34000 respondents (firms) to the survey, in 2005 the sample size was 9500 firms (though the number of respondents is not reported), for 2008, the sample size or number of respondents was not reported. The data may contain imperfections arising from reporting errors and non-sampling errors. Figures have been rounded to the nearest final digit.

⁷ See Bell (1995), Kaplinsky (1995), Nordås (1996), Joffe et al. / ISP (1995) and more recently Jones (2002), Kaplan (2004), Rodrik (2008) and Marais (2011)

Figure 4 Compound Average Growth in MVA and Employment 1944-2011

	MVA CAGR 1944-2011	Share 2011	Employment CAGR 1944-2011	Share 2011
Manufacturing	2.7%		-1.3%	
Leather and leather products **	16.4%	0.4%	-2.2%	0.5%
Furniture	5.7%	1.1%	-2.2%	2.9%
Other chemicals and man-made fibers *	5.6%	6.9%	-0.2%	4.2%
Basic chemicals *	4.7%	5.8%	-2.3%	1.6%
Machinery and equipment	4.6%	6.6%	1.4%	9.8%
Motor vehicles, parts and accessories	4.5%	8.0%	0.2%	7.5%
Basic iron and steel *	4.1%	5.4%	-1.5%	4.3%
Coke and refined petroleum products *	4.0%	7.5%	1.1%	2.3%
Food	3.8%	12.5%	-1.7%	14.9%
Electrical machinery and apparatus	3.7%	2.9%	-2.0%	3.2%
Basic non-ferrous metals *	2.7%	2.8%	0.2%	1.9%
Professional and scientific equipment	2.1%	0.6%	0.8%	0.8%
Paper and paper products	1.9%	3.3%	0.9%	2.8%
Plastic products	1.5%	2.5%	-0.7%	3.3%
Metal products excluding machinery	1.3%	5.1%	-0.8%	9.1%
Rubber products	1.2%	0.9%	-3.4%	1.1%
Television, radio and communication equipment	1.2%	0.9%	-3.6%	0.6%
Wearing apparel	1.1%	2.0%	-3.6%	4.6%
Other manufacturing	1.1%	6.8%	-1.0%	3.9%
Wood and wood products	0.9%	2.2%	-1.0%	3.2%
Glass and glass products	0.9%	0.6%	-2.4%	0.9%
Non-metallic minerals	0.7%	3.1%	-3.6%	4.1%
Printing, publishing and recorded media	0.7%	3.0%	0.7%	4.5%
Textiles	0.2%	1.3%	-3.4%	3.0%
Tobacco	0.2%	0.7%	-0.4%	0.2%
Other transport equipment	0.1%	0.9%	0.2%	1.4%
Beverages	-0.3%	5.6%	-1.5%	2.9%
Footwear	-1.2%	0.4%	-7.4%	0.7%

Source: Quantec Data 2012 and correspondence with Zalk (April 2014)

The evidence of declining manufacturing raises questions about the forces and factors that operate within the economy as a whole. These provide the backdrop to understanding the characteristics, drivers, and the environment for the patterns seen across specific sectors.

Investigating the trends in textiles and clothing falls within a broader literature on manufacturing and industrialisation as an engine for development. As summarised by Weiss (1988, p. 39), “industrialization, and in particular manufacturing industry, had a key role to play in the process of long-run growth”, and that supporting the diversification of the economy would develop demand and supply in both input and output markets and attract private investment (Nurkse 1961). The background to this argument draws on the pioneering work of Lewis (1954), Myrdal, (1957), and Kaldor (1967) investigating how countries develop, and is based on the notion that manufacturing industries exhibit higher levels of productivity resulting in increased returns to scale. Shifting resources (labour) into the more productive sector leads to the accumulation of capital, which can be invested to expand the existing industry or to diversify into new activities. The Lewis or dual economy model saw economic development take place under the assumption of an unlimited supply of labour, meaning wages do not initially need to adjust for the capitalist sector to expand. Myrdal’s theory of cumulative causation argued that developed and developing countries are locked in virtuous and vicious cycles respectively.

Broadly speaking, the importance of manufacturing has not been disputed. A closer look at the literature reveals an intense debate regarding the mechanisms through which manufacturing and diversification contribute to growth and development, what conditions allow this development to take place, and what economic and political entities and forces shape this process. This contribution rests on an empirical relationship between the extent of industrialisation and GDP/capita. As summarised by Szirmai (2009May), the least industrialised countries remain the poorest and countries with higher per capita incomes typically represent more advanced industrial structures. The links between manufacturing and national income have been explained by higher productivity, value added and greater dynamism (especially in comparison to agriculture). Manufacturing is also argued to present a greater opportunity for the accumulation of capital. Some of this is explained by the greater economies of scale, technological progress, spillover and linkage effects and Engel's law whereby the proportion of income spent on manufacturing output vis-a-vis agricultural produce declines as income levels rise.⁸ Yet these mechanisms are not always clear or unidirectional and the rise of the service sector has at least initially challenged some of the assumptions. Szirmai (2009) looking at data from 63 developing and 16 advanced economies between 1950-2005 finds that between 1945 and 1980, a number of Latin American countries displayed greater value added per capital growth in services suggesting the benefits of structural change from agriculture or manufacturing to services were greater than those of a structural change into manufacturing. A sample of 19 Latin American and Asian countries showed higher productivity growth in manufacturing than in agriculture between 1950-1973, but lower after 1973 in line with the trend in advanced industries. Szirmai (2009) also notes that relative capital intensity of manufacturing declines over time, and the comparatively greater dynamism of manufacturing has been challenged by the growth of sectors such as financial, ICT and transport services.⁹ This type of thinking falls within the literature on inter-sectoral resource flows in connection with the evolution of agricultural, manufacturing and services sectors. The focus is on exploring the extent to which accumulation differs across sectors according to their characteristics (labour or capital intensity, value added, productivity, scope for links to other

⁸ Businessdictionary (Engel's Law, accessed 16 Aug 2014)

⁹ Though others such as Rowthorn (1997) rejects the view that economies can rely mainly on services and argue for the need to maintain strong manufacturing.

sectors etc.), and the possible changes that inter-sectoral resource flows trigger. Much of this debate has focused on the types and explanations for deindustrialisation.¹⁰

Recent debates around the role of manufacturing have been conducted within a context of increasing globalisation, in particular the globalisation of trade, specialisation of production within value chains, improvements in transportation and communication infrastructure, and a growing collection of multilateral and bilateral trade agreements alongside growing regulation of trade in the global economy. Global value chains and outsourcing have enabled an unbundling and geographic spread of production activities providing opportunities, but also increased competition for the manufacturing sectors of developing countries, resulting in a slowdown or decline in manufacturing output and value added growth (UNIDO 2009 and 2013, Matsuyama 2009). These detrimental effects span across high-, middle- and low-income countries with varying policy approaches to industrial development and trade.

Though this research is not directly about deindustrialisation, manufacturing growth in theory, policy or in South Africa, these trends and theoretical debates are important as they highlight the need for a more nuanced understanding of the underlying processes, structures, forces and other factors. The general discourse about manufacturing, and decline has also shaped the way in which manufacturing sectors are explored, the space and direction of policy discourses, and the way in which contextual factors are incorporated.

1.3 Why investigate textiles, clothing, and industrial policy?

South Africa is of interest given its position as a middle-income economy with an established industrial base in a range of labour- and capital-intensive sectors. The regime change that accompanied the end of apartheid also presents a unique situation for the study of evolving policy stances. Yet this policy shift is not clear-cut and a closer look reveals that the perceived shift from a strong and involved government during apartheid towards a pro-market stance in policy in the post-1994 period is a popular myth. Instead, post-1994 policy is characterised by a combination of strong state in some areas and sectors and market liberalisation in other economic activities. SA also enjoys a degree of policy autonomy given the revenue generated by

¹⁰ See Rowthorn and Wells (1987), Rowthorn (1997), Rowthorn and Coutts (2004) on theory, Blankenburg et al. (2008), Tregenna (2009, 2011) and Jalilian & Weiss (2000) on Sub-Saharan Africa. For a discussion of limitations of rising services employment as an alternative source of growth to manufacturing employment in SA see Tregenna (2008, 2009, 2010)

the export of mining and minerals output. This, together with an established policy machinery, experience of a range of policy measures within a closed economy (due to sanctions), and the benefit of goodwill awarded to the post-apartheid, government positively contributed to the policy space both within the domestic and global policy spheres making it a unique setting to investigate.

SA also has a relatively small domestic market and though labour is an abundant resource, the cost and low-skilled nature of labour have been perceived as an obstacle to manufacturing. The historical concentration of economic power and wealth in the established minerals-energy complex industries, together with the commodity boom in the 2000s has also adversely affected the position of labour. The unequal distribution of income, the poor growth performance and the increasing capital flight in the 1990s and 2000s have affected domestic production, demand and investment. Coupled with the decline in state investment for reasons of both state finances and policy, these developments have left an indelible mark on the economy. Despite these characteristics, tensions and developments, continuous government pledges to support employment and to focus on economic growth have not been matched with appropriate policy responses or with improvements in outcomes.

The study of T&C has been a popular area of research in light of the historical role it has played as an entry point to industrial development, a path for industrial diversification, as a source of basic consumption goods, and as employment for unskilled and untrained labour. For example, Adhikari and Yamamoto (2007) summarise T&C as: a springboard for the economic development journey; employing large numbers of workers many of whom are women; exhibiting low entry barriers, initial skill requirements, and capital outlay; manifesting high competition; being typically more protected in comparison with other manufacturing and across the global economy. Naumann (2005, p.5) expands on T&C manufacturing “among the most widely distributed of all economic sectors...(because it)... provides vital commodities..., (is) labour intensive, relatively easy to establish, and in most product segments also highly dependent on low-cost labour.” Though these are interesting general criteria, they do not reflect the full picture for SA T&C. What makes the case of SA T&C unique is the opportunity to explore sharp contrasts through the political and economic transition of the late 20th century with questions focusing on the role and trends in labour, industrial policy, the position of T&C within the SA economy, and questions about the impact of various domestic and global forces.

Textiles and clothing manufacturing in SA grew from the needs of the domestic market and benefited from generous and varied types of state support as well as from a captive domestic market during the apartheid-era sanctions. Both textiles and clothing evolved into established sectors and developed some internationally recognised and successful areas of production. T&C manufacturing represent two of the few sectors (alongside the motor industry) that retained targeted policy support during the liberalisation that characterised much of the policy shift in the early 1990s. Despite this policy support and the established production base, both sectors have experienced a gradual decline since the 1980s. This decline in production and employment associated with T&C manufacturing has perturbed sector stakeholders, academics and policy makers. The downturn has persisted with an increasing and unsuccessful focus on cost competition. The clothing sector in particular has also experienced changes in the employment structure with the growth in the role and different forms of informal employment through the use of outsourcing, piece-rate contracts, and casual labour. These changes reflect a notable source of employment- and wage-based flexibility, are at the root of marginalising the labour involved, and contribute to the continuity of a bias in the overall South African capital-labour balance. These are in contrast to: arguments/perceptions about high labour costs inhibiting competitiveness; the rhetoric on employment creation, skills development and redistribution; evidence of policy capacity and space arising from a historically pivotal labour union movement and representation of labour within government together with recent improvements in labour legislation. These contradictions present a gap in the literature on T&C and have helped shape the research agenda.

Firstly, these two sectors provide an opportunity to explore the contrast in production and policy between before and after apartheid. This allows for an investigation of the impact of the changing policy and market conditions and secondly, the opportunity to explore the contrast between state intentions and rhetoric within policy formulation, implementation and impact. This focuses in particular on the state objectives of generating growth and employment and the contrasting macroeconomic, industry and sector policies that adversely affect delivery on these goals. Thirdly, the sectors occupy a peripheral position within the economy with regard to the core activities around minerals extraction and mining (MEC). Though an important source of employment (and one of the largest sources of employment for unskilled females), T&C does not generate foreign exchange or a significant domestic revenue for the government. Yet, despite generating revenue, the MEC activities are also challenged with regard to fostering growth in employment. The loss of existing employment, as well as of potential

employment growth in light of the low labour absorption in other manufacturing, presents a key area of research. Fourthly, the large range of activities and production associated with T&C value-chains or pipelines present an opportunity to explore a number of different views and needs of labour and firms and the tensions that surround these interests. Fifthly, T&C manufacturing as a case study presents an interesting contrast between the theoretical possibilities for surplus accumulation from a relatively labour-intensive economic activity and the real life challenges for realising such opportunities in the face of adverse policy and market pressures at the sector, national and global levels. This presents an opportunity to explore how these different pressures interact, how they vary over time and across economic activities, and also how they reflect the broader interests within an economy. This is particularly relevant for understanding the interplay of market and policy forces from both domestic and external sources and an opportunity to ground these forces within a particular historical and economic context.

Though there is a broad literature on T&C and their decline, several misconceptions and myths persist about the main causes, the origins, the necessity, and type of remedies to counter this decline. Much of the literature around T&C has focused on single factors or entities such as the rise of imports from China, the damaging impact of illegal imports, or the benefits of tighter labour regulation to individual employees with an overall negative impact on employment creation. Too much, too little, the wrong type or poorly implemented policy, changes in domestic markets such as the rise of retail, global competitive pressures have also been proposed as explanations.

This study sets itself the ambitious task of challenging the reductionism in the literature. That is, the persistent attempts to explain the decline through one or few dominant factors, features, events, stakeholders or other actors. The limitations of the implicit neoliberal theoretical frameworks, with its focus on productivity improvements, competitiveness, market access and increasing labour flexibilisation, is also a key area of investigation. Two further aspects that are central to understanding the decline of T&C are neglected or underrepresented. First, the continuity and transformation of the minerals-energy complex as a result of financialisation and the adoption of macroeconomic policies of trade and capital liberalisation alongside selective investment support, fiscal austerity and monetary policy involving high interest rates and inflation control are neglected in the literature. Second, the failure to consider the centrality of labour in production, challenging assumptions of

homogeneity, or relegating labour to the narrow role of cost are also an important area for research. This draws attention to the need to see labour market structural change not only in the context of the domestic interests and forces, but also in an environment that has been shaped by prevailing forces and interests that constitute the capital-labour relations peculiar to the economy.

This points to a secondary area of interest around the evolution of industrial policy, in general, and in terms of the way in which it has influenced T&C. Many of the policy initiatives since the 1990s have targeted supply, with a particular focus on export growth and value-added (through a focus on productivity issues including training, skills improvement and cost control). Yet the export growth of both T&C has been limited or non-existent. The domestic markets have been affected by rising unemployment as well as by competition from imports, but the poor performance has not resulted in policy shifts or in a broadening to incorporate the importance of developing demand.

This has increased the interest in issues of competitiveness and productivity with questions of employment loss and demand growth (particularly for the domestic market) almost entirely absent from the debate. The evolution of macroeconomic and industrial policy has been characterised by strong state involvement in select areas and sectors and an equal commitment to enabling the free operations of market forces. This has resulted in a separation and compartmentalisation of policy with the outcome that policy targeting T&C has not been incorporated into policy for other sectors or economic spheres. Likewise, the interests of T&C are not represented within macroeconomic policies such as monetary and financial policy, despite being affected by their outcomes. As a result, the initial questions around the role of policy in the demise of T&C were expanded to include others around what has influenced the choices around macroeconomic policy. These questions suggest the need to investigate not just the changes in sector performance or policy, but the drivers behind these trends. These drivers can be seen to originate from both domestic and global spheres, and from market, policy and theoretical developments.

1.4 A note on the research approach and the theoretical framework

The breadth and complexity of the subject matter under investigation - looking at the differences and parallels between the evolution of T&C manufacturing, and the evolution of policy - presents a number of significant challenges. The research design and method are

crucial elements in being able to bring together these different factors and areas of analysis. Similarly, it is important to identify appropriate theoretical constructs to allow for the research to incorporate a broad set of insights and to represent the range of constraints and conditions at the industry, economy and global level.

Early attempts to locate the T&C research within an existing analytical framework that would allow for the evaluation of both manufacturing and policy trends were challenged by the complexity of the industry and developments, but also by the persistence of implicit and popular frameworks rooted in the neoliberal tradition misleadingly juxtaposing the state and the market (e.g. GVC or trade theory). The latter hindered developing an understanding of the position of T&C manufacturing as part of a broader set of industries and interests within the economy and as part of the transition from apartheid to democratic rule. Similarly, they separated policy by function or by economic activity making it problematic to consider the overlap (by target) and the combined effects of policies. Finally, the wide variety of T&C and policy studies, as well as the wide range of methods and themes employed, added further challenges.

As the research progressed, it became clear that finding a single theoretical peg to explain the findings and capture the complexity and context was not the appropriate manner to investigate the evolution of T&C and the parallel evolution of industrial policy. Initially, the research question had looked at the role of industrial policy or the general SA macroeconomic policy environment as the dominant causal influence and setting for the decline of T&C. This was expanded into broader research objectives seeking to identify the range of questions and areas which would contribute to a more systemic understanding of the different influences and interests within a particular sector, policy setting, and economic context.

The research was motivated by the need to move beyond popular but analytically narrow perspectives of competitiveness based on costs, access and upgrading in value chains, and restricted to the short term needs of firms and associated pressures of profit maximisation. The specific set of research objectives is listed below.

- investigate the different influences behind the decline of T&C
- explore the range of views and interests across different industry stakeholders, not restricting to firms, workers or other production actors

- highlight the disconnect and differences between the relatively more labour-intensive T&C manufacturing in comparison with the more capital-intensive minerals and mining activities
- draw attention to the differences between domestic and global policy and market pressures

With these questions in mind, this research has also sought to incorporate an understanding of the heterogeneity and variation of the T&C industry at various levels of analysis within the SA economy and globally, and to consider a range of contrasting and overlapping perspectives or interests specific to the SA economy or T&C industry. The research evolved around the need to show how there were multiple and overlapping factors contributing to the decline in T&C manufacturing, link these multiple factors together in a manner that reflected the developments within these sectors, and within policy, but in a manner that captured the nature and evolution of the tensions and forces of the SA economy. The research design also presented another challenge in the need to reflect on the challenges arising from the theoretical framing of the sector and policy trends. These challenges sought to look at the weaknesses of the theoretical frameworks employed in the literature and the futility of the search for an alternative framework that would not only reflect the breadth and complexity of the evolution but also root the analysis into the local political and economic conditions of the period under investigation.

The approach taken in developing the research methodology was to combine different sources of data as well as insights from different parties or viewpoints associated with the selected manufacturing and policy activities. This meant accessing the views of multiple agents both within and connected with these fields of investigation, but also building on secondary data and insights from the many previous sector and industrial policy studies, and combining these with available statistics on the evolution of T&C. This resulted in a qualitative and interpretative research methodology that employed a case study approach with the triangulation of primary and secondary data, combined with attempts to weave together insights from existing case studies, policy analyses, statistics and empirical evidence from fieldwork interviews. The focus was on capturing a broad range of views from different representatives and experts on nature and evolution of both the T&C sector as well as on the nature and evolution of industrial policy. Full details regarding the methodology, the data

sources, analysis and the combination of sector and policy research to develop a locally grounded research framework are discussed in chapter 3.

1.5 Chapter outline

This thesis seeks to build on existing work looking at the evolution of T&C and the evolution and environment for policymaking pertaining to the underlying activities. The framing of these analyses is driven by the constraints set by the relevant South African and global industry structure, tensions between industry interests, and the historically-specific political economy context for South Africa in the 1970-2010 period. Within these dimensions, this study employs a comparative qualitative approach to analysing the nature and trends of T&C. This approach brings together insights from existing theoretical and empirical literature, interviews conducted specifically for this research, and statistical evidence. This approach also seeks to compare and draw parallels between the T&C industry and policy trends. Finally, the comparative approach positions these trends in a national context that is influenced by, and to some extent reflects or parallels, global (market and policy) developments.

The outcome of these investigations is summarised in the following broad findings:

- 1) The decline of T&C in SA spans the political and economic transition of the 1970-2010 period, is the outcome of multiple overlapping and interlinked factors, and needs to be understood in a broader historical and structural context.
- 2) The evolution of industrial policy, together with a broader macroeconomic policy platform, reflects the interaction and continuity of a number of particular interests within the SA economy. These interests have been reinforced, but not caused, by various global policy and market trends.
- 3) The nature and evolution of the SA economy is characterised by a tension or balance between particular groupings of capital and labour and the interests associated with these groups. This balance emerges from and reflects the unique economic structure and political economic history rather than external ideologies or forces.

The inductive and interpretive approach builds on existing research by making contributions to the sector literature on the decline of SA T&C, and to the policy literature on the evolution of industrial policy as part of a broader macroeconomic policy platform. In addition, the discussion contributes to debates on research frameworks and research methodology by

embedding the analysis of manufacturing and policy trends within a SA political economy context. Drawing attention to the need to ground understanding of the industry evolution in a local historical context allows for the exploration of multiple and overlapping dimensions – be they by scope such as sector, domestic economy or global economy, or by the different channels or platforms of influences such as policy and market structures at the various domestic and global levels. Finally, this thesis also contributes to the broader theoretical debates on the nature and processes of industrialisation and accumulation.

At this point it is useful to state what remains outside the scope of this research. It is not the aim here to present a comprehensive review of all T&C trends, challenges and debates or to contribute policy or other industry strategies to address them. Though the evolution of T&C raises questions that are relevant to other manufacturing sectors, their specific constraints and paths are not considered here. Likewise, industrial policy is examined through its direct and indirect influence on T&C; leaving out important industrial policy trends and questions that do not concern T&C. Finally, though the interrogation of theory and the dialogue between evidence and theory help organise the research findings, this research does not claim to offer an alternative theoretical construct to explore and explain industry development.

A number of important questions and research areas associated specifically with T&C were purposefully excluded:

- Attempting comprehensive coverage of multiple views, needs or interests
- Canvassing or identifying specific solutions (policy or production) to address the problems faced by firms, workers, policy-makers, other stakeholders.
- Ranking or quantifying of views or explanations for the trends.
- Providing a comprehensive description of policy evolution (from T&C to industrial and macroeconomic policy).
- Predictions about the future T&C industry or policy outcomes.

These exclusions were to avoid duplicating existing work, and in keeping with the political economy nature of the research, to maintain the focus on understanding the complexity and range of features, forces, and settings relevant to T&C as opposed to an in-depth coverage of one or few themes or a comprehensive synthesis of all stakeholders and debates.

With the focus firmly on examining the evolution of T&C, the research was structured into three parts. Part I (chapters 2 and 3) discusses the theoretical and methodological framework for the study. Part II (chapters 4 and 5) looks at the evolution of and explanation for the decline in SA T&C. Part III (chapters 6 and 7) investigates how SA industrial policy and accumulation provide the setting for the industry evolution and concludes on the findings of the overall research.

More specifically, chapter 2 provides an overview of industrial development through select theoretical approaches: neoclassical (with a consideration of growth and trade theory), structuralism, global value chain and labour process theory. These present different factors and mechanisms as drivers of industrial development, and as explanatory or policy tools. The aim is not to provide a comprehensive overview of these (or all industrial development) theories or explanatory frameworks, but instead to explore the various contributions and limitations to focus on what is missing in exploring and understanding the decline of SA T&C. The theoretical overview begins to highlight the weaknesses around compartmentalising influences (and policies), the neglect of broader conceptualisations of labour, and aggregation based on neoclassical micro-foundations with the outcome that important findings at the sector level are omitted, and the continuity of a bias towards market-based mechanisms and explanations within an ill-conceived separation of the roles of market forces and those of the state apparatus.

Chapter 3 details the research design by first situating it within the relevant methodological and ontological debates, then describing the specific method adopted, and the challenges and limitations with the research. The aim was to draw on existing comparative and qualitative research methods to tailor a research design that explores the context for the evolution of T&C and industrial policy in SA. The interpretive and inductive research approach not only uses the context to highlight the connections and layering of influences, but also uses the findings to support the need for a context-driven framework of analysis.

Chapter 4 explores the characteristics and trends of the T&C manufacturing in SA across the 1970-2010 period and draws attention to the multiple and overlapping factors that have contributed to the decline since the 1980s. Chapter 4 concludes by challenging popular perceptions that maintain that: the industry decline is recent or caused by the rise of low-cost imports especially from China in particular and trade liberalisation in general; the failure to

compete in global T&C markets is due to high labour costs and labour inflexibility; or that the decline is accentuated by the embedded interests of labour in government and policy-making or related to strong unions. Instead, it is argued that the decline dates back to the early 1980s and is in alignment with the decline of domestic manufacturing rooted in South African structural weaknesses and political developments. The industry decline is thus not the outcome of trade liberalisation or import competition, but a home-grown process, albeit made worse by the form and extent of trade liberalisation. There is evidence to suggest that SA labour is not expensive or inflexible, and the tensions between employers and labour over wages and labour costs are important but need to be seen together with other industry relations and tensions. Finally, it is argued that no single factor, stakeholder or interest group can be held responsible for the decline, but that the decline was the outcome of a stacking and interaction of several different layers of influences within economic and policy conditions that exacerbated rather than offset their impact.

Chapter 5 brings together findings from the literature and from interviews to expand on the complexity of the T&C decline. The chapter looks at themes of factors behind the sector developments to identify what are the issues arising from:

- 1) the sphere of production and policy,
- 2) tensions around and perceptions about labour, and
- 3) the impact of trade agreements and sector trade policy.

Exploring details within each theme and the overlap and reinforcing effects across factors in different themes points to the need to reconceptualise the decline not as the outcome of a few dominant factors, such as trade liberalisation or perceived high cost of labour, but instead to see how framing the different influences within a neoclassical framework focusing on short-term profit maximisation through cost reduction severely limits a more holistic and contextualised understanding of the industry's decline. The chapter also highlights how the narrow focus on defining and framing industrial development through prices (for example reduction of wage costs or competition against low-cost imports) is in alignment with the imperatives to access and upgrade value added as proposed by the global value chain literature. Though the GVC approach presents a new approach to investigating T&C, and in doing so raises a number of important questions, the framework it employs, with its focus on value added (realised through prices and costs) and understanding upgrading and relations at the firm level, reinforces rather than challenges the limitations of the neoclassical approach to industrial development. Instead, it is argued that a starting point for T&C re-development

needs to start with a re-conceptualisation of labour away from one of cost and homogenous input to an approach that reflects the varied nature and role of labour in production, and the significance of the labour process and the relations between capital and labour for production. Chapter 5 concludes by suggesting that further theoretical and empirical research is required to understand how the many different sector influences combine and are shaped by the policy and economic realities that are unique to SA.

Chapter 6 situates the decline of T&C within the broader South African economic and policy context by detailing the way in which industrial policy is seen to have evolved. The discussion concludes that in contrast to descriptions claiming a clear shift from import substitution to export liberalisation, policy choices reflect the joint and/or parallel influences of various forces originating from the market and the state depending on the area of focus. It is argued that the evolution of policy can be connected to the same domestic forces and structure that has influenced T&C and other industries. Similarly, the debates on the role of industrial policy and policy space also reflect the continuities in the underlying domestic structures and forces and reflect the dominance of the MEC in SA accumulation. Though to some extent reinforced by outside market, policy and ideological factors, the nature of the evolved SA capital-labour balance remains primarily a home-grown affair.

Chapter 7 summarises the main findings and returns to a discussion about the nature of the economic structure and forces through the lens of a capital accumulation. The research concludes that an investigation of the evolution of labour, capital, and the multiple reflections of tensions between the two, shows that despite political and economic transformation, there is continuity in both the balance and the composition of dominant interests. These remain firmly rooted in South Africa's political economic history though reinforced by external forces such as global policy and market trends. Using the contributions of the T&C sectors and industrial policy research to interrogate the relevance of theoretical and methodological approaches to explaining industrial development presents new research questions to further research on T&C manufacturing and industrial policy.

PART I: Theoretical background and research design

Part I discusses both the theoretical foundations that underpin this research on textiles and clothing, and how this research was constructed and carried out. The chapter documents the research process, reflects on the empirical and theoretical challenges, and situates the approach taken within methodological and theoretical debates on industrial development. One of the contributions of the research is to reflect on how the methodological and theoretical choices shape the space for gathering and analysing insights on T&C. In this case, the research process serves as a reflection on how a preselected analytical framework as a starting point can evolve with new evidence, provided that the methodology allows for these new insights to emerge and be incorporated.

The research originated from the need to understand why the T&C sectors and industrial policy had evolved in a particular fashion, and to explore the underlying conditions, forces and dynamics connected to and driving the associated trends. The research also presented a challenge in the search for a suitable theoretical framework for the analysis of these sector and policy trends, especially as an alternative to the implicit neoclassical approach of allowing competitiveness to develop through unhindered domestic and global markets. No single theoretical framework adequately reflected the breadth, complexity and interaction of the factors and forces arising from organisation of production, from the particular labour-capital relations, or from the exposure to global market forces and the changing global T&C environment through various trade and macroeconomic policies. During the research process, it became clear that the search for an organising or explanatory theoretical framework itself was highlighting the need to root the analysis into the local political and economic conditions of the period under investigation rather than into a universal explanatory and predictive framework.

In this light, Part II begins by suggesting that research on T&C tends to locate itself within an implicit theoretical framework drawing heavily from the assumptions, mechanisms and outcomes of particular strands of neoliberal economic thinking associated with production and trade. It is argued that not only does the implicit theoretical framework severely limit understanding of the complexity of the forces and factors that explain the decline, but that it also limits the space for developing policy and production to address the various sector constraints and challenges. Recent literature on T&C in the tradition of the GVC approach

allows for domestic/global influences to be considered, adds space for sector-specific insights to emerge, and guides thinking towards the need for upgrading, albeit continuing with the firm and profit maximisation as the units of analysis, and understanding upgrading as ways to improve production and cost-competitiveness from the firm perspective. These approaches favour a market-facilitating role for the state with policy conclusions focusing on supply-side factors that improve market competition through, for example, skills and technology investments and access to markets.¹¹ Alternative heterodox theoretical approaches drawing on the structuralist tradition situate industrial development within the context of the entire economy and place importance on the different forms of interdependencies and linkages between sectors in ways that are not restricted to supply. This creates the space for a more nuanced, tailored and involved type of industrial policy where the state has a role in overcoming structural weaknesses as well as actively shaping the form and content of the economy. The insights from structuralism draw attention to the need to understand the specifics of SA T&C in relation to the domestic economy, but provide less guidance on the sector developments. The GVC approach allows for an investigation of more detailed sector-level and sub-sector-level structures and constraints. The applicability of this framework is challenged through the restrictions set by a narrow understanding of upgrading and the firm, and firm profits and value added as the main unit of analysis.¹² Though providing the space for a detailed overview, the GVC approach is limited in conceptualising the role of labour, the broader contextual influences, and implicitly reproduces or at least agrees with several of the pro-market premises associated with neoclassical perfect market theorising. A final area of literature covered discusses the contributions of the labour process theory in aiding analysis of the particular production relations at the core of T&C. These draw attention to the importance and varied nature of the labour-capital relation to production in T&C and situate this process in the context of South Africa's economic structure and historical labour tensions.¹³ Although presenting different limitations, each of the theoretical approaches detailed in chapter 2 contributes a particular type of insight into how we can explain the decline of T&C.

Drawing on multiple theoretical approaches to understand the evolution of different influences, in a particular setting, not only assists in highlighting a number of new perspectives to the industry's decline, but also highlights some of the limitations imposed by mainstream

¹¹ See for example Morris & Reed (2010) and Morris (2014) on SA T&C.

¹² See Bair (2005), Palpacuer (2008), Newman (2012).

¹³ See Pegler et al. (2011), Selwyn (2011).

theoretical conceptualisations. These draw out the implicit assumptions about homogeneity within and across T&C, assumptions about the homogeneity of labour and labour markets, assumptions about the categorisation, role of, and space for policy, and assumptions about these processes operating independently of the tensions and forces that characterise the economy. These critical insights emerged as a result of the research, building evidence from public and academic literature, policy documentation, and from informative interviews. The challenges associated with theorising the evolution of T&C explain the lack of explicit or critical engagement with theory in the literature, the compartmentalisation of different themes of influences, but also reflected the challenges of developing appropriate policy or other solutions as will be discussed in chapters 4 and 5. The research suggests that the policy discourse has been limited by a false separation between the operations of the state and associated instruments and interests and those of market forces, in part because of the dominant implicit neoclassical framework that promotes this division (as will be discussed in chapter 6). The analytical challenge presented by attempts to situate the industry trends within theorising on industrial development also highlights the importance of designing research approaches that remain open-ended and inductive as opposed to pre-determined and deductive. Instead, the findings suggest that an understanding of the evolution of T&C, and appropriate policy discourse, needs to reflect the particular social and historical realities that have shaped the processes and relations of production, in contrast to the general or common production activities.¹⁴

The breadth and complexity of the subject matter under investigation, looking at the differences and parallels between the evolution of T&C manufacturing and the evolution of policy, presented a number of practical obstacles. The complexity arising from the multiple areas under investigation, from the fluid linkages between them, and from the changes they experience over time, presents a significant challenge for the research. Each one of these areas of study alone could be the subject of investigation. Combining them in a selective fashion raised issues of depth or analysis, compromise and risk of over-generalisation. Nevertheless, it is argued that bringing together the multiple areas under investigation provides the opportunity for a number of original contributions. First, it grounds the findings from the multiple areas of investigation within a locally determined framework of analysis. Second, the contextualisation and the joint focus on sector and policy analysis draws out new

¹⁴ The terminology and definition of common, general, and abstract as opposed to historically determinate forms of production is discussed in Ellen Meiksins Wood (1981).

insights on the drivers of the trends seen in the sectors and policies under investigation. Third, by placing the emphasis on the historical, political and economic context and evolution, this research challenges the deductive research methodologies and externally constructed research frameworks favoured by the mainstream. Fourth, although the focus is on an improved understanding of SA industrial and policy trends, the inductive and interpretive approach is relevant in approaching broader theoretical questions of industrial development and accumulation in the context of specific capital-labour tensions in other countries and sectors.

The two chapters that follow provide: a selective overview of four relevant theoretical approaches and their contribution to exploring T&C (chapter 2), and the background methodological issues and details of the specific method for investigating the conjuncture of SA T&C and industrial policy (chapter 3).

Chapter 2: Reviewing select theories on economic development

“Man is a credulous animal and must believe in something, in the absence of good grounds for belief, he will be satisfied with bad ones.” Bertrand Russell (1950, p.96)

This chapter sets out an overview of the contributions, limitations and methodological leanings of the main theories that help explore what lies behind the evolution of SA T&C and industrial development in general. Identifying a suitable analytical framework to explore the evolution of an industrial sector has proved to be an on-going challenge for research on economic development. A number of schools of thought have emerged to explain patterns of industrial development, explore bottlenecks or obstacles, or to recommend particular policy or other actions to enable, facilitate, correct, or intervene in industrial activity. Each of these areas of literature contributes in varying ways to understanding the complex processes and settings for industry decline in particular. Yet, no theoretical contribution has proven satisfactory, in itself or above others, as a framework to situate industry and policy analysis. This theoretical literature review looks at the contributions and limitations of the neoclassical and structuralist schools of thought, followed by an overview of the GVC and labour process theory, to assesses how they contribute to analysing the evolution of T&C manufacturing as well as to understanding industrial policy. It is important to note that this is not an exhaustive coverage of all theories relevant to the study of industrial development nor textiles and clothing. It is also not a comprehensive overview of the selected theories. Instead, the focus is to draw attention to how those theories that have been explicitly or implicitly employed to frame research and policy present a number of fundamental weaknesses. A full theoretical discussion relevant to industrial development in general or specifically to textiles and clothing remains an important next step beyond the scope of this research.

With the aim of providing a selective review of how different theoretical literature addresses industrial sector-level evolution, this section first outlines the foundations of neoclassical theories of industrial development based on comparative advantage and drivers of competitiveness. Second, these are contrasted with structuralist theories of manufacturing development that focus on the causally significant role of linkages or interdependencies between different sectors of an economy with industrial development as an outcome of supply and demand in the context of the broader economic structure. Third, the discussion turns to two theoretical perspectives that help highlight sector- or intra-sector dynamics: the global value chain (GVC) approach and labour process theory (LPT). The GVC approach with accompanying notions of market access, governance and upgrading helps delve into the

relations between firms and questions of competitiveness and productivity. The LPT concentrates attention on the relationship between capital and labour at the point of production as a way to understand production in particular social and historical setting. Each of the different theoretical approaches provides insights into a particular aspect and level of questions and developments relevant to the study of the decline of SA T&C, though these insights are not incorporated or debated evenly. Instead, the proliferation of industrial policy research rooted within the information-imperfection post-Washington consensus approach attests to continuities in the mechanisms and assumptions of competitive market approaches. A parallel growth of interest sector- or industry-level studies as is seen for T&C also fails to interrogate the underlying theoretical construct, or to return the debate to questions of industrialisation as opposed to industry development.

This chapter is structured as follows. Section 2.1 discusses the neoclassical understanding of how industries evolve, and how this explanatory theory has evolved. In section 2.2, account is given of the structuralist perspective to industrial development, which draws attention to the role of interdependencies and structural context, and shifting the focus away from the firm and the supply-side. Section 2.3 discusses how the GVC approach provides a sector focus to exploring constraints and upgrading within a pro-market framework of analysis. Section 2.4 turns to discuss the labour process theory and how it sheds light on the tensions and relations of production as they shape the form and forces of industrial development. Section 2.5 ends with a summary of key challenges in relating industry trends to appropriate theoretical approaches affect the space and scope for understanding the industry decline.

2.1 Neoclassical theories of industrial development

The neoclassical, market-imperfections approach, is implicitly employed in much of the literature on the decline of T&C. This approach relies on the incentives set by the prices to allocate production resources, generate appropriate products and services, bring them to market, and distribute profits between returns to capital and wages (other costs). The assumptions maintain that:

- markets are perfectly competitive,
- markets are characterised by perfect information regarding the nature of goods and services,
- markets exist and are available,
- costs of production can be captured by prices,

- inputs are homogeneous and interchangeable with differences reflected in prices,
- market entry and exit is free,
- preferences of the representative individual are predictable, static and homogenous as per the notion of methodological individualism.

The starting point for sector analysis would be the firm, with profit maximising behaviour focused on variable or marginal costs, and firm-level outcomes aggregated from the microeconomic to the macroeconomic in the production function that serves as an estimate for national output. As any microeconomic textbook will attest, firms are governed by cost-minimisation and revenue-maximisation, with particular theoretical branches such as game theory exploring the interaction between different actors operating with access to perfect information that are embodied in the equilibrium prices. Consumer theory is based on similar micro-foundations of rational representative individuals with defined, fixed and continuous preferences providing demand for goods and services as conditioned by their utility and budget constraints and again under conditions of perfect information.¹⁵ The policy implication of this theoretical framework is one where the state has a facilitating role in providing certain public goods, institutions and infrastructure to enable the market to optimise the relationship between supply and demand (see for example Tisdell & Hartley, 2008 on microeconomic policy). The equilibrium price provides both the information (about underlying products and services) as well as the mechanism for the equilibrium to be achieved (through an imaginary auctioneer and Walras' notion of 'tatonnement') between suppliers and buyers. For a useful account of the assumptions behind competitive equilibrium see Stigler (1961), Arrow & Debreu (1954), and on microfoundations, see Janssen (2006), King (2008), and Hoover (2010).

A relaxation of the assumption of perfect information as part of the Information-Theoretic Approach (ITA) put forward by Stiglitz (1985, 2000, 2002), created the space to think about different stages of development as different levels of information asymmetry arising from transaction costs, (search, bargaining, monitoring and enforcement costs) as discussed by classic works of Coase (1960) and Akerlof (1970), and providing the rationale for the existence of firms. More recently as per the new institutional economics (NIE) of North (1990,1991), the concept of transaction costs is also the foundation for other institutions understood initially as economic costs, and in later versions as detailed by Gray (2012) extended to cover political

¹⁵ See for example Varian "Intermediate Microeconomics" 2010, 8th edition.

transaction costs.¹⁶ This is far removed from the original definition of economic information in terms of expectations at the macroeconomic level, for example about inflation (see Fine & Milonakis (2009, p.58), and Fine (2010) for further critical discussion on information and NIE).

The implications of information imperfections are first and foremost to be seen in terms of the price mechanism. Increased price dispersion and increased search costs reflect the lack of information with an increase in the incentive to canvas prices and markets. If the assumption about product homogeneity is also relaxed (e.g. divisible and indivisible goods), the search costs and price dispersion are further affected. Under conditions of imperfect information, individuals have different search costs due to time and skill available, and diminishing returns influence the extent of information gathering.

The purpose here is not to repeat the literature critical of neoclassical assumptions and mechanisms, but instead to highlight how the assumptions, or relaxing some, change the way in which industrial development is understood to take place, and the forces and factors that are considered important. Thus, relaxing the assumption about perfect information, as done by the ITA, allows a particular form of understanding of the differences across economic activities, sectors, countries in their levels of development, and creates an equally particular space around coordination/information for remedying them.

Building on this, the new institutional economics literature proposes institutions as a way of defining and addressing the costs arising from information imperfections. For North (1991, p.97): "institutions are ...constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights)." This creates the space to bring a number of specific cultural, historical, political, and economic conditions previously omitted from the neoclassical framework. As such, the development is useful as it extends to also understanding differences not just between countries but industries and sub-sectors.

¹⁶ "In these models, it is not simply the economic costs of transacting, as in the earlier NIE models, but also the political cost of transacting over institutional changes that is deemed to influence the path of economic transition. North (1990; 109) argued that the political process can be likened to a political market where political transaction costs are the costs of bargaining, monitoring and enforcing political transactions. Where political transaction costs exist, a competitive political process cannot guarantee to weed out the inefficient rulers. North (1990) modelled the political process as a state consisting of a ruler and citizens. The ruler will maintain high transaction cost institutions when the political costs of changing to other growth enhancing institutions are higher than the benefits of economic growth to the leadership. It is assumed that the ruler has the incentive to maximise his short-term profits over the interests of the citizens when the ruler cannot be sure of maintaining control over the state and hence future income flows. Where the ruler has longer time horizons, it will be in the ruler's interest to maximise aggregate incomes for society by creating low transaction cost institutions. Low transaction cost institutions, according to NIE, will then lead to higher growth and a larger economy that the ruler will be able to tax, thereby increasing his incomes over the longer term." (Gray 2012, p.53)

However, the analysis remains rooted in other assumptions and mechanisms underpinning competitive equilibrium and forces the so-called external or contextual factors into a mould set by their influence on prices (as an embodiment of information), and the smooth operations of the price mechanism in matching supply and demand at Pareto efficiency. Influences that cannot be captured through prices are excluded and as Fine (2006, p.6) suggests “institution becomes a metaphor for all non-individualistic aspects, so it ranges over everything from collective action to ideology.” Yet, achieving equilibrium remains reliant on methodological individualism, on the existence of markets even if heterogeneity is allowed as a result of information imperfections, on a particular form of reducing (price or risk) expectations and notions of uncertainty, to information understood in the statistical sense, and a shift from a range of methods to a prevalence of deductivism (see for example Fine and Milonakis 2006). In particular, the methodological shift over time has narrowed the dialogue between evidence and theory. For example, with the rise of new quantitative methods in economics, errors become associated with data quality and availability or perhaps with the limitations of the (econometric) tools to manipulate them, and less about challenging the theoretical assumptions or mechanisms. Other implications include a neglect of the systemic interpretations of aggregated microfoundations and failure to consider aspects that are difficult to price such as tensions or uneven power distribution.

Rather than a paradigm shift, the theoretical consolidation around the notions of neoclassical economics has had significant implications for how industrial development is studied as well as for industrial policy. Policy recommendations have focused on reducing information asymmetries, remedying institutional weaknesses, and have reinforced the need to address issues of supply that arise from the level of the firm, firms interactions with each other within supply networks or production pipelines, and within manufacturing and an economy more broadly. Thus, for example, improving firm productivity through skills, technology or process development, investments, or reducing their information/search costs in interacting on input or output markets has become the core of policy discourse. At the macro level, the debate has been about reducing inefficiencies of corruption, rent-seeking, and perceived obstacles to good governance with a bias towards the micro and supply-side given views regarding the relevance of micro-foundations, that is the belief that the macro-economy is the sum of all the representative micro parts. The focus on supply-side policies also reveals an ideological position. Rent-capture, through for example trade policy, is associated with economic and political interests that operate through government as a result of what Rodrik & Fouroutan

(1998 in Deraniyagala & Fine (2001, p.816) call distributional and informational problems. This type of state failure is perceived as worse than any potential market failure, and according to the neoclassical position is justification for market liberalisation as well as a shift away from macro interventions towards micro policymaking to correct market information imperfections where necessary. This shapes the space within which state intervention can take place as defined by market failure/imperfection with “industrialization as a process of moving toward increasingly perfect markets” (Amsden 1997, p.470). Yet as Amsden (1997, p.470) suggests, this makes little sense if focus is on production rather than exclusively and separately on exchange. Though noting the poor evidence for the empirical correlation between trade and growth, Amsden (1997, p.472) continues that, even if one assumes the positive correlation, the focus needs to be on understanding the prior processes by which “factories, capital equipment, infrastructure and firm-specific technological capabilities are amassed to produce tradables for any market”. Paraphrasing Amsden (1997) further, the focus of analysis needs to be on how comparative advantage was created, not how perfect markets were cultivated.¹⁷

Whilst useful in focusing on the challenges faced at the point of production in firms, the neoclassical approach continues to neglect core aspects that are perceived as non-rational, not measurable, or go beyond the short-term or static perspective, in a way that does not allow for new findings to challenge or improve the theoretical foundations. As an example, chapter 5 discusses the historical tensions between capital owners and labour as well as tensions between textiles, clothing and retail firms in the case of SA T&C. The space for alternative theorising is limited by explicit beliefs and/or implicit assumptions that the goal of perfectly competitive markets remains realistic and feasible. This point has been detailed elsewhere, see for example Fine & Milonakis (2009), Dutt (2011), Shaikh (2012), and Grieve (2014).

2.1.1 On growth theories

The discussion now turns to explore the consolidation of thinking in this vein and the implications for how we understand industrial development. This refers to the explosion of literature on growth, and in particular the realisation of gains from trade, and the relationship between trade and growth. Though grounded in the microeconomic theories of production and consumption, the extension of the micro to the macro has taken the shape of debates on old and new growth theory using the production function as a measure of growth and as a

¹⁷ Though this research does not seek to fully cover the industrial policy debate, further insights for example from contributions by H.J. Chang, B. Fine, J. Lin, D. Rodrik, R. Wade and others are raised later in chapter 2 and chapter 5.

proxy for economic development. An excellent historical overview, of how growth theory has evolved away from Keynesian demand-focus and sticky prices and back towards neoclassical roots, is provided by Thirlwall (draft 2000 published in 2002). The focus of what follows is on the contributions and weaknesses of growth theory as an approach to understanding industrial development.

The aim of old growth theory was to investigate growth performance based on contribution of capital, labour and technical progress. "The neoclassical growth model is based on three key assumptions. The first is that the labour force (l) and labour saving technical progress (t) grow at a constant exogenous rate. The second assumption is that all saving is invested, $S = I = sY$. There is no independent investment function. The third assumption is that output is a function of capital and labour, where the production function exhibits constant returns to scale, and diminishing returns to individual factors of production." Thirlwall (2000, p.18). The predictions of this model are as follows:

- (i) "firstly, in the steady state, the level of output per head (q) is positively related to the savings-investment ratio and negatively related to the growth of population (or labour force).
- (ii) secondly, the growth of output is independent of the savings-investment ratio and is determined by the exogenously given rate of growth of the labour force in efficiency units ($l + t$). This is because a higher savings-investment ratio is offset by a higher capital-output ratio (or a lower productivity of capital) owing to the assumption of diminishing returns to capital.
- (iii) thirdly, given identical tastes and preferences (i.e. the same savings ratio) and technology (i.e. production function), there will be an inverse relation across countries between the capital-labour ratio and the productivity of capital, so that poor countries should grow faster than rich countries leading to the convergence of per capita incomes across the world." Thirlwall (2000, p.19)

Continuing to draw on Thirlwall's analysis, growth theory is weak on the understanding of demand, other factors of production, the role of technology, skills or trade as well as the dynamic processes by which changes in inputs affect output growth. For example, a study by Young (1995) on the growth of the Asian Tigers found growth in inputs, but failed to ask why the factors of production had grown. The endogenisation of technology, opening the model to trade, and relaxing the assumption about diminishing returns to capital to produce new growth theory maintained the supply focus. Aiming to explain divergence between economies,

new growth theory sought to explain the failure for a rise in the capital-output ratio through a corresponding growth in the increasing returns to labour. These are seen as the outcome of R&D, human capital development for example through education, training, investment, political stability, trade etc. with corresponding econometric models to prove correlation and infer causality. Growth is explained by externalities, market or information imperfections, that are excluded from the model. Though there is no evidence of convergence except in the special case where all the possible factors that create differences are controlled. That is, if developing countries had exactly the same education, investment, R&D, trade, macroeconomic performance and other conditions, then convergence would be possible. As has been suggested by critical voices, (see for example Fine 1998, Kenny & Williams 2001, Thirlwall 2002), whether old or new growth theory, the underlying notion of a stable equilibrium as put forward by neoclassical economics remains – the emperor does not have new clothes so to speak.

Despite the multiple documented problems with this approach, the empirical and econometric literature continues to churn out new variables and new empirical evidence. New variables and evidence have included attempts to construct new more objective and comparable indicators or indices ranging from fiscal policy, trade policy, property rights, judicial system, political stability and institutional development. These have largely omitted the impact of the limited quality of the data available or the interdependence of the variables/data used.¹⁸ The popular Barro-type regressions that are used to generate evidence regarding growth and appropriate variables also suffer from selection bias in that countries are selected based on the availability of data, and in some cases from non-random sampling as countries are excluded because of special cases such as oil revenues or economic or political shocks affecting their growth statistics.

“The essence of a problem such as economic growth is that ‘it concerns a complex of interlocking, circular, and cumulative changes’ (p. 14). For Myrdal this had two implications. First, it was ‘useless to look for one predominant factor, a ‘basic factor’ as everything is cause to everything else in an interlocking circular manner’ (p. 19). Second, viewing economic growth in these terms meant abandoning the search for neat econometric models: ‘the

¹⁸ Even Hicks suggests: that “the usefulness of statistical or stochastic methods in economics is a good deal less than is now conventionally supposed. We have no business to turn to them automatically; we should always ask ourselves, before we apply them, whether they are appropriate to the problem at hand. Very often they are not.” Hicks (1979, p.129 in Snowdon & Vane, 2005, p. 466)

relevant variables, and the relevant relations between them are too many to permit that sort of heroic simplification" (p. 101)." Myrdal, 1957 (multiple pages), as quoted from Kenny & Williams (2001, p.14)

The underlying assumption that separable factors of growth can be empirically identified and that countries are on the same production function with differences explained by the nature of their economic imperfection, externalities, technological progress etc. continues to obtain. For the purposes of developing an understanding of sectoral differences, the work of Levine and Renelt (1991) draws attention to how taking the economy as the unit analysis misses out important sectoral differences.¹⁹ They note that technological (or other) developments take place at the sectoral as opposed to national level. National policies affect sectors differently suggesting not all sectors (or all countries) will benefit from policies equally. The growth literature has influenced how industrial policy is constructed, separating influences such as for example investment or export-orientation. These have contributed to a compartmentalisation of policies and a failure to address the underlying assumption that the market forces will generate the appropriate incentives, and that the outcomes are optimal (socially or in terms of equilibrium). Roberts (2004) writing on SA investment highlights many of these limitations and points to the need to consider sector patterns in more detail, in particular the constraints emerging from poor investment.²⁰

2.1.2 On the significance of trade openness

In addition to the proliferation of econometric literature on the effects of specific variables (education, R&D, investment etc.), the role of trade and the relationship between trade liberalisation and growth is relevant to the study of SA T&C and worth a separate mention. At the heart of this is the theory of comparative advantage and industrial development through the realisation of gains from trade. Another extension of neoclassical production for trade theory, Heckscher-Ohlin-Samuelson theory, argues that static country endowments are the source of comparative advantage with differences explained by varying technological and skill levels, but according to some are also dictated by geography, natural resources, proximity to

¹⁹ The points on empirical problems and Levine & Renelt (1991) draw from unattributed notes as part of the Growth & Development Masters course, SOAS.

²⁰ Challenging an earlier study by Fedderke et al. (2001), Roberts (2004) notes that though investment emerges as one of the important features in generating growth, understanding the type, target, processes, costs, causalities and other characteristics of investment especially at sector level, presents great challenges and is subject to disagreement. Sector evidence suggests the importance of demand and exchange rate fluctuations, as well as the crowding in role of state funding in light of poor output responses and market inefficiencies.

markets, transport, clusters etc.²¹ Using a summary by Subasat (2003, p.150), the argument proceeds that a country will export the commodity associated with the most abundant factor of production (e.g. labour for developing countries, capital for more advanced economies). The relative prices of the two commodities are determined by the relative availability of the inputs (capital-labour ratios). The Heckscher-Ohlin-Samuelson (HOS) extension concerns with how specialisation and realisation through trade results in an equalisation of factor prices between the two economies. This operates under the assumptions that there are two countries and two commodities, the same technology and production is available to both, there are no economies of scale or transportation costs, resources are fully utilised, factors are mobile within an economy but not internationally, and countries have different endowments and factor prices. The link between trade openness and growth also relies on assumptions about perfect technology codification and transfer, raising questions about the technology embodied imported goods as well as the capabilities or absorptive capacity to employ and learn from these (see Deraniyagala & Fine 2001 as an introduction to an extensive literature).

In alignment with the literature on the role of other factors behind growth, attempts to prove the relationship between trade and growth have failed to produce conclusive evidence - see for example the well-known study by Rodriguez & Rodrik (1999) but also findings from Pritchett (1996), Harrison and Hanson (1999), and Deraniyagala & Fine (2001).²² Subasat (2003) also documents challenges to the HOS/factor-price equalisation theorem based on the predictions it makes regarding trade and outcomes. Given the incentive to trade is based on comparative and different advantages, it is expected that trade is more likely with countries that have scarcities in different inputs. Thus a country with labour-intensive production would be expected to trade with one that has capital-intensive production. Yet, trade between developing countries of similar endowments (labour-intensive production) has grown, likewise for capital-intensive producer countries. The theory also predicts factor-price equalisation within as well as between countries. Again, the evidence is not supportive (see Salvatore 1995, Sau 1982, and Wood 1994 all in Subasat 2003), and where some reduction in international differences in factors of production has been observed, it is difficult to establish that trade has

²¹ A range of studies relying on cross-country regressions have sought to explain the poor performance of Sub-Saharan Africa through variables including the Africa Dummy, tropical climate, or ethnicity. See for example Sachs & Warner (1995, 1996, 1999), Collier (1998), Easterly and Levine (2002). No conclusive evidence has been forthcoming and the methods and data have been questioned. See Kenny & Williams (2001), Rodriguez (2007) for a critical overview or Jerven (2011) on the problems with the Africa Dummy.

²² Thirlwall (2002) note evidence from Levine and Renelt, (1992) that shows empirical testing for determinants of growth has only found a significant role for the savings-investment ratio, investment in human capital, the initial GDP/capita level, and in most cases for population growth.

been the causal factor.²³ The Leontief paradox showed using input-output data from 1947 and 1951 that the United States, with capital-intensive production, was exporting labour-intensive goods in direct challenge to the Heckscher-Ohlin theorem. A number of explanations have been put forward to explain this. These include greater efficiency of US labour due to economic organisation, or a reversal of factor intensity whereby production in agriculture, for example, is more capital intensive in the US than in a developing country. If a third factor of production is added, for example natural resources, then the Heckscher-Ohlin predictions do not hold. Thirlwall (2000) notes that trade is not only not a significant variable, but the indicator used seems to only pick up the level of exports as an indicator of openness, not the change in exports which could be seen to affect demand. This is in line with Thirlwall's general critique of the new growth theory neglecting the demand side as a driver for growth.

Other theoretical contributions have highlighted the circularity of how the capital-labour ratio is defined and how neither capital nor labour are absolute endowments, but ones that can be created. Subasat (2003) notes that labour can be trained and educated, and that capital is varied and difficult to aggregate as it includes machinery but also other commodities, and contrary to the H-O theorem assumptions can be produced by labour. Capital is defined through interest rates as the cost of capital, but this means to define the level of capital we need to know the interest rates (this critique draws on Edwards 1985, p.33 in Subasat 2003, p.156). Capital is assumed to be internationally immobile so that there cannot be changes in relative endowments. As a subset of this, technology is assumed to be freely available and mobile, not requiring periods of learning, adoption, or a particular set of conditions within which this can take place. Determining the capital-labour ratio, and thus the foundation for production decisions, requires that both can be predetermined (from endowments), and are independent of each other. Yet, the ability of labour to produce depends on the available capital (e.g. machinery), and the availability of capital depends on labour and time (for example to develop skills). The value of labour is associated with the cost and time of reproduction and is not fixed. Likewise an initial low capital endowment may change over time (for example through policy attention and appropriate institutional development) suggesting capital scarcity or abundance is not fully explained or independent of labour. The interdependence of capital and labour, questions about the assumptions of non-production, immobility and homogeneity, the introduction of time, and questions about how the value of labour and capital is constructed are examples of challenges to the notion of endowment-

²³ See Fine & van Waeyenberge (2011) for a critique of comparative advantage and realisation of gains from trade as a foundation for industrial upgrading.

based trade creating growth and the perceived path dependency of these endowments. Promoting labour-intensive countries to focus on labour-intensive production (for trade) condemns these countries to a slower or stunted development path, one very different from the one taken by industrialised countries of Europe and North America, and more recently by the East Asian Tigers where carefully crafted and context-sensitive industrial policy (in the broadest sense) have enabled the creation of comparative advantages.²⁴

The previous discussions provided examples of how the theoretical mechanisms and assumptions around growth and trade openness are limited as a framework for sector analysis. Though the evidence does not confirm these theoretical constructs (even when allowing for data limitations), the policy discourse has remained wedded to one of market-facilitation and supply-side support. As part of this, the trade policy discourse has maintained the need for broad trade liberalisation indiscriminately across exports and imports. This has been accompanied by a narrowing in the categorisation of views between those who favour trade liberalisation and those against it, choosing not to acknowledge the wide and complex range of trade instruments and different outcomes for import liberalisation in contrast with export liberalisation, and the conclusions that export not import liberalisation are associated with evidence of productivity growth (Deraniyagala & Fine 2001, p.820). In a false polarisation between the good and the bad, trade liberalisation has come to be seen above other policies as an obstacle to the perceived beneficial free market forces, in isolation and above other industrial development policies. The latter include, but are not restricted to: technology policies, domestic demand, access to credit, exchange rate stability, labour policies, fiscal policies and credit controls. All of these would affect the space for production for and within firms.²⁵ Both the separation and alleged primacy of trade policy over other policy affecting industry is a feature of the SA economy and textiles and clothing.

The case of T&C provides the platform for exploring the aforementioned limitations of trade liberalisation. As will be seen in chapters 4 and 5, liberalisation was particularly damaging when combined with low export capacity, unfavourable exchange rate developments, declining private and public investment, uncompetitive products, declining domestic demand

²⁴ See Chang (2002), Amsden (2001), Wade (1990), and more recently Reinert (2007)

²⁵ The good vs bad distinction is presented between the neoclassical school of pro-market thought, in contrast with the perceived damaging interventions by the state in addressing aggregate demand shocks, sticky prices, or supporting/protecting/targeting specific parts of the economy (industry) as is associated with Keynesian and heterodox schools of thought. For example Robert Barro, a central figure in the exogenous growth theory debates uses this explicitly in Barro (1999).

and growing cost-competition, made worse by restrictions set in trade agreements in the global T&C markets. The case of T&C also reinforces the view that multiple policies have influenced the industry and reinforces the findings of Välilä (2008): that the interdependence of different policies be considered for appropriate formulation of industrial policy. In addition to policy interaction, the form that such industrial policy would take depends greatly on the underlying assumptions and understanding of the role of manufacturing within an economy and of the role assigned to the state. To quote Vartiainen (1995, p.138): “the neoclassical policy strategy for developing countries chronically fails to understand how much collective action and how strong a state is needed to support the development of ‘spontaneous’ markets and private economic activity. To sustain the norms that are conducive to a well-functioning market economy and to encourage the build-up of new industries, there should be a competent state bureaucracy, the logic of which should precisely *not* follow the logic of individual utility maximisation.” These theoretical limitations are revisited in chapters 4 and 5 through the trends and challenges faced by T&C. There are other important theoretical limitations such as the absence of a price-theory, and other areas of critical literature around comparative advantage, versions of the H-O model, or determinants of growth such as education, political stability and many others. These are omitted to remain focused on the primary research questions, and for their limited additional contribution to aspects already identified. The latter include the compartmentalisation of research themes and of different policies, or the false juxtaposition of state and market. These are in contrast with the sector trends that point to a complex and multi-layered interaction across various influences, explanatory factors, and the conflicting interests of industry stakeholders.

2.2 Structuralism and industrial development

In contrast with the recommendations of neoclassical approaches, structuralist theories of industrial development take a position that sees manufacturing as the engine of growth. Drawing on the work of classical political economists Young (1928), Kaldor (1967), Myrdal (1957), and Hirschmann (1981), structuralism places manufacturing and the different forms/organisations of production at the core of industrial development. This accompanies a scepticism regarding the ability of the price mechanism to clear markets or allocate resources efficiently or appropriately, allows for a more nuanced and varied role for the state in planning and coordinating resources but also achieving structural change for development jointly with market forces. It also points to a need to address problems arising from the composition of

trade, in particular to avoid the reliance on primary products in order for industries to emerge and evolve (Weiss 1988, p.83).

Structuralism sees manufacturing as the engine of growth with different characteristics attributed to specific activities and processes across the manufacturing sectors. These focus in particular on the empirically observed tendency to generate increasing returns to scale, the scope for learning by doing and technology acquisitions and development to increase productivity. This is grounded in Kaldor's three laws on industrialisation through manufacturing. These maintain:

- the observed relation between GDP growth and manufacturing output growth,
- Verdoorn's Law, whereby productivity growth in manufacturing is related to output growth due to dynamic returns to scale, and the
- negative relation between labour productivity growth and employment growth in non-manufacturing sectors (Kaldor 1966, 1967).

Kaldor's growth laws build on Young's (1928) notion that growth is positively related to the growth of output and labour productivity in manufacturing as well as a structural shift towards employment in manufacturing based on the negative relation between labour productivity growth and rate of employment growth in non-manufacturing and the lower growth of worker productivity in non-manufacturing (Wells and Thirlwall 2003).

Manufacturing is seen as qualitatively different through its ability to generate increasing returns to scale at the firm or sector/cluster level, as well as through "economy-wide linkages and multipliers, as manufacturing draws in inputs from primary sectors, manufacturing itself and services, as well as generating forward linkages to the rest of the economy" Zalk (2013 p.4). These dynamic increasing returns are based on knowledge, skills, technology levels and the ability to acquire new technology and skills through learning, imitation and innovation. In addition, the growing output allows for greater specialisation in production creating further productivity increases. This is in contrast to the neoclassical assumptions about the homogeneity of economic sectors (in terms of their productivity changes or linkages to the economy), assumptions about perfect information and instantaneous and costless technology transfer/learning, as well as the constant or diminishing returns to scale that are associated with all sectors. Growth does not emerge according to identical patterns and countries are distinguished in ways beyond their position on the production function either due to different starting points (in capital and labour), path dependency, or as discussed above, due to

imperfections in information or institutions as debated within the information-theoretic approach or New institutional Economics.

Allowing for a special role and characteristics for manufacturing, structuralists look beyond levels of growth in aggregate output or growth of specific (manufacturing) sectors at the way in which this growth is generated. Manufacturing according to the structuralist tradition engenders broad-based self-sustaining or cumulative growth based on the creation of linkages or interdependencies between different parts of the economy as well as the way in which externalities, spillovers, learning by doing, specialisation, and technology innovation and adoption takes place in firms and sectors. Linkages can take the form of backward and forward linkages with connected sectors. Increased specialisation and learning can lead to lower domestic prices, increased availability of goods and possibly quality improvements. These benefit sectors using the output as inputs to production. The skills and knowledge and technological advances can also transfer across sectors. Increased demand linkages can develop between sectors connected within a production (or value) chain as well as to unconnected sectors through consumption linkages (as a result of increased distribution through wages). Another form of indirect linkages can be in the form of fiscal linkages. The measurement of linkages was developed by Hirschman (see for example 1958, 1981). It is important to note that agriculture or services do allow for linkages and externalities, but that there is greater scope for these material interdependencies in manufacturing. Manufacturing enables the production of capital goods for different sectors, including agriculture and infrastructure and can be one of the mechanisms for transmitting or initiating independent technical development (Weiss 1988).

One of the strengths of structuralism draws from incorporating an understanding of both the supply and demand aspects for industrial development. It also supports the need to understand the specific context for manufacturing, arising from the differences across each specific sector and sub-sector activity, but also from the different relations between sectors within a particular economic setting.

The element of time is important both in understanding the learning effects within a sector, as well as considering the linkages to other sectors through for example consumption, demand, transfer of skills, provision of inputs. For South Korea, Amsden (2001) documents how liberalisation took place over time once an industry was established. Though supply aspects

are not neglected, the focus is on the growth and importance of domestic demand as an outlet for domestic produce. This can be from agriculture in the early stages of development, with exports contributing to demand at a later stage (Thirlwall 2000 summarising Kaldor 1966, 1967). Chenery & Syrquin (1975) and Chenery et al. (1986) provide evidence for the dominant role of domestic demand, with (demand) increases accounting over 70% of the increase in domestic industrial output. This applies to countries with populations over 20 million, to small primary goods-oriented countries with populations under 20 million. Demand increases also account for over 50% of domestic industrial output in small manufacturing-oriented countries (paraphrasing Murphy et al. 1989 Oct, p.1007).

Understanding how demand evolves and the role of domestic demand builds on the big push industrialisation across multiple sectors has featured strongly especially in the work of Rosenstein-Rodan (1943) and developed further by Nurkse (1953), Scitovsky (1954) and others. Aggregate demand is connected to a time element through the interaction between sectors. Murphy et al. (1989) present four mechanisms by which the cumulative, self-sustaining, multi-sector industrialisation can take place. First, and similar to the ideas of Rosenstein-Rodan, aggregate demand generates spillovers into other sectors and investments into increasing returns from technology/skills. These may be unprofitable for individual firms, but profitable in the long term and across the entire industry or economy if a sufficient number of other sectors industrialise. Second, building on the notion of inter-sector demand, paying manufacturing workers a higher wage induces them away from agricultural work and allows them to consume the output of this sector as well as other sectors. The wage premium reflects the need to provide sufficient income to generate demand for manufactured goods at higher prices (the higher prices arising from investments into increasing returns and production expansion). Third, investment into labour saving or increasing returns in one period of time generates returns in a later time period. This can be inefficient from an individual firm, and from the aggregate industry perspective, unless there is a coordination of multiple investments across multiple firms, sectors, and industries. This implies an important role for the state to coordinate investments, provide incentives, invest or subsidise directly, or to provide safeguards or protection to achieve this 'big push'. Fourth, related to the previous, firms may require similar intermediate inputs that are unattainable, for example due to high costs or issues or cooperation, unless there is external coordination across the sector. Two examples of this include infrastructure and training investments. Disincentives for individual firm investment into infrastructure also include the general nature of the investment (i.e. no

specific local knowledge possessed by local entrepreneurs is required). Regarding investment into training, individual firms may be concerned with losing their trained labour before the costs have been recovered, and training also allows workers to develop knowledge regarding their comparative advantage in the labour market increasing the incentive to shift to another employer, again costly from the firm perspective.

The drivers for growth thus include a range of factors from demand-pull (domestic and export), the importance of the size of the market to generate sufficient demand and also specialisation with output growth. An important feature is the broader conceptualisation of time during which learning, technology acquisition/development or other specialisation, skill development, or other externalities, as well as economies of scale can be achieved. These are in contrast to the neoclassical mechanism and assumptions of perfect or seeking perfect markets, where market-facilitation or temporary market-correction is the aim. Viewing manufacturing as possessing distinct features, and with the relaxation of assumptions about perfect markets or information such as instant technology adoption and learning, presents a very different space for policy. An alternative focus would consider managing demand, supporting and coordinating investments across inter-related sectors, and fostering investment and interaction with other directly or indirectly linked activities. It also creates the space for developing an understanding of the network of supply relations as well as a focus on learning, technology acquisition, or innovation within and across firms. The construction of structuralist understanding of industrial development does not lead to any specific or universal policy prescription and moves away from economic modelling in contrast with the literature on the determinants of growth or trade that has produced pro-market supply-side policies. Whilst supply-side policies, such as improving access to markets, improving education to improve the pool of skills from which to draw, liberalising capital markets or reducing infrastructural constraints, may be important in particular settings and cases, they cannot be held as standard or universally applicable solutions to the problems or specific sectors under specific economic conditions.

“More than 40 years ago, Gunnar Myrdal said much the same thing. He argued that economists concerned with economic growth need to accept not just that it may have a great number of causes, but also that these do not work in any “linear” manner. He suggested that problems like economic growth should be examined using the concept of “circular causation” where a change in one factor would affect a number of other factors, and these changes

would in turn feedback on the first factor.” (Myrdal, 1957, p. 16 as quoted in Kenny & Williams (2001, p.14)

2.2.1 Challenges to structuralism

The structuralist approach is not without challenges. From a policy perspective, the space for intervention to develop industry-wide investment, inter-sectoral demand, support learning and technology acquisition/innovation over time is clear. There are a number of practical challenges in translating this into specific interventions that do not discriminate or favour any specific sector, firm or interest group. Assessing the impact is also difficult. From a firm level, the focus on broad industrialisation-inducing investments can be difficult to justify precisely because of the inter-temporal effects, and because of the inter-sectoral effects. That is the benefits may not be observable or may not be felt at the firm making such investments or changes, even if there are benefits for industry as a whole. There has also been a rise in the literature on de-industrialisation and a debate around the role of the service sector generating increasing returns to scale. Weiss (1988), Thirlwall (2000), and recently Tregenna (2008, 2010) with evidence from South Africa, suggest that the growth of demand in the service sector is derived demand for manufacturing.

Weiss (1988, p.84) also documents critics of the structuralist approach arguing there the analysis of class formation and understanding of the constraints set by the external economic environment is insufficient. However, much of the criticism of structuralism has been of an ideological type. The neoclassical school maintains that the starting premise against the importance of prices in allocating resources and against comparative advantage in determining trade is simply incorrect (Weiss 1988). The ideological stance against the significant role of the state in coordinating industrial development is visible in the ongoing theoretical literature on growth variables, trade openness, but also in the reduced space for state intervention as a market-facilitating and public good-providing entity to be subject to checks in order to avoid associated evils of rent-capture, corruption, poor governance and other forms of state-failure. One of the recent developments within this has been the New Structural Economics put forward by Lin (2012), which despite the reference to structuralism in name, continues to reinforce the neoclassical notions of static comparative advantage based on factor endowments, methodological individualism, and a market-facilitating state with no special status for the demand effects or linkages and cumulative interdependencies associated with

manufacturing above other economic sectors.²⁶

A final note contributes to the subtheme in terms of the dialogue between theoretical framework and methodology. The methodological leanings of structuralist approaches to industrial development draw on Hirschmanian input-output linkages. These provide a platform for quantifying the nature of interdependencies between different sectors in terms of capital and labour inputs, export and import relations, impact on gross fixed capital formation, consumption and demand. Input-output analysis provides a useful starting point for understanding the specific nature of linkages. The challenge is to delve further into the qualitative differences within the industry, as well as to look at the position and non-quantifiable connections of that sector within the economy as a whole and in particular the way in which it is connected to the policy process. Input-output analysis benefits from sub-sector case studies exploring the qualitative aspects of the challenges relevant to each industry. This is where the GVC approach can serve as a complementary investigative tool.

2.3 Global Value Chains

Given the dominance of the neoclassical discourse, much of the structuralist-type industrial development analysis and policy was marginalised for much of the 1990s and early 2000s. This is partly due to the policy recommendations of the Washington-based international financial institutions, World Bank and International Monetary Fund, embodied by the Washington and Post Washington Consensus.

Though there has been a return to debates around industrial policy within the neoclassical schools of thought, these have remained firmly within the framework of methodological individualism, the price- and market-mechanism as the primary allocative and equilibrium-achieving instrument, and equivalent notions of perfect markets as the ideal with a narrow role for the state during stages of market imperfection.²⁷ Another area where industrial policy has been the subject of debate in all but name has been within the literature on GVCs. The aim is not to discuss industrial policy evolution in general (a discussion on SA industrial policy relevant to the case of T&C is undertaken in later chapters).²⁸ Nor is it useful to enter into a full

²⁶ See Lin & Chang (2011), Fine & Waeyenberge (2013) for a critical overview of the NSE, or Newman & Takala-Greenish (2014) for implications concerning industrialisation.

²⁷ See for example debates on the new structuralist economics of Lin (2012), responses in support by Rodrik (2011), and in contrast by Chang (in Lin & Chang 2009) and Fine & Waeyenberge (2013).

²⁸ For a useful overview of theoretical debates on industrial policy, see Lall (2000,2004), Lall & Teubal (1998); Fine (1997, 2011); Soludo et al. (2004); Wade (2012); Amsden (1989, 2001).

description about the evolution, mechanisms and limitations of the GVC approach here.²⁹ Instead the focus here is on how the GVC has evolved and captured but also constrained the space for assessing industrial development within a very particular, market-leaning approach, how GVC conceptualises strategies of industrial development, and ultimately what are the limitations that are relevant to the study of SA T&C.

The rise in prominence of the GVC concept parallels this market-led industrialisation approach and pre-dates the return of a focus on firm activities within value chains. The GVC literature emerged from the global commodity chain and world systems approach. The GVC concept as laid out by Gereffi & Korzeniewicz (1994) was presented as a “framework for the study...of global commodity chain itself” and as a “distinct phenomenon in contemporary capitalism exemplified by what much of the globalization literature sees as a significant shift in industrialisation on a world scale in the 1980s and 1990s” (Newman 2012, p.156).“ Drawing further on the overview by Newman (2012), Global Commodity Chains as defined by Gereffi, are summarised to comprise three dimensions: a physical input-output structure, territoriality and governance structure describing the coordination and coherence of the chain (Newman 2012, p.157). She continues to detail that “GCC/GVC research entails the identification of the full set of actors involved in the production and distribution of a particular good or service and mapping out the relationships that exist among them with the aim of finding out where and how value addition takes place, the division of labour and the distribution of rewards along the chain”. The shift from the GCC to the GVC involved a narrowing of the theoretical foundations with the rise to favour of transaction costs, what Bair (2005) calls a dilution from connections with political economy, justified by a better “capture...(of) a wider variety of products, some of which lack commodity features” (Bernstein & Campling 2005,p.241 quoting Gibbon & Ponte 2005, p.77).

The GVC approach enables the investigation of firm interaction within buyer or producer-driven chains. Key notions are the distribution of power or governance of chains as well as increasing value added. Development within chains is understood through value upgrading, seen to take place through the capture of greater value added sections of the chain (thus increasing control or power for that firm), but also through the enhancement of value within

²⁹ For a summary of the fundamentals of GVC, see Gereffi & Fernandez-Stark (2011). For further critical discussion of the GCC to GVC transition and ensuing narrowing of the theoretical framework, see Bernstein & Campling (2005), Bair (2005), Palpacuer (2008), Sturgeon (2008), and Newman (2012), Fine (2013).

existing segments (through productivity improvements, cost reduction or profit increases advancing competitiveness in comparison with other suppliers in the same section of the chain). Amongst the beneficial contributions of the GVC approach are the focus on the sector rather than on an aggregation of manufacturing or industry, the space for a reflection of the differences between sectors in terms of the production processes, technologies and skills, relations within and nature of the chain at multiple levels, and thus the power imbalances and scope for upgrading. GVC connects detailed case studies accounting for sector and intra-sector differences with the literature on globalisation, in particular on the patterns, regulation, and analysis of international trade. This creates space for industrial policy targeting firm upgrading and facilitating access to international markets. The GVC as an analytical tool is useful in that it concentrates on aspects that can be measured (value, cost, profit) and provides tools for development (technology and skills upgrading, export growth, access to productivity-enhancing inputs). The focus on firms within chains seems to remove it from the contentious debates about the role of the state in industrialising across a broad set of linked sectors as described by structuralist approaches to industrial development. In doing so, the GVC seems to distance itself from the dominance of neoliberal assumptions and mechanisms based on the ideological supremacy of the market. A reflection of this is in the proliferation of the literature across a range of institutions including those associated with neoliberal economic thinking such as the World Bank.

A closer investigation reveals that instead of distancing itself from neoliberal theoretical constructs, the GVC relies on and reinforces them. The literature critical of the GVC conceptualisation of industrial development has drawn attention to these roots and the limitations imposed by them. Newman (2012, p.158) groups broad criticisms of the GCC/GVC as follows. First, a “rigid determinism in relating the industrial organization of chains, governance and upgrading; lack of analytical rigour and the overly descriptive nature of chain studies”. Second, the focus on the firm as the unit of analysis, with governance structures defined by size, influence and position within the chain. Third, a focus on the vertical nature of the chain at the expense of inter-chain and cross-chain interactions. And fourth, a neglect of the position of chains (or firms) within the broader political, economic, and historical context from which they have emerged.

Delving further into the criticisms of the GVC, three limitations are relevant to the analysis of T&C in South Africa. These are, the treatment of labour as a cost, the challenges of the mechanisms of upgrading, a narrow focus on cost-competition, and the neglect of contextual

factors such as the national-global relations of the sector vis-à-vis the global chain, the position of the sector with the national economy, and the global policy trends and pressures.

First, the narrow understanding of the pivotal role of labour in production confines labour to being a homogenous source of cost (with any heterogeneity reduced to greater or lesser cost). Though labour is at the heart of value creation both directly and indirectly through the creation of capital and capital goods, the GVC approach captures the labour input through the wage or other labour price as the measure of the way profits are diminished. Selwyn (2013, p.77) quoting Smith et al. (2002, p.47) notes that workers are seen as passive victims in contrast with capital and the search for cheap labour. Pegler et al. (2011) also connect wage labour as the blind spot of the GVC approach through its failure to explain observations of low job security, cost-minimisation strategies such as piece-rate systems, and absence of representation of workers. They argue that accumulation rests on labour-weakening strategies such as the threat of replacement (by other labour or mechanisation), and that this builds on the structural, institutional and regulatory weaknesses of the societies and economies within which the production takes place. Their examples of agricultural value chains connect the limited bargaining power and resistance of labour to the poor representation by trade unions, landlessness, low levels of education, and segregation, but also to the limited or no distribution of the rents for the workers input. The path to a more nuanced understanding of the role of labour is also one that requires situating the productive activity and the labour within it, in the broader economic and policy context and within an understanding of influences and drivers that are not exclusively defined by firms or firm interaction within markets. As Bair (2005, p.167) explains, it is not just about the distribution of profits, but also about “how workers contribute to the creation of value in terms of the labour process”.

Second, the notion of upgrading, central to GVCs presents an analytical challenge through the limited conceptualisation and influence developing country firms have in entering and moving within GVCs.³⁰ Upgrading is typically seen as the “process of enhancing firm-level competitiveness” Selwyn (2013, p.76) and builds on notions of efficiency, productivity and flexibility (Gereffi & Fernandes-Stark 2011). Bair (2005) details between four types of upgrading, intra-chain or functional, product, process, and inter-chain upgrading, but comments on the challenges in moving beyond individual firms to the value chain as well as the looking at a (developing) country value chain incorporation into the global sphere, especially with firms and countries connected to many value chains through different types of

³⁰ Bair (2005) and Newman (2012) provide a useful critical overview of the notion of upgrading.

linkages. Gibbon & Ponte (2005) comment on the difficulties arising from raised entry barriers and connect these to liberalisation policies as well as chain or firm ownership structures with very few success stories and high variation across countries and chains. Bernstein & Campling (2005) note the options for firms are to turn to economies of scale, cost-reduction, high levels of specialisation, and low or labour-intensive technologies as coping strategies. These represent more of a downgrading or borrowing Gibbon & Ponte's phrase, a trading down strategy than one of upgrading. The challenge conceptually is around how upgrading could occur or be promoted in practice. Whilst the GVC approach allows for sectors to be examined as special cases, the upgrading through increased value addition is seen as a universal remedy along the lines of neoclassical economic growth theories e.g. improving skills, access to technology, or increased market access (inputs or outputs). Upgrading is difficult to conceptualise as a dynamic process given the framework treats different stages of value added over time as static, with limited insight into how firms might shift from one static state of beneficiation to another.³¹ Bair (2005) also comments on how firms' changing positions within a GVC affects the distribution of benefits as well as power and how upgrading may be obstructed by firms with greater governance of the chain, may relegate less profitable activities to more vulnerable firms, or may be in the form of short-term gains at the expense of competitors at the same level. These challenges are related to the governance or the way chain structure is organised ranging between the extremes of market and hierarchical (vertically integrated firm) coordination.³² Though useful to distinguish between different forms of coordination between firms, the focus remains firmly on the firm as opposed to sub-components such as labour as above. Understanding the governance structure at any point in time does not facilitate developing mechanisms or policies to shift control of the value chain amongst firms. As a result, the emphasis on upgrading concerns the firm and takes place through firm activities with policy implications equally narrowly defined with short-term firm profit maximisation remaining the guiding principle.

Third, with the notion of development confined to upgrading within a value chain connected by production or other value adding, it becomes difficult to consider obstacles to, or sources of, sector development that lie outside the vertical chain construct. Examples of the latter include

³¹ See Newman & Takala-Greenish 2014 for a further discussion on how the GVC concept reinforces the neoliberal industrial policy discourse.

³² Gereffi and Fernandes-Stark (2011) distinguish between five types of coordination structures between end-users and the input materials. These are in order of increasing power asymmetry and degree of explicit coordination: market, modular with a lead firm and turn-key suppliers, relational suppliers with a lead firm, captive suppliers and a lead firm, and hierarchy within an integrated firm.

tensions and relations in the economy or policy arena, as well as the structure and history of the economy in question. Bair (2005) calls for expanding the scope of study to include external factors (to the chain), the institutional context and transformation, regulatory context and influence, and embeddedness within a larger structural and political environment at the national and global levels. Bernstein (1996, p.128) comments that “the advantages of the *filière* approach in cutting a particular ‘slice’ from the larger economic organisation to examine under the analytical microscope, may have corresponding disadvantages if we lose sight of the entities from which the ‘slice’ is extracted, how and where it fits into, and is shaped by other elements of those entities.”

To summarise, context, and the evolution of context matters. Heterogeneity of particular chains and implications for the firms as measured by profitability and competitiveness is well understood as important within the GVC. Expanding this to include the influence of other environmental factors is an important way to engage with questions around context. Suggestions to further this aim include:

- historical context (e.g. the end of apartheid),
- global industry context (e.g., changes to global trade structures leading to rising cost competition in clothing production),
- national and global policy context (the role of domestic interest groups such as the ongoing dominance of the minerals-energy complex, global policy trends pushing towards trade liberalisation with focus on import restriction removal),
- structural context (e.g. the lack of production linkages between the dominant capital-intensive mining and minerals extraction core of the economy and the more labour-intensive T&C manufacturing).

The GVC approach presents a number of features that are complementary to the structuralist macro perspective. The focus on the nature of the chain through a methodological preference for qualitative and case study-based approaches enables the heterogeneity and specificity of the sector challenges and constraints to be explored. The GVC approach distances itself from the formal unified neoclassical theory of competitive equilibrium based on rational individuals, opting instead for an understanding of different types of firms and firm connections based on their position and role within linked production activities. As such it is a useful methodological tool and highlights many of the limitations presented by the neoclassical theories of competitive markets under perfect or imperfect information. Yet the same features also implicitly reinforce the neoclassical notions of market supremacy based on production theory

and principles of firm maximisation and competitive advantage. The GVC approach has difficulty in aggregating or situating a specific value chain into a broader national or global context. Though chain heterogeneity could create the space for a more interventionist state, the GVC policy debate has remained within the neoclassical role of the state understood as a facilitator for market imperfections as perceived through firm interaction and upgrading through markets with notions such as skills, process, technology, investment upgrading, access to markets and removing institutional and other obstacles to the functioning of markets, at the heart of developing competitiveness.³³ Though chains can be characterised as buyer or producer driven, the policy discourse leans towards micro-level supply-side remedies. As a result, coordination of chains is either through markets or vertically integrated firms through markets, neglecting other forms of coordination such as that through direct state intervention. Upgrading is defined through the firm-market constraints at the micro-economic level, removed from broader (non-value-chain) contextual influences, and in successive static states as opposed to within a continuous and complex evolution, with questions of path-dependency, and the influence of factors that are difficult to measure through prices, costs, or value added.³⁴

The GVC approach neglects the creative (as opposed to the cost) role of labour in the production process as well as the influence of tensions within firms other than through indirect measurement of their impact on value added. Other roles for production and the creation of linkages other than direct production, such as through consumption or skills transfer, let alone the role of structures such as class or intra- and extra-firm interest groups, are difficult to capture even though they influence the operations of the chain, processes of value addition and upgrading, and other dynamics. Though in principle creating space for varied and context-specific policy interventions, these are confined to the market and the vertically-defined chain without any clear evidence for the supremacy of markets over other organising structures, and without an understanding of the need for an involved state to enable said markets to operate let alone coordinate them independent of market failure.

³³ This policy narrowness can be seen as the outcome of a particular evolution of the GVC, shifting away from its roots within the World Systems Theory and critique of capitalism and towards a descriptive policy debate characterised by prescriptions that are descriptive, short term, and led by the narrow perceptions of the firms within the sector and consultancies providing strategy and policy recommendations.

³⁴ It is noted that the GCC/GVC policy and conceptual narrowness arises out of the shift away from the grounding World Systems Theory and associated critique of capitalism.

2.4 Labour process theory and the capital-labour balance

The final theoretical discussion that is relevant to our analysis of T&C turns to look at labour and the capital-labour relations at the core of production. Labour process theory provides a useful framework for the interaction between labour and capital and places labour at the heart of value creation. The different focus on industrial development and the role of the state provided by LPT is useful in contrast to the insights from the neoclassical, and value chain approaches and complementary to structuralist perspectives to industrial development. It is argued that drawing on LPT is of particular relevance to understanding the persistence of the SA T&C decline as rooted in the marginalisation of labour and the reproduction of particular labour-capital tensions in the industry as well as at other levels and segments of the SA economy.

Using the definition presented in Burawoy (1979), the labour process describes the organisation and relations of work at the heart of production. These are set within the apparatuses of production (that is the political and ideological influences on production relations) as well as within an understanding of how the labour process is experienced and how it reproduces particular social relations. LPT is grounded in a Marxist framework where workers sell their capacity to labour and cannot distinguish between the amount of labour that is necessary (for the reproduction of labour power) and the surplus labour time, the latter being appropriated by capital and realised into profits (Burawoy 1979). At the heart of the debate is the tension between labour and capital, and how this evolves through the activity or passivity of labour, through the ability of capital to control the labour process and the extraction of surplus, through the reproduction of these relations, and through the economic and policy setting and external influences on the production process. The contemporary labour process debate, inspired by Marx, draws heavily on the early work by Braverman (1974) with contributions on the nature of work and workplace relations, questions of class structure, market relations and the role of the state. Braverman's early formulation of LPT argued first, that capitalism deskilled workers through job fragmentation and separation of conception from execution in the process of production, second, that the central and fundamental problem for management was the notion of labour process control, and third, that scientific management control had implications for class structure and the labour markets (Kitay, 1997:1-2). Subsequent writings have focused on the notion of control: arguing that there were limitations to the extent of direct control management could exert on workers (Friedman,

1977). Furthermore, that control strategies were not uniform or simple, but varied by workplace size, type and over worker careers as with the notions of simple, technical and bureaucratic control (Edwards, 1979).³⁵ A key development in the literature emerged from the writings of Burawoy (1979), broadening the debate to questions of worker choice and consent. Burawoy argued that instead of labour resisting management in a control-resistance model, the prevalent mode was that of cooperation based on workers perception of choice within a 'game' between the employer and employee.

Building on challenges in exploring industrial development raised earlier in this chapter, LPT contributes a different perspective. Firstly, in contrast to the neoclassical and GVC approaches, it views labour as the core of production and value creation. It allows for heterogeneity of production processes with affiliated labour relations, and though the tension between labour and capital is organised within firms, the focus is not restricted to the firm as the unit of analysis. Power asymmetry is between labour and capital as defined by the nature of the production, not between firms, as in the GVC. The production relationship is both the source of survival for labour as it is the source of surplus for capital. The way in which work is organised comprises both production relations and distribution of profits between labour and capital. The relations evolve as a result of changes in the nature of production, but also as a result of activism by labour and attempts to reduce labour bargaining power by capital. This, together with the reproduction of the relations of production, brings in a different notion of time and scope for change to that proposed by the upgrading in GVC's or the shifts from one static equilibrium state to another as in the (im)perfect market mechanisms of mainstream economics.

Investigating production as the outcome of a balance or tension between the interests of capital and the interests of labour also provides space to incorporate a role for influences external to the specific production process. These could include factors that alter production such as technology, regulation and policy, interdependencies within and between sectors, changes in demand or supply structures, or changes in the bargaining position of capital or labour through increased scope for capital mobility. These allow for a very different role for the state to play through procurement, policy and other influences varying by political or ideological leanings, or by structural or other historical characteristics.

³⁵ A divergent set of debates and criticism about the labour process has been aptly "termed dissolution, fragmentation, assimilation and co-optation" by Kitay (1997, p.1). See also O'Doherty & Willmott (2009), Smith (no date) for an overview of the debates.

The system presents scope for extensive complexity in structure and change given that workers interact with managers as the first point of control, but who themselves also sell their labour power whilst possibly benefiting from multiple forms and degrees of ownership as working entrepreneurs (these Burawoy calls relations in as opposed to of production). However, generally, capital or capitalists are not visible to the process – this distinction between management control and capital is termed relations of exploitation (Burawoy 1979, p.13, 32). Furthermore, there is scope for variation in the consciousness of labour collectively, and as a result, the experience of and attempts to change the labour process. Whilst the challenge for capital is to obscure and secure surplus appropriation and enhance control, the challenge for labour is to avoid fragmentation and organise to bargain more successfully within the hidden abode of production. It is important to note that the interests of capital and labour are not automatically opposed, but instead are determined by the “conditions under which interest of labour and capital become antagonistic” leading to a call to develop a theory of interests (Burawoy 1979, p.29, see also Wright 1997).

As the respective qualities, interests and setting for the labour-capital interaction are not fixed, the framework provides space for not just exploring a variety of production processes, but their evolution over time. The flexibility of the framework is in its ability to capture many different types of settings and production processes, not exclusive to the capitalist modes of production and firm organisation.³⁶

In addition to an ideologically motivated opposition (where attention was awarded by neoclassical economic schools of thought) against the Marxist roots, there have been other claims around the limitations of the approach. As mentioned above, there have been debates around questions of objectivity versus subjectivity, debates about the counterfoil (within a capitalist or in contrast with a capital regime of production), questions around the focus on labour experience, and debates about resistance as opposed to adaptation to changing forms of control.³⁷ Though of interest for understanding the historical evolution and recent developments across diverse fields (industrial organisation, gender, sociology), the focus here is on how the LPT contributes to investigating industrial development from the perspective of analysing the decline of T&C. For this, Pegler et al. (2011) explore select value chains within

³⁶ For example the labour process in capitalist production is contrast with feudalist structures or production, and different degrees of integration and forms of influence between the factor and state apparatuses. Burawoy (1979, p.12) calls these the market despotic, bureaucratic despotic, collective self-management, or hegemonic regimes of production.

³⁷ See Kitay (1997), Burawoy (1979), Burawoy (1983), O’Doherty & Wilmott (2001, 2009).

the backdrop of LPT. They note the neglect of understanding the particular forms of production control, separation of ownership and labour, workers bargaining power, and politics of production in GVC studies. They explicitly connect the on-going and new forms of labour control to the core of accumulation and production dynamics within GVCs. They conclude that the LPT raises useful concepts around the labour dynamics within GVCs, but call for further theoretical work to reflect the rise of informal labour, and to reflect the growing cross-border production (and control), and to reflect the “relations between the labour process and structural trends in capitalist political economy” (Thompson and Smith 2009, p.256 in Pegler et al. 2011, p.105). These questions are considered further through the T&C case discussion in chapter 5.

The methodological approach of the LPT, as formulated by Burawoy (1985, p.8), turns the focus on the examination of real workers in their productive circumstances and during various periods of turbulence and passivity. In addition, Burawoy suggests investigating the various factory regimes, the working conditions, and any transformation in these. The case study method lends itself well to this, although it does present issues of selection and interpretation bias. In contrast to the other neoclassical and GVC approaches, the LPT explicitly links the methodological and theoretical rationales arguing that production needs to be explored from economic, political and ideological angles.

Labour process theory is useful in raising issues relevant to the study of a labour intensive industry connected to a GVC, but challenges remain how findings could translate into policy. This reflects in part a practical or organisational obstacle in that labour policy is the domain of departments of labour, separate from industrial policy (narrowly conceived) within the domain of the department of trade and industry, both removed from other macroeconomic policy-making such as exchange rates within national treasury or other departments with very different policy mandates (e.g. fiscal policy, small-and-medium sized enterprises etc.). This separation in policy-making is discussed in the context of the specific nature of South African industrial policy in chapter 6.

2.5 Implications of the selective theoretical review

As Amsden (1997, p.470) states: “development economists writing two centuries after Adam Smith have focused overwhelmingly on the constraint of the market rather than on the division of labour. Markets have been interpreted almost exclusively in terms of exchange rather than production...or international trade studies which emphasize the importance of

relative exchange prices between domestic and foreign sales, ignoring how a capacity to produce tradables for sale in any market arises.” As a result, industrialisation has been understood within the narrow confines of perfect markets, or seeking perfect markets, biased towards notions of exchange and supply and based within an understanding that whether getting prices right or wrong, prices embody the relevant information, and are the mechanism for influences and the interaction of different stakeholders and interests to be channelled.

The theoretical literature presented above provides a selection of insights and questions to approaching a study of industrial development. What emerges from this selective overview is the importance of considering aspects of production and exchange through a more nuanced and empirically-grounded approach, giving consideration to the heterogeneity of the various inputs, processes, output markets and tensions and interaction between relevant stakeholders and actors as well as the political economy setting as determined by an evolving structure of economic activities and interests. This requires a shift away from the prevailing false dualism of markets versus states. It also requires a return to fundamental economic questions of:

- how to explain observed trends and developments,
- what are the implications or omissions for industry strategies and policies, and
- how does evidence on (the evolution of) production and policy contribute to or challenge the explanatory and predictive power of the underlying theoretical constructs.

This is far removed from current oversimplified neoclassical industrial policy debates seeking to define the concept (e.g. as selective, functional, or horizontal), perceiving industrial policy as a linear and pragmatic set of instruments to be implemented and assessed, associated with distinct and identifiable targets (e.g. sectors, activities, information or coordination imperfections) and equally clearly demarcated industry actors, stakeholders or their interactions. Consequently, heterogeneity or non-price influences such as variation in the industry processes, structures, interests, and forms and platform of interaction are narrowly conceived through prices or as an inefficiency of the market mechanism. In sum, these:

- restrict the ability to explain (e.g. T&C decline is due to the poor competitiveness as measured through prices, productivity, or value added),
- focus on individual factors (challenges) at a time (e.g. skills or technology shortages or investment constraints, exports, or labour costs),
- separate from any historical or structural variation (treating features as identical irrespective of industry, political setting, time),

- do not identify how this position could be improved (other than becoming more price-competitive) or what mechanisms would enable a shift from one static state to another,
- do not consider how to position these individual industry processes within an understanding of the broader patterns and processes of industrialisation and their connections to underlying unique systems and structures of accumulation.

These challenges to the way industrial development and policy is understood in the mainstream present many subsidiary questions about the nature of accumulation, the role of context at multiple levels of an economy, and how industrial policy is defined, formulated, implemented and analysed. This is not the space for a further exploration of these questions other than to draw out some of the aspects that are relevant to an improved investigation of T&C in the context of South Africa. An alternative sector-level exploration takes the expanded notions of time, role of demand, importance of sectoral interdependencies and a specific role for manufacturing, from the structuralist perspective on industrialisation. These are complemented by the wealth of detail at the level of firm interaction provided by case studies on the nature and challenges faced by specific value chains. The limitations of the GVC approach, especially the homogenisation of labour, the framing within narrow vertically-defined production connections, and the upgrading mechanisms point to the need to consider the importance and variation of multiple features and influences such as the characteristics of labour and labour relations in production, the position of particular industries in contrast to global counterparts, and in contrast to other domestic industries. The labour process, as rooted in an understanding of a particular capital-labour conflict, and as shaped by the history, structures, and the dynamics between different interests, provides the space to consider the way inter- and intra-industry interaction is shaped by and itself influences the capitalist accumulation that takes place.

Applying these insights regarding the contributions and limitations of different aspects of industrial development presents a challenge of multiple aspects. This challenge reflects: the need to maintain a dialogue between drawing abstractions from the available evidence, the need to use evidence to interrogate previous theoretical contributions, and the need to explain the industry patterns and challenges observed - potentially developing empirically-grounded policy to address them. The task forward is thus to employ the combination of theoretical insights presented here to look at what has been omitted, what cannot be explained beyond superficial or circular arguments, what aspects of the evidence challenge or

develop the theoretical constructs, and then look at what are the methodological and analytical implications to better capture and understand the evidence.

Chapter 3: Research design

This chapter turns to exploring the research design. Section 3.1 provides a brief background to the methodology and the aims of the research. Section 3.2 describes the specific research methods with a focus on data collection and analysis. Section 3.3 details some of the challenges and issues associated with the research approach. Section 3.4 concludes and prepares for an overview and exploration of the evolution of SA T&C in chapter 4 and 5 as well as the discussion of the evolution of SA industrial policy in chapter 6.

3.1 A note on methodological positioning

An on-going part of the research process has involved careful consideration about the way in which to deepen understanding of the dynamics at play in the SA economy and policy-making in general, and T&C in particular. These reflections are firmly grounded in the pluralist tradition, drawing on heterodoxy understood in varying terms to include, but not be restricted to, an ontological focus on open systems, the rejection of exclusive methods of choice (e.g. mathematical formalism), including an objection to the assumptions, mechanisms and outcomes presented by the mainstream neoclassical economics (Mearman 2008, p.7). In seeing the economy as an open system, with emergent powers or properties, described by processes and structures which are internally related (Fullbrook 2009, p.76), this research aligns with some of the contributions made within debates of the critical realist school (Lawson 2009 in Fullbrook 2009, Dow 2009, Downward & Mearman (2007). In this vein, Dow (2002, as noted in Upadhyaya 2011, p.28) maintains that economies are complex systems where not all relevant variables, boundaries, or interrelations can be known or specified.

Instead of restricting to one theoretical school, this research seeks to interrogate the contributions across several theoretical traditions (neoclassical comparative advantage and market liberalisation, GVC, structuralist, and LPT) as inspired by the work of Olsen (2006) on rural India.³⁸ The approach also takes inspiration from Mearman (2008) on the need to align research methodology and ontology together with the views from Fine (2006, p.124) regarding the necessity of a critical dialogue between questions of methodology and conceptual content,

³⁸ "Olsen (2006) who discusses how attempting to analyse a problem, in this case tenancy in rural India from three different theoretical schools – neoclassical, institutional and Marxist - allows a more in-depth look at the assumptions of each theory and leads to an improvement in dialogue regarding policy changes aimed at poverty reduction." This point is taken from Upadhyaya (2011, p. 29)

and the need to address the issue of insufficient historical context associated with the critical realist methodology.

Not only was it considered important for the research to bring together different levels of analysis across the T&C sector and industrial policy, and situate these in the broader historical and political realities of the SA economy, it was seen important not to restrict the research to any particular pre-determined theoretical or other explanation, but to remain open to unforeseen directions, insights and conceptualisations that might emerge from the object of the study itself.³⁹

In this light, the approach employed in this study recognises the complexity and continuity of economic evolution whether applied to a specific set of manufacturing sectors, to policies or to the nature and role of specific components (agents, institutions, interest groups or concentrations of power). It recognises that the relationships between the various components within an economy are subject to influence and change from both within and outside that economy. It stresses the importance of understanding these structures, processes and relations within a specific history and political-economy context, not just from a descriptive and methodological perspective, but drawing theoretical insights from both the analysis of economic phenomena and trends within a context and from the investigation and insights into the analytical framework applied to these phenomena. In doing so, the study is mindful of the challenges in developing a convincing position within this subjective interpretation of the T&C industry in South Africa.

More specifically, the research was set up to develop an understanding of the following overlapping categories:

- complexity of the factors behind the sector and policy trends
- connections and stacking across the different influencing factors (especially within T&C)
- parallels and differences between the trends and influences in T&C
- overlap and connections between different policies relevant for T&C
- degrees of independence and interaction between domestic and global forces arising from the operations of both market and state forces and entities

³⁹ This draws directly from Fine (2006, p.124) whereby: “methodology can only go so far before it needs to confront its object of study and draw upon it for conceptual content that has itself to be transformed critically (and theoretically)” and Fine (2011) on inductive approach to industrial policy.

To capture these different angles, the research attempted to represent a range of views and insights from different agents and actors representing the T&C sectors as well as informed on industrial and sector policy. In addition to representing different perspectives, the research sought to combine and to some extent triangulate different types and sources of information. This meant collecting the views of a range of industry stakeholders through fieldwork interviews, sourcing policy documents, supporting the findings with existing sector, industry and policy studies, news articles, insights from experts on both the T&C sector evolution, expert and insider views on the evolution of industrial policy, and complementing these with available statistics on T&C.

The research employed a qualitative and interpretive approach to build a case study focusing primarily on the decline in T&C, complemented by an investigation of the evolution of industrial policy as relevant to T&C.⁴⁰ The choice of a qualitative, and within this, the use of an interpretive, multi-source, case study approach is consciously set within a broader ontological debate between the use of qualitative and quantitative methods, as well as within a debate on the appropriate choice of qualitative methods.⁴¹ This study agrees with the position taken by Lawson that “success in science depends on finding and using methods, including modes of reasoning, appropriate to the nature of the phenomena being studied and that there are important differences between the nature of the objects of study of natural sciences and those of social science” (Fullbrook 2009, p.1). In taking this methodological stance, this research rejects the positivism and deductive inquiry associated with mainstream (neoliberal) economics, and the associated epistemological and methodological assumptions about objectivity and the applicability of quantitative modelling methods based on econometric analysis. Instead this research opts to adopt explicit elements of an inductive approach where the findings are used to assess and where necessary to modify the framework of analysis.

Drawing on Lee (2002, p.799), the case study approach is considered appropriate given it allows for an “in-depth, multi-faceted investigation of a particular object or theme...(that) can

⁴⁰ Livesey (2006) notes that when interpretive facts are context-bound, methodology leans towards the collection of qualitative data through unstructured interviews or participant observation. Causal relations cannot be empirically established as they are understood as individually or collectively constructed social realities. Williams (2000) discusses the limitations of drawing generalisations from interpretive research by relating this to Victorian attitudes towards sex (not admitting knowledge or awareness) and advocates pluralism in methodology to improve representativeness or when not possible admitting to the limitations of the approach.

⁴¹ See Small (2011) for a comprehensive overview of the debates around mixed methods research, identifying interpretive research as one where mathematical modeling is excluded as an analytical tool.

be historical or a current life event, and the study will use several kinds of qualitative and quantitative data sources". In addition, the case study approach can be used to "delineate complex sets of decisions over time, ...can be concerned with a particular theoretical point, ...a narrative that includes structures and causal mechanisms, which, when combined with the history or facts of the event, explain why and how it took place...an integration of theory with the event" (Lee 2002, p.800). This is complementary to the methodological approaches associated with GVC and LPT. The use of econometric analysis was not rejected categorically, rather that, in light of the complexity of the subject matter, the poor availability of data, the reductionism that quantitative analysis would imply, as well as issues arising from the heterogeneity, non-quantifiability and variation over time of variables, econometric analysis was considered inappropriate. This builds on Keynes' (1939, p. 308) "criticism of econometric methodology...economic time series are not stationary for the economic environment is not homogeneous over a period of time (perhaps because non-statistical factors are relevant)." Likewise Snowdon & Vane (2005, p.465-466) "the usefulness of statistical or stochastic methods in economics is a good deal less than is now conventionally supposed. We have no business to turn to them automatically; we should always ask ourselves, before we apply them, whether they are appropriate to the problem at hand. Very often they are not." A review of the literature on T&C indicated that the case-study approach, albeit in various forms, was the dominant research tool, confirming at least some of the arguments for its suitability.

3.2 Research approach for the study of textiles, clothing and industrial policy

The initial design of the research was to investigate the change and continuity in SA industrial policy and T&C manufacturing, and the relationship between the two. During the design phase one of the initial challenges emerged from attempting to narrow the focus to concentrate on specific questions of sector or industrial policy relevant to the targeted manufacturing sectors. It quickly became apparent that investigating T&C only with industrial policy or policies relevant to T&C or industry would present a number of weaknesses. A study focusing exclusively on the evolution of sector-specific policy would not show how industrial policy interacts and connects with other macroeconomic policies or highlight the influence of non-specific policies (such as exchange rates) on T&C. Likewise, concentrating on T&C evolution needed to be embedded within an understanding of sector forces and conditions that are not necessarily policy-driven, but also the broader economic environment including influences from both the domestic and the global economy (again including both policy and other influences).

The exploration of developments in T&C needed to reflect the role of policy together with other factors arising from within the sectors, the domestic economy, and influences arising from the global economy and global policy spheres. In parallel to this, understanding the evolution of policies targeting or relevant to T&C also called for broader perspective on how sector and industrial policy is situated and affected by other macroeconomic policies. Understanding the position of the T&C sectors within a broader economic structure, both in conjunction and in parallel, with the process of understanding the evolution of policy that is sector-specific and economy-wide, provided the research structure. It enabled an exploration of the multiple and interlinked factors and conditions behind the decline of T&C without giving priority to any single factor. This permitted a range of explanations to be covered and shifted the focus to their interaction and the cumulative pattern of detrimental influences, and away from a ranking of influences.

Data collection involved multiple sources to represent a wide range of insights into the areas of investigation. The data collection covered the following three areas: 1) semi-structured interviews; 2) literature including academic work, policy studies, newspaper articles, other media sources, and business studies; 3) statistics and other quantitative data.⁴²

3.2.1 Data collection and analysis

A sampling technique of snowballing was combined with selection based on key sector experts and stakeholders identified from the literature and public sources.⁴³ The aim was to canvas a variety of views across industry representatives rather than comprehensive polling of different agents and actors across the sector and policy. Given the initial requirement of understanding the relationship between policy and production at different levels, and the potential sensitivity of subject matter associated with many of the questions, the focus was on identifying and interviewing respondents who would be able to comment on at least one but ideally more areas of investigation (e.g. textiles, clothing labour, trade, policy etc.). As a result of this overlap between interviewees knowledge on the multiple themes, one set of questions were designed and adapted for the respondent once their areas of expertise or interest became

⁴² Small (2011) would describe this as a mixed methods data collection and mixed data approach (but not a mixed methods analysis).

⁴³ This was particularly relevant for T&C research given the range stakeholders, as well as views and involvement in the industry. SA policy and research circles are more concentrated. Access to these would have been very difficult without the recommendations, contacts, data and other information sources that the in-country research enabled.

known. This required the interviewer create a sense of trust, to ask questions in a manner that allowed respondents to speak freely, and to convince respondents of the use and confidentiality of their statements. Part of the interview process also involved interpreting answers to lead to further questions, but also drawing out the meaning and triangulating findings. As has been identified by other research employing a similar approach, the theoretical and ideological leanings of the interviewer and interpreter bias the findings.⁴⁴ These value-based influences are acknowledged.

Interviews took a semi-structured form guided by the questionnaire in Appendix 1. To draw out the different areas of interviewee knowledge and views, the interviews were open-ended and often lasting between 2-4hrs. Interviewees were prompted to offer a variety of views across the issues relevant to T&C and policy. The views that emerged cannot be considered exhaustive or representative of the majority or official positions of the target activities. However, they did produce a wide range of insights in alignment with the findings from the academic literature, thereby suggesting the interview coverage was sufficient. The interview findings, number and nature do not allow for or aim to produce quantitative conclusions. Further details on the interview process, questionnaires used, and an extended summary of the interviewees can be found in Appendix 1. For reasons of confidentiality, given the small sample size, and the sensitivity of the subject matter, the interviews were not recorded and explicit quoting is avoided.⁴⁵ This enabled the respondent to share information that was deemed 'off the record'. Though useful in informing the research direction and conclusions, this did present problems in terms of verifiability. Transcripts of the interviews or names of interviewees are hence not included here (though can be made available for the purpose of the doctoral examination). The fieldwork consisted of 42 contacts/interviews of which 27 provided original and representative insights either into the sector or policy trends and patterns.⁴⁶ Though the interview results do not represent a statistically significant set of findings, they offer insight into the extent to which the situation is complex, evolving and affected by a number of factors and circumstances.

⁴⁴ See for example Baker (2012) on the political economy of SA energy

⁴⁵ After the first few interviews it became clear that participants were overwhelmingly not keen to be identified. As a result, all interviews were treated as anonymous. This has arguably enhanced interviewee confidence and may have resulted in a more candid and open description of views. This claim is based on comments from some of the interviewees and a general perception by the researcher, but remains difficult to prove conclusively.

⁴⁶ The others contributed contacts for further interview, data, literature or other access to information.

The in-depth semi-structured interviews were complemented by a survey of the literature on T&C and on industrial policy. The various academic, policy and other literature sources are detailed by topic in Appendix 2. Other sources included, but were not restricted to:

- existing case studies on multiple and single issues concerning textiles, clothing and joint T&C studies
- econometric analyses covering specific questions regarding trade and employment effects on textiles and/or clothing
- academic studies focusing on specific policies, government policy studies, meetings of policy non-governmental policy meetings within the sector, official policy documents and policy commentary/statements by relevant non-governmental parties (e.g. trade unions, trade associations, other third party sector entities such as bargaining councils or independent sector experts)
- other publically available documentation: newspaper articles, business studies, legal cases, consultancy reports
- a selection of relevant conferences, seminars and information session contributed further findings. The two most important ones included the Trade and Industrial Policy Strategy conference (Cape Town, 30-31 Oct 2008) and the Development Policy Research Unit (Muldersdrift, 27-29 Oct 2008).

The third area of data collection focused on accessing statistics regarding trends in the T&C sectors and manufacturing. The main sources of data were:

- Statistics South Africa using the Quantec database (www.statssa.gov.za/timeseriesdata/timeseriesdata.asp): data on value added, employment, output, imports, exports, productivity, unit labour costs, remuneration per employee, capital-labour ratios, fixed investment and fixed capital stock
- TIPS Trade data on the Southern African Development Community (www.sadctrade.org/tradedata)
- South African Reserve Bank data on exchange rates (www.resbank.co.za/Research/Statistics)
- United States International Trade Commission (USITC dataweb.usitc.gov) on trade data under the African Growth and Opportunities Act (AGOA)
- African Economic Outlook (www.africaneconomicoutlook.org/statistics/)
- Trade Law Centre data (www.tralac.co.za) Africa-EU trade data
- African Development Bank Statistics Department

The data analysis sought to both identify what explains the decline of T&C and relate this to the insights provided by the specific South African and general theoretical literature on industrial development. The data analysis draws on the concept of triangulation and thematic conceptual matrices as explained in the work of Olsen (2004) and Miles & Huberman (1994). Olsen (2004) proposes triangulation as a method of verifying and deepening our understanding using both qualitative and quantitative data.

“Triangulation means mixing approaches to get two or three viewpoints upon the things being studied. The resulting dialectic of learning thrives on the contrasts between what seems self-evident in interviews, what seems to underlie the lay discourses, what appears to be generally true in surveys, and what differences arise when comparing all of these with official interpretations of the same thing.” Olsen (2004, p.4)

Building on this, thematic conceptual matrices seek to identify what barriers, problems and dilemmas were encountered, and what coping strategies were employed (Miles & Huberman 1994, p.131). More specifically, this involves clustering to identify underlying themes and patterns in order to derive some “conceptual and theoretical coherence”, whilst at the same time assessing alternative explanations (Miles & Huberman 1994, p.129-131). One of the key objectives is to look for general variables that underlie the specifics and draw on explanations from other parts of the case study. The starting point for the triangulation of qualitative and quantitative findings is depicted below.

Table 1 Summary of multiple sources of information on textiles and clothing

Source / Area of interest	Textiles and clothing (production, challenges)	Industrial Policy
Semi-structured interviews	Representatives from T&C manufacturers, industry associations	Current and previous government representatives involved with T&C and other relevant policy
Various literature	Academic and industry documentation and other literature (newspaper articles, business reports, trade union reports)	Media reporting on industrial policy, associations and expert analyses on policy.
Original government data and documentation	Data from Statistics SA, data from African Economic Outlook	Publicly available original policy documentation.

The data collection and analysis was driven by three objectives. The first part focused on building a picture of the many different constraints and challenges faced by the T&C industry. The second part concentrated on exploring the South African background and context to the decline including, but not restricted to, industrial and macroeconomic policy and tensions within the SA economy (for example between labour representatives, firm owners and regulatory bodies). The third part sought to explore the extent to which the sector and policy evolution was affected by the wider domestic and global economy. Cross cutting these areas of interest, the research also sought to capture the range and interaction of the different influences explaining the sectors' decline and the different stakeholders and their respective colluding or conflicting interests.

In addition, though not the explicit focus of the research, the research also sought to reflect on the following subsidiary questions/areas.

- Differences and similarities between T&C
- Tensions between capital and labour
- Differences from the period before and after the end of apartheid
- The T&C industry compared to other types of manufacturing and other industries such as those in mining and minerals extraction
- South African T&C in contrast with global T&C
- Sector-specific policy in contrast with other policies
- Industrial policy in contrast with other macroeconomic policy
- South African policy in contrast with global policies (especially where relevant to T&C)

One of the main contributions of this approach to data analysis was the ability to incorporate findings into better and deeper interrogation (of interviewees and other sources) during the data collection process. The notions of multiple industry influences behind the decline, the parallels drawn between the evolution of South Africa's industrial policy and T&C, and the importance of both domestic and global contextual factors, are examples of the findings that emerged from attempts to seek connections and underlying explanations across the T&C sectors and across the multiple sources of information. An advantage of multiple sources was to reduce the homogeneity of views that may be reinforced in academic journals with specific methodological or theoretical preferences, research themes, or journals favouring what is perceived as new or ground-breaking insights, rather than incremental contributions to a well-known body of literature.

3.3 Research challenges and limitations

Though the different research approach generated a number of original contributions specific to SA T&C and industrial policy in South Africa more generally, a number of limitations were also identified. These limitations are acknowledged and returned to in the conclusions as part of areas for further research. The following points are grouped into limitations arising from the theoretical and empirical framing of the research as well as challenges associated with data collection, analysis and outcomes of this study.

The theoretical and empirical framing of the study presented several challenges in terms of what important notions remained outside the scope of this research. At the broadest level, though this is a study about industrial development, mindful of the interdependencies and tensions between different interests across multiple economic activities. Yet, no specific investigation of the linkages and interdependencies between the T&C industry and other segments of the South African economy are undertaken. The important role of the minerals-energy complex is acknowledged as driving both the economy as well as policy, yet the potential scope for any previous or continuing economic connections between the MEC and other industries such as T&C is not explicitly interrogated. This is in part as a reflection of the responses to the fieldwork interviews, due to the absence of explicit economic connections, and in part to focus on other explanations for the evolution of T&C. The continued importance and evolution of the role of the MEC is captured in other studies.⁴⁷

Another area that raises questions about the appropriate structure for the research is the connection and distinction between T&C sector activities. There are reasons to research textiles separately from clothing, as well as to consider them jointly. The two sectors are subject to similar forces, especially with regard to their interdependence within a production line or broader value chain. Examples of these would include exchange rate fluctuations, interest rates and access to finance. They are also similar when considered with regard to their disconnection from the core capital-intensive activities associated with mining, minerals extraction, beneficiation and related industries (associated with the minerals-energy complex). In addition, both are relatively more labour-intensive in comparison with other industries such as automotives or chemicals. Other similarities include the exposure to import and export

⁴⁷ Here reference is made to forthcoming research under the Political Economy of Restructuring of South Africa (PERSA), and that updating the influential Fine and Rustomjee (1996) book on the minerals-energy complex.

competition from China and other lower-cost producers of textiles or clothing. The concentration in domestic and global retail also subjects T&C to the external cost and competitive pressures. A further shared factor is also the joint treatment within various trade agreements enabling (or limiting access to export markets). These shared features and the objectives to understand the evolution of T&C in the context of the broader macroeconomic policy and structural environment present good reasons to consider the sectors jointly.

A contrasting approach would focus on the differences between T&C, both in terms of their intrinsic characteristics (e.g. capital intensity, production cycles, skills and technology requirements), as well as their responses to internal and external pressures such as import growth, cost-competition, or decline in investment. Two key differences are:

- that textile production is very concentrated by ownership and consists of more formal production activities, whereas
- clothing is less concentrated by ownership, encompasses varied types and forms of production, and includes great variation in the type of employment across formal and informal arrangements.

These present very different internal challenges, result in different responses to policy and other external influences, and are the source of tensions between T&C producers. A differentiated approach would enable a more in-depth understanding of the support and policy needs, in alignment with the view that industrial policy needs to draw from inductive and contextual realities at the microeconomic level, sector, sub-sector, firm, labour, or other stakeholder or grouping of interest.

Both the micro-detailed and the macro-contextual approach perspectives generate important insights for understanding T&C history and developments. Attempting to cover both presents practical problems by expanding rather than focusing the research questions, and in terms of the selection of respondents. As will be discussed in chapter 5, the majority of the existing research has selected a focus on either textiles or clothing, and many have opted for a micro-level approach, especially focusing on issue around firms or workers. In light of this bias in the literature, and the initial research questions around the importance of industrial policy, this study veers towards a joint approach and investigation of the industry and macro-level trends and setting. Chapter 4 looks at some of the differences in trends between T&C. Chapter 5 turns to broader issues affecting both separately and through their interdependence as suggested above. This approach is mindful of the theoretical debates discussed in chapter 2

around the importance of understanding interdependencies between different industries within structuralist notions of industrial development, and the issues arising from a narrow conceptualisation of the connections and tensions between firms as proposed by the GVC approach. The methodological choices seek to address some of the limitations of existing research. For instance, it draws attention to the neglect of the heterogeneity of activities and industry challenges within and between T&C. It also raises issues arising from a narrowing of the policy debate to functional or horizontal interventions without consideration for the different needs and impacts across the sub-sectors and individual production pipelines.

A further challenge arises from the multiple theoretical debates that frame the different stages of this research and how these theories inform and are themselves interrogated by the findings of the research. Many of the T&C studies in the literature have attempted to bring together multiple influences using a chronological approach, with an exploration of the key factors and circumstances within a implicit market or state-driven framework, by connecting the impact of select policy or market changes to the trends, responses of the industry, or developments in sub-sectors.⁴⁸ This study attempts to highlight the cumulative layering or interaction and historical and economic positioning of the contributing factors. The aim is to shift away from debating the source or origin of influence, but also to consider the interdependence and particular relations of the underlying interests that drive these contributing factors. This approach is employed with awareness that neither chronology, nor a separation of the roles of the state from market influences, reflects the complexity of these relations, let alone the particular context within which they operate. The theoretical insights presented earlier give guidance to the types of questions and the limitations in the current understanding of the underlying factors and evolution over time, but they do not constitute a formal framework to test or to fit the findings into. The research findings also highlight the limitations of different theoretical approaches – at least in explaining the developments in SA T&C, if not in understanding the process of industrial development.

Despite the practical difficulties in shifting away from this state versus market juxtaposition, and away from the comfort of investigating one (assumed discrete or unlinked) factor at a time, and despite the number of new and unanswered questions this macro-type analysis presents (and fails to answer), it is argued that by drawing attention away from the obvious structures,

⁴⁸ For example looking at the impact of changes in trade policy or the rise of import competition. See the Appendix 2 and chapter 5 for further discussion of the different approaches in the literature.

the popular but arguably misleading market-dominated framing of analysis, an alternative, in-depth and grounded exploration and explanation of the T&C industry trends, outcomes and the underlying forces is possible. This also satisfies the inductive and empirically-driven methodological approach where the findings are not matched to fixed views or narrow hypotheses ex ante, and where findings are used to contribute to the theoretical debates.

Further challenges were identified around the data collection and analysis processes. The data collection embodied an element of selection, interviewer, and interpretation bias. The sample size was sufficient to generate a range of views on the decline of T&C and policy evolution, but the representation of views remains small and investigative as opposed to comprehensively representative or suitable for conclusions founded on measurable probabilities or the weight of quantitative evidence. The time available for interviews was confined to a fieldwork trip of 3 months of interviews. Though further leads for interviews were identified, the conflicts between the schedules of the interviewer and potential interviewees, and a fixed end-date to the fieldwork period, meant the interviews could not be continued to the point where a natural end to the emergence of new interviews or new perspectives had been achieved. This said, the latter interviews did display a high degree of repetition when compared with earlier interviews, suggesting that at least the majority of different views on the T&C decline had been captured. Towards the end of the fieldwork and data collection, it became clear that several perspectives had not been accounted for. These included:

- the views of domestic and global retailers relevant for SA (other than through a representative)
- the views of the workers across various formal and informal activities (though the union and bargaining council were incorporated)
- the views of policymakers in other government segments (e.g. treasury, industry finance, fiscal policy, labour policy, and trade negotiations) other than through existing academic analysis
- all the heads of the government T&C desk for the period under investigation
- formal survey of the firms perspectives (other than through previously conducted manufacturing and sector surveys)
- comparison with other manufacturing in South Africa
- comparison with T&C in other countries especially the developments across the Sub-Saharan African region

- sources and access to industry finance (through government procurement, state investment through the Industrial Development Corporation (IDC), or private domestic or foreign sources of funding/investment)
- variations within SA (e.g. geographic dispersion, connections with clusters, or type of product or target market)
- extending the policy and industry analysis beyond 2008

Though these were identified as important components to understand the dynamics of SA T&C, they were excluded in part because of: existing coverage in the literature (see Appendix 2), the different focus of this research (seeking a range of views and exploring new insights), the lack of available data/studies/interviewees, and because of practical constraints arising from the time available for fieldwork as well as the need to contain the research within the time available for the completion of a doctoral thesis.

A further possible concern regarding the data arises from the time elapsed since the fieldwork ended and questions on whether the findings are out of date. Though many information sources including the statistical data, academic literature and other sources cover a period beyond 1970-2010, the cut-off is loosely set at 2008 for the following reasons. The fieldwork interviews were carried out in 2008, thereafter a new industrial policy framework and action plan, (NIPF) with implementation through the Industrial Policy Action Plan (IPAP) announced in August 2007, entered the debates about industry development, and one of the main policy instruments for T&C, the Duty Credit Certificate Scheme (DCCS), came to an end in 2009.⁴⁹ The end of the quotas on select clothing and textiles imports from China into SA and the onset of the global financial crisis also marked a natural breakpoint in the research. The analysis of the findings and complementary literature surveying took place after from 2009 onwards for practical reasons (not all the interview and literature findings could be analysed during the fieldwork period), and several new pieces of literature reflecting on the period only emerged after 2010.⁵⁰

⁴⁹ Though there is support in NIPF and IPAP for other industries, four were selected for special focus to enhance industrial diversification, employment and growth potential, reduced commodity dependence and grow exports. These were: capital/transport equipment and metals; automotive assembly and components; chemicals, plastic fabrication and pharmaceuticals; as well as forestry, pulp and paper, and furniture. Note the absence of T&C.

⁵⁰ It is noted that this research was conducted part-time, with maternity leave in 2009 and a relocation to begin working in SA in 2012 causing delays in the completion of the research.

Regarding the data analysis, the following three points need to be considered. Firstly, three categories are used to group the different factors that explain T&C decline. These themes are not entirely separable or distinct, but instead overlap with lack of objective clarity as to where a particular influencing factor should be grouped and discussed. This weakness in the grouping of influences remains acknowledged but not addressed other than seeking to expose the overlapping and interaction between the different factors. Secondly, the three broad groups of themes do not help resolve the earlier question of whether to focus more on the differences or the similarities of the two sectors. As such, they do perpetuate a degree of generalisation that may mean the neglect of important details regarding key factors, stakeholders, policies etc. However, such a framing does align with the macro analytical perspective and allows for original insights to be contrasted with the existing literature. Thirdly, the grouping by theme of influence does not really address the differences within SA manufacturing, notably the continuity in strength associated with the capital intensive manufacturing (especially the MEC), in contrast with labour-intensive sectors not connected by production, investment, or other linkage to the core MEC. The latter is important in particular because it reflects the policy compartmentalisation in South Africa. Though T&C is targeted by select (trade) policy, other policies such as the aforementioned exchange rate policy or other monetary, fiscal and labour policy affect it. Yet, some of the policies (under these headings) are perceived to be more aligned with the needs of the capital-intensive industries.⁵¹ Explicit and implicit prioritisation, co-influence or contradictions between different (non-targeted) policies is an important area of research touched upon in chapter 6. Though acknowledged as relevant, research questions around how different interests shape policy and permeate economic structures remain beyond the scope of this research.

3.4 Concluding remarks

Three final comments regarding the preceding discussion are presented. Firstly, though exploring the decline of T&C, the findings do not point to specific conclusions or remedies that can be directly applied to the industry. Secondly, several theoretical, methodological and industry-specific insights can be useful to interrogate other countries T&C or other labour-intensive sectors. However, the findings are informative but the conclusions cannot be generalised and applied to other settings. Thirdly, the approach described remains a snapshot of an industry that continues to evolve within a changing domestic and global setting. The

⁵¹ See for example the work done on capital flight by Ashman et al. (2011)

findings do not claim to make predictions about future industry developments. Likewise, this study does not take a stance on the political or economic need for securing a future for the SA T&C industry. These are left to other researchers, politicians, policy-makers and industry stakeholders.

Following the above discussion on the ontological position and methodology, and mindful of the strengths and limitations, the research sets itself the task of developing a picture that draws on and builds on the existing understanding of the two areas of investigation: the T&C industry, and industrial policy in South Africa. What started out as an investigation of if, how and why T&C has become a sunset industry and to what extent has this been because of industrial policy choices, in particular the trade liberalisation and the rise in imports from china, has evolved into a broader analysis about the complexities and contextual features of T&C industry evolution and the challenges in explaining these developments within broader theoretical debates of industrial development. What follows looks at how the peculiar pattern of decline in T&C is both paralleled and connected to the evolution of industrial policy, and how these developments reflect and situate themselves into the structure and dynamics of the particular political economy of South Africa.

PART II: The nature and causes of textiles and clothing decline in South Africa

“In recent decades, exports of textiles and clothing have been among the most dynamic segments of world trade, and developing countries have accounted for a rising share of this growth. Historically, textiles and clothing were the entry point and backbone of economic development and industrialization for many countries before they moved up the value chain. Hence the great interest in this area of economic activity.” (Carlos Fontin, Officer in Charge, UNCTAD 2005, p.iii)

The above quote embodies much that is at the heart of research and debates on T&C globally as well as in South Africa. T&C development has been pivotal for industrialisation, and has represented an important source of revenue and employment generation, as well as the acquisition of technology and skills. Yet, the global and domestic structural changes in T&C, in particular the increasing focus on reducing labour costs as part of a race-to-the-bottom, has contributed towards firms strategies, policy and analysis becoming focused on enhancing competitiveness and upgrading within a value chain.⁵² These developments have changed the intra-industry interactions, structure, and patterns and rules of production and exchange, and have created challenges for long-term and self-feeding industry development.

Exploring the evolution of the SA T&C industry presents an opportunity to investigate processes of industrialisation in a particular setting of a country’s economic history and structure. Looking at the particular characteristics and trends in employment, trade, and production in SA T&C manufacturing, together with the broader policy and economic context, presents new insights and questions concerning the complexity of industry interaction and influences, and is central to understanding the decline of SA T&C specifically, and industrial development and growth more broadly.⁵³ An approach that sees T&C embedded in a within a particular setting (historical and structural), subject to a set of interests that are played out at different levels or sections of the industry, through different channels (e.g. ranging from policy

⁵² “The term ‘race to the bottom’ was coined in 1933 by US Supreme Court Justice Louis Brandeis, dissenting in the case of *Louis K. Liggett Co. v. Lee*, 288 U.S. 517, 558-559 (1933). Brandeis used the metaphor to describe the fruitlessness of imposing local limitations on businesses in a federalized American economy. In the federalized US economy, a corporation is free to incorporate in whichever US state they wish while operating in any others. Justice Brandeis argued that since states receive benefits when businesses incorporate, they become compelled to compete to attract corporations to their state.” Dumoulin-Smith no date, p. 8). In the global context, this term has been associated with the pressure exerted by multinational corporations on national structures (regulation, legal, labour), accentuated by increasing capital mobility and trade agreements reducing the space for national policy and regulation.

⁵³ Growth and development are treated separately with debates on growth rooted in concepts such as value added, upgrading and beneficiation and development embodying a distributional and human element (in this case in the form of labour, employment, wages and profit sharing).

to production and exchange) or influencing factors across a range of industry activities, also enables an interrogation of the various theoretical approaches on industrial development as discussed in chapter 2. One of the main contributions of this research is to highlight the problematic nature of the neoclassical analytical approach based on notions of price optimisation, efficiency and equilibrium, and the restrictions this presents for investigating industry evolution. It reinforces a short-run static notion of development based on comparative advantage, it focuses on cost minimisation rather than investigating where value is created, and it ignores the heterogeneous nature of labour and the important role labour plays in production in providing, skills, as a source of innovation, and as a source of demand for the output of other sectors. The outcome of this reductionism is to subject complex structures to a universal framework that does not reflect the importance or variation of different perceptions, views and interests across the industry as well as contextual factors, forces or other information that cannot be quantified or embodied by prices. Conceptualising industry dynamics through prices neglects the importance of drawing on empirical realities to build a nuanced understanding of the interaction and evolution of influences over time. Finally, it contributes to on-going marginalisation of labour by reducing the multiple forms of capital-labour relations at the point of production to one based on optimisation of costs and profits, not of production, innovation, or other more constructive conceptualisations of the manufacturing process.

South African textiles and clothing production has a long history and established production-base that had become successful in both the domestic and international markets.⁵⁴ The SA government has showed continuous although changing forms of policy commitment, to ensure the survival of these sectors. This, with an abundant labour force crucial for a labour-intensive sector and the social importance of the two sectors as sources of employment, as an entry level, low-skill employer, and employment provider especially for females and for rural areas, has also ensured on-going attention within policy debates. Despite historical success and a seemingly supportive environment, the industry has faced a gradual and persistent decline. That much is agreed upon in the literature. What remains a subject of debate and disagreement are the exact causes of this downward trend and the form of appropriate solutions. The decline has been blamed on a range of factors including: competition from abroad, particularly import competition from China; poor sector policy, either presented as the

⁵⁴ Vlok (2006, p.227) notes that pre-1994 global excellence in niche areas such as men's formal shirts, suits and other tailored garments.

wrong type of policy, too much, or too little policy support; and the detrimental effect of sector or macroeconomic policy e.g. the high exchange rates, the rapid liberalisation of trade, or the deregulation of capital resulting in capital flight rather than domestic investment. Fragmentation in the relations between producers, changes in the textiles-clothing-retail chain, illegal imports, rising cost (especially labour costs) and the small size of the domestic market have also been central to the debates on the causes of the decline. The forces and factors contributing to the decline override the support despite extended and varied attempts from the government and from within the industry. How to explain the combined effects of these forces and factors as well as how to address them remain open questions with an associated collection of complications.

One of the challenges in studying trends in T&C arises from the range of different subcategories of products and production processes, each with their own characteristics, problems, interests and tensions. Another is the moving target with global and domestic changes in T&C production and trade presenting difficulties in isolating influences and effects. The changes in the SA economic and policy landscape have also contributed to the research challenges. Further obstacles arise from questions of:

- how to extend the analysis from that of individual or groups of firms focused on production or value addition, and
- how to capture a broader range of interests and influences, including those that arise from non-production entities and agents such as labour and policy institutions, or from components within the value chain such as retail.

This in part reflects the challenges arising from an implicit use of a neoliberal analytical framework biased towards the free operations of market forces over other analytical structures. Another challenge emerges from questions of how to shift the focus away from the sources of decline and towards exploring the potential mechanisms for regeneration. To begin this process of building a broader picture of the evolution of T&C as part of understanding processes of industrial development, it is useful to start where the majority of the literature has hesitated to proceed. What follows looks at the evolution of T&C through key trends and debates, and begins to shed light on the open questions and persistent misconceptions that enable a more grounded understanding of the decline.

Together with the methodological and theoretical obstacles discussed previously, the wealth of sub-topics and influences to focus on have forced choices in terms of the selection of

material to present and the focus of the analysis. It is important to note here that despite the extensive detail in what follows, this is not a comprehensive presentation of all the industry challenges, sources of information or views on the issues and ways forward. The analysis presented does not seek to provide quantitative proof for any particular explanation for the industry decline, nor does it put forward a new theoretical framework or methodological approach to explore this decline. Instead, the main contributions are in drawing out previously unasked questions, areas of contradiction or other restriction in existing research, and seeking to explore what has been left out of the literature, why and what are the implications for the study of T&C in SA and more generally for labour-intensive manufacturing as part of industrial development.

Chapter 4 begins with an overview to the characteristics and trends of T&C manufacturing in South Africa, and reveals a dispersed and varied collection of activities within a fragmented production network. Despite the on-going policy support and rhetoric around the industry's employment role, recent accounts have been of employment decline or restructuring for increased flexibility, factory closures or relocation, and a trade imbalance. The empirical evidence suggests that the nature of the decline and the way in which it has been interpreted is subject to question. These questions arise from the limited interrogation of the multiplicity of explanatory factors, the bias towards explanations rooted in price-based variables, as well as from the failure to consider how the industry is positioned and is influenced by the wider economic and social context. The literature has been unduly focused on the post-1994 trends, seeking explanation from isolated events, factors or entities rather than looking at the decline as a long-term cumulative development involving multiple influences, intra-industry tensions and variations in views, parallel domestic and global industry developments, and a short-sightedness in terms of industry policy and firm-level decisions.

Chapter 5 both reviews and challenges how the literature has sought to explain the decline and explores examples of how the aforementioned limitations manifest through questions of production, trade, and questions of labour marginalisation and employment structures.⁵⁵ These examples provide support for the theoretical discussion in chapter 2 where the

⁵⁵ More specifically: 1) trade liberalisation or restrictions, specific export or import measures or incentives, patterns and trends especially involving key partners such as China or the US, trade agreements as well as changes in domestic and global trade policy. 2) Labour costs, patterns of employment, changes in employment structures such as casualisation, informalisation and outsourcing of labour, international trends such as cost competition, decent labour, training and skills. 3) Production issues include: access to inputs or markets, power relations within chains (including relations with retailers), access to finance, investment, subsidies, and availability of inputs.

explanatory power of the neoclassical market-biased analytical approach was challenged. Instead, the discussion reinforces the importance of shifting attention towards a more nuanced understanding of industry and labour relations, the interrelated roles of market and state forces, and a combination of domestic and external structural and policy influences, as per the insights from the structuralist and labour process theories.

Chapter 4: Exploring the nature of textiles and clothing decline in South Africa – overview of background, trends, and challenges

This chapter investigates the nature and evolution of the South African T&C during the period between 1970 and 2010. The aim is both to contribute to, and challenge, some of the on-going debates around the causes of this decline. This involves showing how multiple and interlinked factors, originating from within the sectors, the domestic economy, and global sources, and also across both the production and policy perspectives, have combined to worsen the downward trend. The research challenges four areas of popular belief. First, it is argued that that the decline is not recent or primarily connected to the post-apartheid developments of the 1990s and 2000s, but instead can be seen to have emerged in the late 1970s and early 1980s before the end of apartheid.⁵⁶ Second, the research argues against the notion that a single factor or condition such as damaging trade policy, particular trade patterns such as rise of Chinese competition, or high labour costs, can be identified as the trigger or source of the decline. Third, it is argued that industry initiatives and policies targeting narrowly defined sector or interest group concerns, for example, those perceived to be the obstacles to recovery such as rising Chinese imports, or lack of training and skills in the industry, will not resolve or reverse the downward spiral. Fourth, the research aims to show that the decline cannot be attributed to the actions (or neglect) of any particular group of interests or stakeholders. By exploring these four arguments through the descriptive statistics, this chapter establishes the need to see the decline as a more complex process.

The chapter begins (section 4.1) with a brief background to the T&C industry in order to establish its long history and established nature in South Africa. This challenges the perception that T&C could be seen as an infant industry with a presumption that poor performance is due to an inability to establish a varied set of linked forms of production. The analysis proceeds (section 4.2) to outline some of the key trends in employment (section 4.2.1), output and value added (section 4.2.2), investment and capital stock (sections 4.2.3), and trade (section 4.2.4), and challenges some of the explanations and causes that are commonly put forward to explain

⁵⁶ Much T&C research has focused on changes during the 1990s and 2000s. This is explained by data availability and the changes in the business, political and policy environment that characterised this period. The implicit assumption is that the end of apartheid and political/economic transformation also constitutes a clear break for T&C. Chapters 4,5 argue that, on the contrary, there are important continuities with the apartheid period for both T&C and for policy, and that the explanations for the decline must be rooted in an understanding of factors dating back to the apartheid period as well as understanding forces prevailing during the transition and in the post-apartheid democratic periods.

them. The trend analysis confirms that the decline is not uniform, can be traced back to the early 1980s as opposed to being associated with the end of apartheid, or the early 2000s, which in turn is associated with the entry of China into the WTO and world markets. The trend analysis also highlights the complexity of exploring the causes of the decline by showing that there are periods of both decline and recovery, and that the two sectors and even a limited selection of indicators do not follow similar trends in the short, medium or long terms. Though the trends, together with some of the insights from fieldwork interviews and from the literature, do not claim to present a comprehensive picture, they do indicate that the decline cannot be attributed to a single event or factor, nor can the decline be exclusively attributed to take place in the context of the post-apartheid period, policies, production and broader economic environment. The analysis closes (section 4.3) with a summary of the misconceptions around the causes of the decline. The chapter concludes (section 4.4) by turning attention to the need for an exploration of how the different factors contribute individually or jointly to the decline – the subject of chapter 5. Questions around how the industry decline is situated in the political and economic conditions, that is the historical context especially in light of the political/policy transition associated with the end of apartheid, the economic structure and set of interests and influences that characterise the SA political economy are discussed in chapter 6.

4.1 Brief historical and contemporary description followed by an overview of industry structure

The SA T&C industry origins can be traced back to the late 19th century with the establishment of the first blanket manufacturing firm targeting local markets in 1891.⁵⁷ Steenkamp (1983, p.7 in Maree (1995, p.22)) suggests that the increase of customs duties on blankets and related products in 1925 gave the sector the support necessary for growth and the number of factories grew rapidly to 12 in 1933 and 16 in 1944 covering an estimated 90% of domestic demand. Clothing was originally developed as a source of employment for Afrikaner women in the 1920s. Apparel, household and industrial textiles established themselves as a main manufacturing industry after World War II with state financial support provided through the Industrial Development Corporation and market protectionism through import controls, duties, and tariffs. There was a conscious effort to ensure the sector received adequate protection

⁵⁷ A more complete account of the background, structure, and some of the prominent issues can be found in Vlok (2006) focusing on SA within an exploration of regional T&C developments in Jauch & Traub-Merz (2006). See also Salinger et al. (1999), Roberts & Thoburn (2002, 2004) on textiles and Morris & Reed (2008) on clothing manufacturing in SA.

from external competition, the BTI (1950) report (cited in Palmi, 2008) and Barker (1962) note the importance of low ad valorem duties to protect from foreign competition, which led to a rapid expansion of the knitting, spinning, weaving and finishing of cotton. In 1961 textile import controls were reintroduced leading to a near doubling of the number of knitting mills as well as an increase in employment. Synthetic fibres were introduced in the late 1950s and the period that followed was associated with several technology and structural process improvements even leading to periods of overproduction in the 1980s. These suggest that the industry had moved beyond the infant stage. Barker (1962, p.291 in Maree (1995, p.24) finds that the general consensus within policymakers was to comply with the wishes of the textile and clothing industry and the manufacturers took full advantage of this privilege.

A brief overview of the key characteristics and developments of both the T&C sectors is useful to understand some of the sources of tension and controversy. Textiles production, covered by the standard industry codes of 311-312, represents the more capital-intensive sector of the two.⁵⁸ Drawing on Roberts & Thoburn (2002), SATIEC (2011), and Statistics South Africa (2001), textiles is based on three main production streams: apparel textiles, technical and industrial textiles, and home and lifestyle textiles. The main product groups stretch out to include wool, mohair and karakul, cotton, man-made fabrics such as polyester, yarn and thread production, but also a number of knitted garments, socks, hosiery, carpets, and a category of other textiles which covers the production of rope, sanitary towels, under-felt, made-up home textiles (sheets, pillows, duvets, table cloths), and tents.⁵⁹ Production is dominated by few large manufacturers with a high level of concentration within production subgroups including cordage, netting, rope, twine, and carpets. Roberts & Thoburn (2001, 2002, 2003, 2004) have documented the stagnated production and falling employment that characterised the late 1980s and 1990s. Maree (1995, pp.110) attributes the decline to inferior product quality in comparison to imported fabric (using fabric damage indicators). In response to this, the late 1990s saw some investments into machinery upgrading that were linked to profitability and turnover improvements. Despite these investments, there was been a steady rise in competition as evidenced by growing imports and poor exports in chapter 4. There seems to be little vertical integration or technology transfer (even in the foreign-owned companies such

⁵⁸ 'Textiles' is defined as knitted or woven fabric from natural and synthetic fibres and refers to HS 50 - HS60, HS63. Clothing, garments, apparel or wearing apparel are used interchangeably. These refer to HS61 and HS62.

⁵⁹ See Appendix 2 for a list of products sold under the T&C category.

as the Asian investors taking advantage of specific trade agreements like AGOA) and only little evidence of transfer of skills and knowledge.

Clothing, covered by the standard industry codes (SIC) of 313-315, is much more labour-intensive in comparison to textiles (see Vlok (2006), Van der Westhuizen (2007), Nattrass and Seekings (2012), and Truett & Truett (2012) on the labour-intensity of clothing in South Africa).⁶⁰ Clothing manufacturing is divided into two main categories: men and boys clothing, and women and girls clothing and includes standard items such as suits, jackets, trousers, shorts, underwear, shirts, nightwear, protective and safety clothing, dresses, skirts, corsetry and foundation garments, swimwear, and infant's garments. Clothing production takes place in both the formal as well as informal, micro and home industries where the employment in the latter three categories is based on estimates and is under-represented in official statistics, as will be discussed in chapter 5. Clothing remains a significant provider of low-skill and entry-level employment, and in addition is the largest female-employer in comparison to other manufacturing sectors. According to Statistics SA P3002 (2009, p.5):

“The proportion of females in the work force was 32%. The proportion of females by type of manufacturing ranged from 17% in ‘Basic metals, metal products, machinery and equipment’ to 67% in ‘Textiles, clothing, leather and footwear’.”

According to Barnes (2005, p.6), much of the workforce in clothing manufacturing is low skilled with 82.2% semi and unskilled workers, 13.4% mid-level skill occupations, 4.4% high-level skills, and like textiles manufacturing, clothing is also facing a decline in employment.⁶¹

In addition to differences in the nature and relations of production, there is variation in the way in which production and trade connects textiles with clothing and retail within a value chain, or a production pipeline or network construct. At the simplest level, the major product groups are processed and categorised as follows.⁶²

⁶⁰ Includes dressing and dyeing of fur but excludes leather products and footwear.

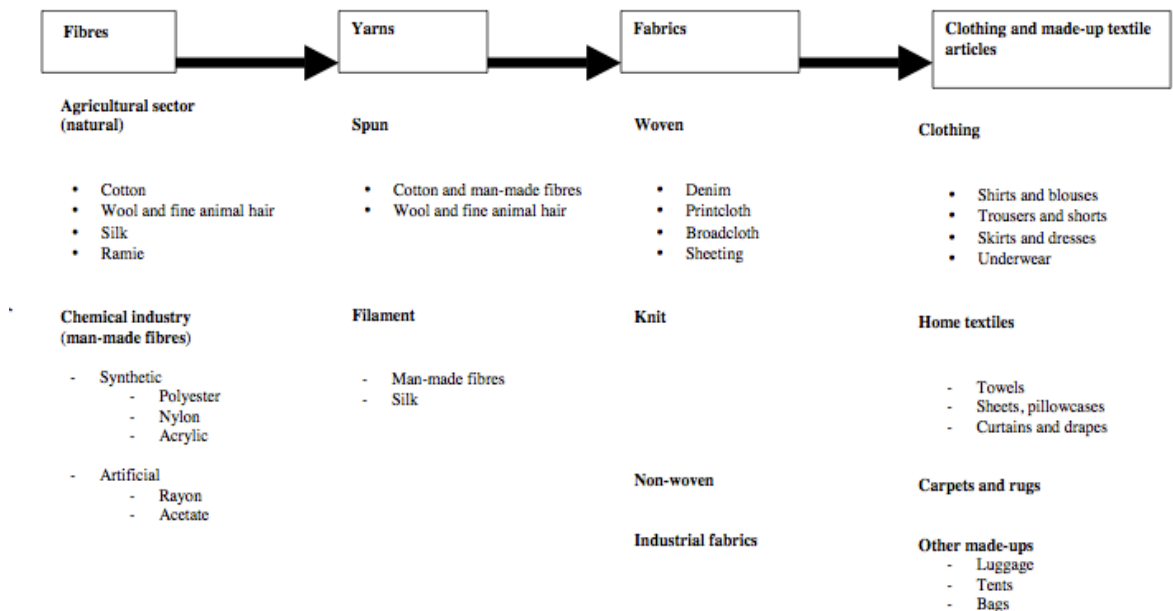
⁶¹ Edwards & Morris (2006) provide a good overview and background to the employment trends using National Bargaining Council data.

⁶² Though used interchangeably, the terms pipeline, value chain, production chain, commodity chain refer to very different components of economic activity. Pipeline is used by Salinger et al. (1999), Roberts & Thoburn (2002), as well as Barnes (2005) to distinguish particular subcomponents of production and processing. The main pipeline (if measured by value added) processes yarn by spinning, weaving and finishing, another main pipeline processes yarn through knitting and finishing into fabric. Pipelines focus on a particular aspect of production in contrast to value chains that focus on a set of firms that can extend from textiles to clothing to retail activities. Value chains are

“Natural and synthetic fibres are produced from raw materials such as cotton, wool and chemicals. These fibres are spun into yarn, which is used to produce woven or knitted greige fabric. These fabrics are then finished, dyed and printed as required, and used to produce made-up textiles of clothing, home furnishings and industrial or technical textiles. Animal fibres, synthetic filament and non-woven textiles are also used to produce carpets.” Morris & Barnes in UNIDO (2008, p.2)

The main product groups and connections are displayed in Morris & Barnes (UNIDO 2008) as shown in the figure below.

Figure 5 Major product groups



Source: Morris & Barnes (2008, citing US International Trade Commission (2004, p.1))

Going beyond the physical production connections, clothing and textiles have increasingly been explored as part of a value chain with retail extending to explore the aspects of production and market access in a GVC, with the a focus on the governance of the chain and the location of power within the retail-end characterising this as a buyer-led chain. The global

characterised by exploring power and governance relations especially through the identification of a lead firm, as well as on questions of market access and upgrading of value added in vertically contained constructs. See Newman (2012) on the nuances of GCC and GVC.

T&C value chain has been the subject of extensive research with important contributions by Gereffi (2001), Gereffi & Memedovic (2003), UNIDO (2007), Morris & Barnes (2008), COMESA (2009), Gereffi & Frederick (2010) and Memedovic (2010), with the value chain processes/mechanisms discussed further in Kaplinsky & Morris (2000), Keane (2008) and Keane & Te Velde (2008), Cattaneo et al. (2010) and Fernandez-Stark et al. (2011). The figure below provides a visual overview of a generic T&C value chain. Whilst this representation might be widely accepted, is important to note that there are variations across different portrayals of T&C value chains. The main differences in these varied descriptions of T&C value chains seem to arise from whether the emphasis is on products, or power relations, and whether the textiles or clothing subsector or the retail end are pivotal.⁶³ Though value chain approaches are important in drawing attention to different connections and components of T&C, as discussed in chapter 2, they are limited in their ability to depict or explore the multiple forms of tensions, production relations and influences that go beyond direct supply connections measured by prices, costs and value-added. There is limited capacity to depict transformation or changes in the industry interlinking (or linkages beyond the value chain), despite a wealth of evidence for the existence of a variety of influences at multiple levels within a production/value-chain (e.g. ranging from the national to individual product pipelines).

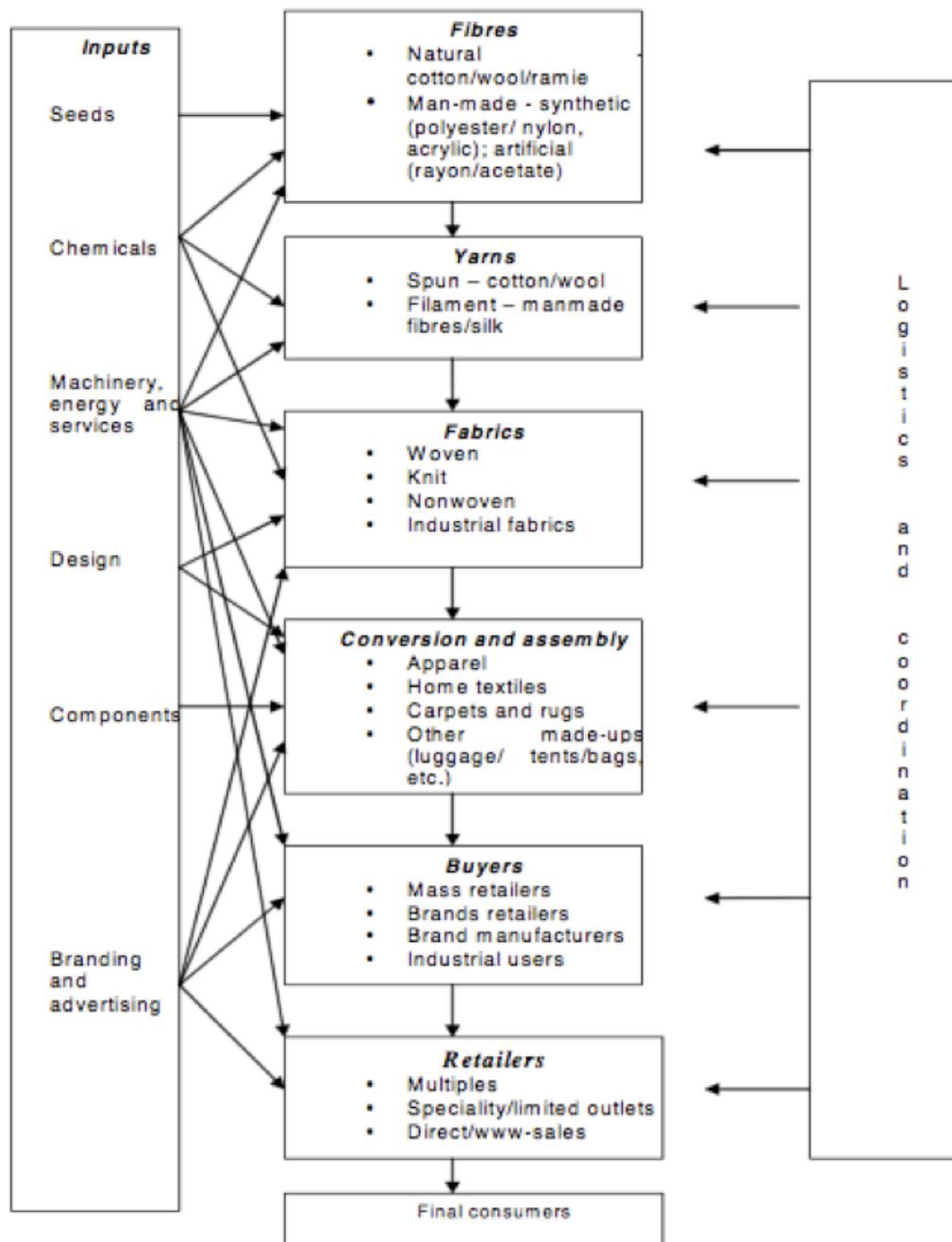
The value chain approach contributes one type of description of the relations between firms, focusing on how different production entities and processes connect with each other through the price-mechanism within the setting of the domestic economy and global forces. In this sense, it is useful as a tool to begin to identify the fragmented and multifaceted nature of relations, to capture some of the complexity and tensions that arise from multiple forms of production, and consequently the connections between different production processes. It also creates some space to reflect on the different levels and distribution of power as well as some of the processes by which value is captured. It also assists with understanding how the focus on costs, productivity, and short-term competitiveness has emerged and become a dominant framework for sector strategy and analysis.⁶⁴ Yet, one of the key weaknesses is in confining analysis to factors that can be directly measured or proxied by prices or costs, and restricting analytical focus to entities and institutions that are recognised as promoting or impeding the operations of the market. Challenges around distribution of information, value or power are

⁶³ See Appendix 2 for a summary. For example Roberts and Thoburn (2002), Salm (2002), Barnes (2005), UNECA (2014) report, Kaplinsky (2005)

⁶⁴ Further limitations around measures for and notion of productivity are discussed in chapter 5.

removed from their origins within a particular social and historical setting, value is realised through exchange and measured by price, and sector agents and stakeholders are defined through their role in the transaction and capturing of or other type of contribution to value. This makes it difficult to incorporate a role for entities or institutions that do not directly partake in the creation, capture or other positive or negative contribution to value as defined by the market transaction, but nevertheless do influence outcomes.

Figure 6 Textiles and Clothing Value Chain



Source: Kaplinsky (2005, p.126)

The value chain approach does enable some consideration for the heterogeneity within the sectors, subsectors or (production) pipelines (such as the variation in the type and position of labour), but fails to consider developments outside vertically linked production activities. It also fails to situate these chains or pipelines within the context of the broader political economy or within a particular South African historical context, for example, the history of T&C, the evolution of labour processes, or the changes in the composition of the economy. An additional limitation arises from the way in which the value chain approach explains sector transformation. The source of change within a value chain is by upgrading; for example, through technology, skills, or process improvements, but conceptually limited movement or capture of value within a vertically specialised chain. Though powerful through its simplicity and universal applicability, this does not easily translate into specific strategies for specific products or pipelines under different settings. Theoretically, upgrading is from one static state of production (and associated value added) to another without providing clues or guidelines on how this takes place or how it might be analysed or induced in practice.⁶⁵

The constraints and advantages that arise from linkages with other components of the economy not necessarily connected by production or governance cannot easily be explored within the value chain framework. The combination of production and market characteristics together with a focus on value upgrading as a key driver also over-emphasises the importance of entities that can be priced, leading to cost control or minimisation as seen in T&C. Costs are grouped by input-category, such as labour, without much consideration for the heterogeneity and variation across production and time of these inputs. Furthermore, the distribution of power is determined by ability to control or appropriate value added, but it is not immediately obvious how these governance structures can be challenged or altered. Finally, the value chain approach provides limited space for exploring the longer-term and social roles of certain types of production, whether through employment, the local provision of certain goods or services, the local development or spillover of skills, processes or other forms of knowledge outside the vertically defined chain with contributions to the economy that cannot easily or entirely be captured by the analysis of prices or price mechanisms.

⁶⁵ For example, moving from producing yarn or fabric to items of clothing or further adding value with trimmings or branding are examples of upgrading. However, as there are many different examples of such upgrading, it is not obvious which should be selected, why, and how the transition is implemented.

Taking the limitations of the value-chain approach as a critical point of departure, the analysis in this and the next chapter highlights the need to explore the factors that influence sector evolution beyond the constraints of vertically-defined chains, inter-firm power relations, and processes of industrial development constructed through upgrading that is defined by movement or capture in value-added or through market transactions. The aim is to explore precisely what is left out. That is, to construct an investigation of the multiple, interlinked, and evolving causes for the decline arising from within the sectors and from external domestic and global spheres, mindful of the complex interactions between industry agents and stakeholders as well as with interests external to the productive activities and relations of T&C, and considering how these particular sector and sub-sector challenges are shaped by a particular historical and structural setting.

4.2 Critical review of key trends

This section describes the nature of the deterioration in SA T&C manufacturing and provides a starting point for the discussion of the various factors contributing to that decline. The decline is explored through select trends in employment, investment and capital stock, value added and output, imports and exports.⁶⁶ These have been selected as they represent the most commonly researched areas in the literature on T&C. The summary of trends draws attention to the complexity and variation over the medium to long run patterns. This is highlighted by the intermittent periods of rise and decline across the two sectors and the similarities and differences between the trends across T&C. The discussion also introduces the range of explanations and views associated with these trends and sector characteristics, and exposes some of the limitations or misconceptions of the popular explanations for the poor performance of T&C. Often cited explanations for the decline include: the damaging role of high labour costs, rising Chinese competition (especially imports to South Africa), aggressive and rapid trade liberalisation in the 1990s, low investment (and out-dated capital equipment and processes), and poor response to supply-side and export stimulus (also in the 1990s). Though these factors have undeniably contributed to the downturn in T&C, no isolated factor, stakeholder or entity, within or associated with regulation, assessment, monitoring or facilitation of the production process, can be held accountable for the decline. The following

⁶⁶ These measures highlight the nature of the trend and serve as an entry point for exploring the causes behind them. They are presented with an awareness of the limitations of broad measures that focus on production variables rather other aspects such as the distribution or impact (social, environmental etc.). Gadrey in Fullbrook (2004) provide a good overview of the literature on issues arising from the accurate measurement of variables such as value added.

seeks to establish this, challenge some widely held beliefs about the causes of textile and clothing decline, and to raise questions about what lies beneath these observations. This provides the foundation for the next chapter, which continues the critical investigation by proposing that the industry developments be conceptualised through the alternative notions of conflicting interests together with a combination of multiple industry factors with contextual influences.

Prior to reviewing key trends, a number of important methodological caveats require mention. First, the selection of indicators presented here is small and cannot fully represent the industry's evolution. Issues with the quality of the underlying data are acknowledged but cannot be addressed here, although it is noted that a long-term timeframe may diminish the problems arising from a small number of misrepresentative values. Multiple data points, and a focus on trends diminishes the weight of individual values or even consistent errors in the data. Secondly, the interpretation of trends is subjective and even with awareness will reflect the views developed during this research. Again, the element of subjectivity bears less weight when the outcome of the trend analysis is to suggest that the immediate or obvious explanations for the trends are not the root or representative causes. These caveats and the potential scope for interpretation error do not affect the questions that arise from the decline in T&C being at odds with its own history and with other non-declining manufacturing sectors in South Africa.

4.2.1 Employment trends

Both T&C are an important source of employment, and employment trends display the industry developments most sharply. The overall trend is a gradual decline in both T&C employment, dating back to the early 1980s.

A selection of employment statistics for the SA economy highlights the challenges for T&C. Barnes (2005) estimated that clothing represents only 1.8% of overall employment in SA, and together with textiles accounted for 13.4% of total manufacturing employment.⁶⁷ An estimate from Stats SA (2008) puts T&C (including leather and footwear) at 13% and 169,842 employees as the fourth largest manufacturing employment industry in South Africa. 'Metals, metal products, machinery and equipment' leads manufacturing employment with 24% and 319,685

⁶⁷ Barnes (2005, p.6), using data from the September 2003 Labour Force Survey and StatsSA data up to 2004. The figures for employment contribution to manufacturing (13.4%) are from 2004. Vlok (2006) has T&C employment down at 12% of manufacturing employment. The corresponding value from StatsSA for 2008 is 13%.

employees, 'Food products and beverages' at 14% is similar as is employment in 'Coke, petroleum, chemical products, rubber and plastics' (12%) and 'Wood and wood products, paper, publishing and printing' (12% of manufacturing employment). By comparison, all 'Other manufacturing' employment in 2008 was estimated to be 341,292 accounting for 25%.⁶⁸ Though important from a social perspective (in light of the aforementioned issues of female and low-skill level employment provision), T&C employment issues are not at the forefront of manufacturing employment questions.

Turning now to T&C, as is shown by the graph below and in the employment values displayed in Appendix 2, the decline in employment has affected both sectors differently but equally severely. In 2010, Statistics SA estimated the combined formal employment to be 146,075; below the 1970 total employment value of 183,574.⁶⁹ The Ralis Report (2004) documented that SA was set to lose 50,000-75,000 jobs in T&C over the next 8 years and feared the sector would disappear by 2012. Though these fears have not been realised, the downward trend remains stark. Textiles employment has fallen well below the 1970 level. Clothing employment began to stagnate in 1996 and has fallen sharply since 2002. Both textiles and clothing formal employment displays a downward trend in employment from the 1980s onwards (gradual until the mid 1990s and becoming a sharp downward trend from 1995-1996 onwards).⁷⁰

Looking at total employment for both sectors in the period 1970-2010, the data shows three peaks in both T&C employment. Joint T&C employment peaked at 252,012 in 1982, again at 254,277 in 1988 and at 255,648 in 1996, with corresponding peaks when looking at clothing and textiles employment separately. From the 1990s onwards, differences between the sectors began to emerge with textiles employment declining more noticeably (e.g. the textiles recovery of employment in 1996-1997 was less pronounced than that of clothing). The highest level of textiles employment was recorded in 1981 (at 120,597) after which the decline has been on-going despite some degree of recovery in the abovementioned periods. Clothing

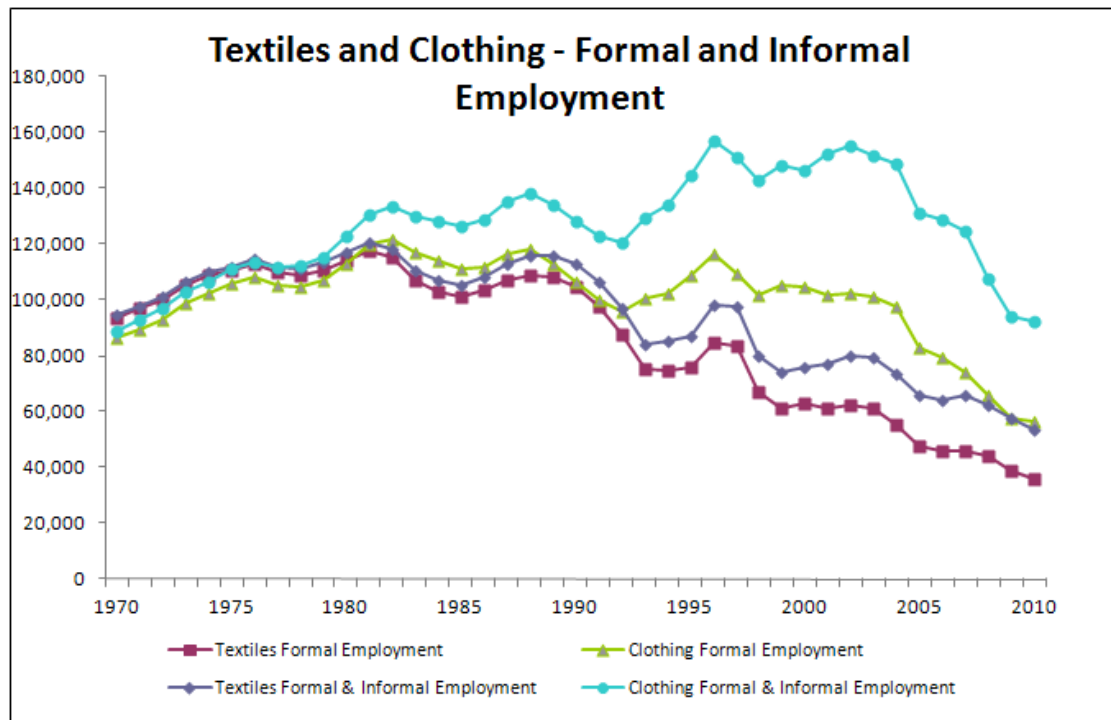
⁶⁸ Data from StatsSA P3002 Manufacturing survey. The category 'all other manufacturing' includes 'Electrical machinery and equipment', 'Telecommunications and professional equipment', 'Transport equipment', and 'Furniture and other manufacturing (including tobacco and recycling)'. Total manufacturing employment was estimated at 1,252,152 (June 2008).

⁶⁹ StatsSA P3002 (2008) estimate the total T&C employment in 2008 to be 169 842. Another StatsSA report 30-02-03 (2008) puts the total employment figure at 168 912. StatsSA data sourced in 2012 show the total employment at 170103 for the year 2008. The differences may be due to the timing of the reports and any updates and adjustments in official data that emerge after the publication of a report. These adjustments are in part a reflection of the difficulties in accurately estimating the growing informal employment.

⁷⁰ Vlok (2006) calculates a 37% decline between 1996-2006 though this excludes informal employment (which he estimates at 70000 employees). See also Edwards and Morris (2006) on employment decline.

employment fluctuated more with stronger growth in employment around 1982, 1988 and 1996, and an additional rise around 2002, when employment peaked at 155,100 and thereafter declining sharply.

Figure 7 Textiles and Clothing - Formal and Informal Employment



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

When looking at the contribution of formal and informal employment, there is a short period of employment growth (1992-1996 in both sectors and an additional period of slow growth in 1998-2002 for clothing). The differences when looking at the trends in formal against combined formal and informal employment reflect the growing importance of the informal sector. The reliability of employment statistics and especially the issues in accurately measuring the importance of the informal sector is a concern.⁷¹ This issue is to some extent addressed by focusing on the long-run trends as well as exploring the developments in T&C through a range of indicators. Edwards and Morris (2006) discuss the effect of two structural breaks in employment data- in 2003 and 2005 – and argue that the employment data are not comparable across the entire period and that the decline in employment is exaggerated. They point out that the data for 2003 and 2006 are drawn from two different survey series with

⁷¹ For further reading on informal employment particularly for clothing see Fakude (2000), Salm (2002), Bennett (2003), USITC (2004), Van der Westhuizen (2006), Webster et al. (2008), Davies & Thurlow (2009).

different sample sizes and samples drawn from different business registers. This makes comparison across the results questionable. Edwards and Morris (2006) also argue that the employment data does not reflect the shift in production to cut-make-and-trim (CMT) industries, as the sample for the employment survey is taken from a register of firms that may not be updated regularly enough to capture the changes. Similarly, their study presents evidence that employment creation through new entrants and re-engagements is not captured in the Statistics SA data. These findings apply to the 2000-2006 period and focus particularly on the contentious issue of employment losses, perceived to be connected to the rise in Chinese imports, and the subsequent introduction of import quotas to reverse this trend.⁷²

It is interesting to note that though the clothing sector is considered more labour-intensive, the employment decline has affected textiles manufacturing more consistently and over a longer period of time. The differences may in part be explained by structural differences such as the larger investment requirements, inflexibility of capital investments, production requiring more training and skills to operate technology, and possibly a reaction to the faster and earlier liberalisation of textiles. Likewise, the adaptability and potential for cost adjustment with the increasing use of informal employment is a feature that favours the clothing sector.⁷³

The sharper decline in textiles employment has also been connected to technology improvements and the replacement of labour-intensive processes in textiles manufacturing. The graph below shows the capital-labour ratio over the 1970-2010 period rising, albeit very slowly, for textiles whilst the capital-labour ratio for clothing declines until the late 2000s. An increase in the textiles capital-labour ratio around the 1997-2000 period corresponds to a sharp rise in unit labour costs, though this pattern does not repeat itself when in 2002, after a four year decline, unit labour costs for textiles begin to rise again. Another contradiction to note is that the two-year period of higher textiles employment in 1996-1997 is not matched by a corresponding rise in the capital-labour ratio suggesting that other factors, such as a growth

⁷² Since China's accession to the WTO in 2001, there has been accelerated growth in its clothing exports and a parallel decline in SA clothing employment. Yet, the employment decline does not accelerate to mirror the post-2001 global clothing trends, and instead can be traced to start in the 1980s prior to the rise of the China effect. That is not to say that Chinese imports have not been a significant contributor to employment losses, but instead to suggest the presence of other reasons both prior to and after 2001.

⁷³ In addition to perceived high wages, other (non-wage) constraints faced by firms that were identified in the interviews included: other input costs, access to markets, limitations from rules of origin and multi-stage processing requirements. It is interesting to note that none of the respondents discussed coping strategies focusing on positive assets or attributes or production factors within their control, instead opting to apportion blame elsewhere - resulting in an overall defeatist mood.

period assisted by investment in the four preceding years, or a small two-year export increase, may be behind the employment trend.

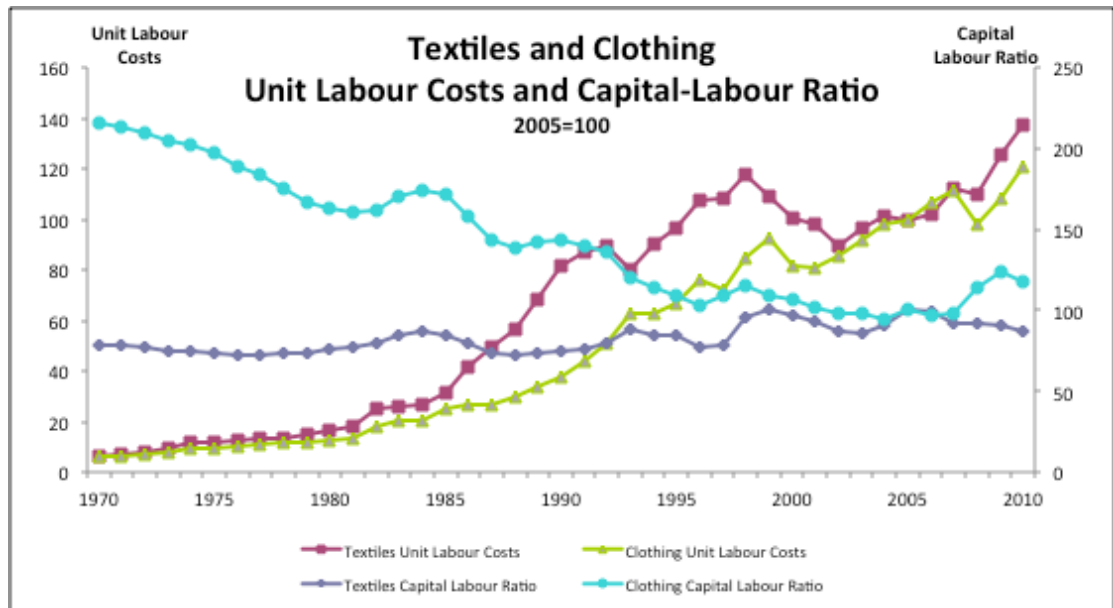
Labour is a primary cost component and has been central to cost-cutting efforts. Clothing costs break down into approximately 50% fabric costs with the remaining costs arising mainly from labour⁷⁴ The main input cost for textiles is raw material. The interviews confirmed the 'race-to-the-bottom' is characterised by a range of attempts to secure and maintain a competitive advantage in both domestic and export markets, is one of the key features of the decline in these sectors, and is a trend mirrored by the T&C sectors in other countries.

The graph below shows the steady increase in unit labour costs for clothing and highlights the variation in textiles unit labour costs. The latter increases until 1998, followed by a sharp decline until 2002, after which unit labour costs begin to rise again. In part the rising labour costs reflect attempts to adjust wage differences (inequality) that were a legacy of the apartheid labour segregation. The rise of labour activism since the 1980s, and the introduction of tighter labour legislation with the Labour Relations Act (1995) have also been associated with wage increases from the perspective of some employers and institutions involved with monitoring wage compliance.⁷⁵

⁷⁴ There is some debate as to how much of the fabric is supplied by the local markets with Altman (1994) estimating that the local textiles industry supplies up to 60%, the SA Textiles Federation estimating the figure at ~33%, and more recently Barnes (2005) estimating the proportion at 48%.

⁷⁵ Surprisingly, despite a range of contrasting views on the restrictions imposed, or beneficial and necessary structural transformation created, by tightening SA wage regulation, none of the respondents mentioned low-wages as their main mode of competition or source of competitive advantage during apartheid with associated marginalisation of non-white African labour. Several respondents raised high quality and favourable production relations (especially between T&C) as sources of pre-democracy competitive advantage. The omission of low-cost labour may in part be due to restrictions on trade and thus limited competition on cost-terms with other country producers. It appears contradictory that pre-democracy SA clothing production could perceive itself as globally competitive based on quality, when much of this would have rested on low-cost labour.

Figure 8 Textiles and Clothing Unit Labour Costs and Capital-Labour Ratio



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

Though the longer term decline in employment corresponds to a longer-term rise in labour costs, there are reasons to suspect that the relationship between the two is more complex than simple causality, and that labour costs are just one of the drivers behind the decline.⁷⁶ Firstly, variation over time in T&C unit labour costs is not matched by changes in employment suggesting that employers do not respond exclusively or in the short term to labour cost changes. Secondly, there is reason to suspect the extent to which wages in SA are actually higher, given the rise of informal and casual labour together with outsourcing to circumnavigate rising labour costs and increase flexibility, thus at least potentially reducing overall costs. This is difficult to prove, as there is little systematic research on the evolution of labour costs in the informal sector. Nevertheless, anecdotal insights from this and previous exploratory research suggests that firms are increasingly using the informal sector as a cost/flexibility strategy and that informal employment is not fully separable from the formal sector forms and relations of production or remuneration. Although discussed in chapter 5, this represents an area for further research.

The informal sector in clothing is understood to comprise of workers who have in the past been formally employed, continuing with functions and skills that were acquired within formal employment relations. The informality reflects their capture as input costs not necessarily as

⁷⁶ Note here that the employment decline is dated back to 1980-1981 (with notable fluctuation from this trend for clothing). The rise in unit labour costs can be traced back further to the 1970s.

employment costs, to some extent beyond and to some extent complying with labour legislation.⁷⁷ Hart (2011) finds that when compared with Taiwan, and depending on the measures used, labour costs can be shown to be higher in either SA or Taiwan.⁷⁸ UNCTAD (2005) also shows a comparison of the apparel industry average hourly wages from 19 countries for the year 2000. SA (at 1.6 US\$/hour) comes out as less expensive than the United States and Germany but also Hong Kong (5.1 US\$/hour), Republic of Korea (2.7 US\$/hour), Macau (2.5 US\$/hour) and Mexico (1.8 US\$/hour) and very close to Lithuania (1.5 US\$/hour) and Malaysia (1.4 US\$/hour). The same UNCTAD report emphasises that low-cost (and highly productive) labour is important, but not a sufficient condition to attract investment, new production, global buyers and retailers.⁷⁹

It is interesting to note that the capital-labour ratios for clothing have been steadily declining since the 1970s (with a small recovery after 2005). This has been in stark contrast with the gradually rising capital-labour ratio for manufacturing and non-agricultural industries as reported by McCarthy (2005, p.12). The explanation for rising capital-labour ratios is a substitution of labour by capital, possibly as a result of rising wages. For T&C, the trends in unit labour costs (or employment levels) are not matched by the respective trends in capital-labour ratios. Yet the statistical (see Figure 10 and 11 on investment and capital stock) and anecdotal evidence implies that technology upgrading has not taken place and that capital is leaving the industry. The predicted impact of trade liberalisation and expectations around the impact of a parallel reduction of industry incentives (especially in favour of capital-intensive industries) has not resulted in a shift towards more labour-intensive production.⁸⁰ This suggests the need to delve deeper into the drivers of the T&C decline.

⁷⁷ For example, Interviewee 23, a Cut-Make-Trim sub-contractor estimated that 30-31% of official wages are due to medical, provident fund, statutory bonus negotiated by unions (~3.5%) paid holidays, unemployment fund, skills levies, workmans fund etc. A South African competitor in exactly the same market was said to pay government costs, unemployment and skill development, but not Christmas (holiday or bonus), provident fund or sick fund. The respondent argued that contracts were awarded based on a combination of costs, contacts and longevity in the market. With no 'young blood' coming in and an estimated time of 6-7 years to stabilize business, buy machinery and build contacts, the interviewee concluded that the industry would slowly disappear from SA.

⁷⁸ Hart (2011, p2) "Measured in terms of market exchange rates, wages of women workers in the Newcastle clothing industry were 90% higher than for equivalent work in Taiwanese factories in China. If, however, one used Purchasing Power Parity to get a measure of what workers can actually buy with their earnings, Newcastle wages were 30-40% below those in China."

⁷⁹ Other factors noted as important for apparel production included: being a full-package producer, that is the ability to produce a breadth and variety of items, proximity to market (or large domestic market such as in China), access to domestic or imported raw materials and inputs to production, alongside various industry and national policy measures.

⁸⁰ See Hayter et al. (2001) and Samson et al. (2001) for further insights into the trends and the role of mining.

4.2.2 Trends in value added and real output

To explore the emerging complexity, focus now turns to look at value added and output trends. Real output performance over the 1970-2010 period reflects a general slow-down, with short periods of recovery in both T&C manufacturing. Since 1980, textiles output displays a clear decline, with a very gradual growth in output between 1990-2001, followed by a sharp rise and then another period of decline until 2007-2008, followed by a sharp decline to levels exceeded only in 2002 and prior to that in 1984. Clothing output displays a slowdown in output growth characterised by five short periods of growth followed by short periods of decline. Between 1974-76 output grew up to 8,260 (Rand million), another growth period in 1978-1981 peaking at 12,111, growth during 1985-1989 peaking at 15,833, again between 1996-2003 peaking at 16,412 and the last growth period in 2007-2008 rising to 16,970. To compare, between 1970-1981 output for textiles increased by approximately 67% peaking at 19,087 in 1981 (a level not matched any other year since - until 2002 when output reached 18,528 and 19,318 in 2008). Clothing output nearly doubled with a 92% rise from 6316 to 12,111 between 1970-1981. Though later peaks in 1989, 1995, 2002 and 2008 showed growth in output, the peak in 2008 only represented a 40% increase since 1981.

The slowdown and the periods of peaks and troughs in clothing (and to a lesser extent textiles) output nevertheless indicates the sensitivity of output to changes in market conditions. The trends in textiles (especially the sharp rise in 2002-2003) may reflect the preceding four years (1998-2002) of falling unit labour costs or growing fixed investment between 1993 and 1996. (Investment levels remained high around 800 million Rand until the beginning of a downward trend in 2004). A short period of decline in textile imports between 1997 and 2001 may also have contributed to these trends. Looking at the decline in the import-domestic demand ratio for clothing (see section on import and export trends) between 1998 and 2003 (with a barely noticeable recovery in 2001-2002) suggests that domestic demand and optimism in the domestic markets may have led the gentle output growth in the 1990s. Interestingly, the 2002 peak in exchange rates (see graph under section on import and export trends) is not really matched by movements of textiles or clothing output.

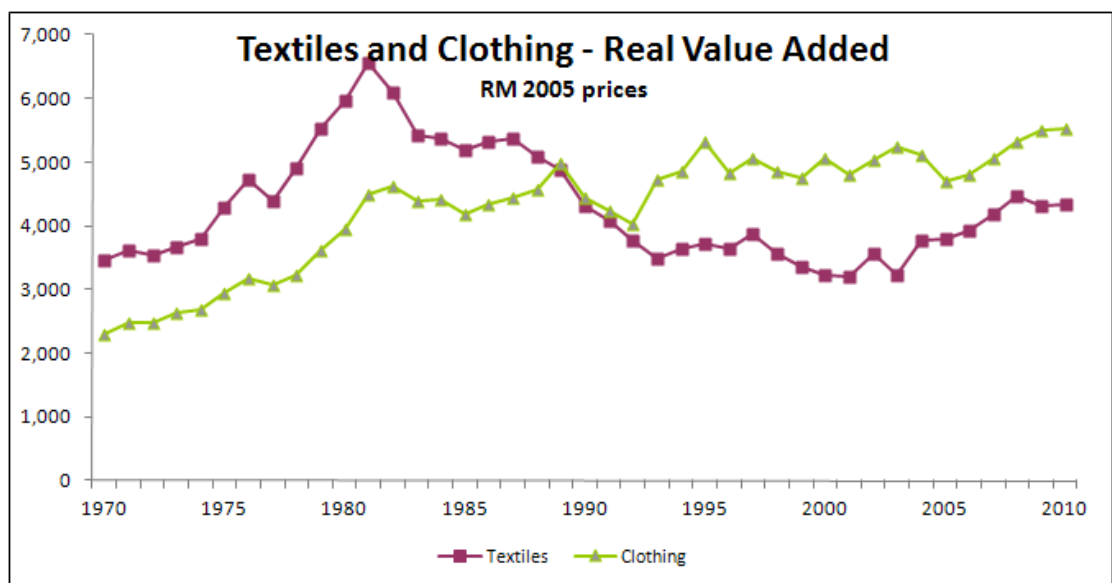
Figure 9 Textiles and Clothing Real Output



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

Real value added (see below) shows a similar slowdown in clothing and highlights the sharp decline in textiles value added. Textiles real value added declined from a peak of 1980 whilst clothing value added has been slowly rising at a slower pace from the early 1980s onwards. This may reflect the different capital intensity, and differences in the cost structures, of the two production process, as well as the different pressures to cut input costs.

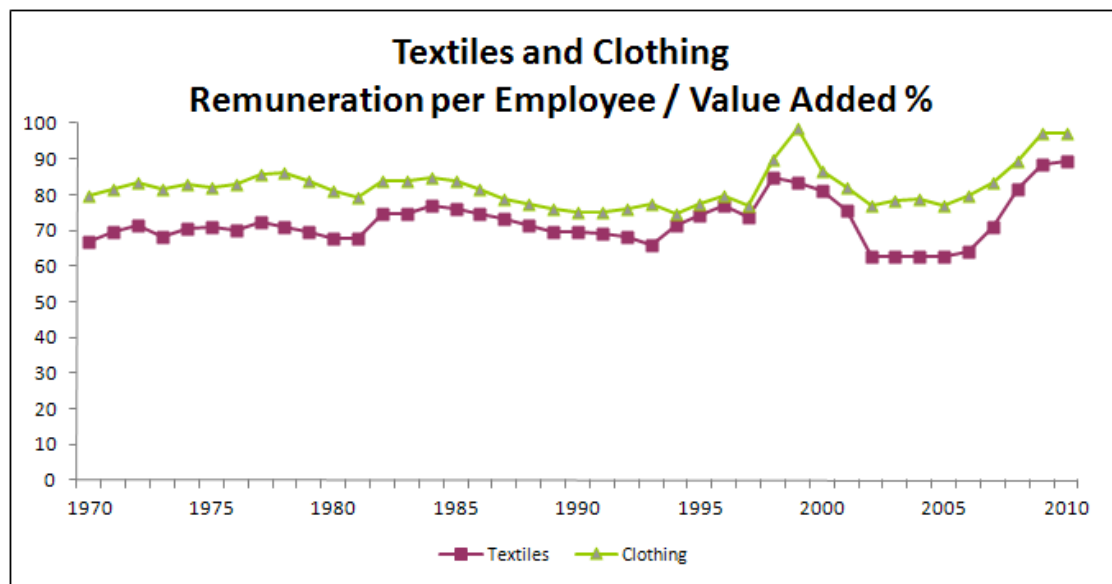
Figure 10 Textiles and Clothing Real Value Added



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

The graph below shows remuneration per employee as a percentage of value added. Given the relative stagnation seen in the value added graph above and the growth in unit labour costs seen earlier, the limited remuneration/value added growth over the entire research period is somewhat surprising.

Figure 11 Textiles and Clothing Remuneration / Employee/ Value Added



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

A similar flat growth pattern is displayed by real remuneration as seen in the graph below. Remuneration in both T&C seems to display gentle fluctuation until 2002 in clothing and 2003 in textiles, when real remuneration begins to rise. In light of this, and the additional containment of wage costs through the use of outsourcing, casual and other informal types of labour, it is difficult to maintain that labour costs are the determining factor behind the T&C decline.

One possible insight is to reflect on the limited scope for capturing changes in labour structures through official statistics on employment and employment costs. In addition to the known issues in capturing the cost or price of labour, when it is casual, structured around units produced rather than hours worked, and outsourced from both regulated and semi- or non-

regulated providers, there is an important issue in how the accounting of outsourced inputs can misrepresent the actual quantity or cost of labour.⁸¹

Figure 12 Textiles and Clothing Real Remuneration per Employee



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

The trends in output, value added, and labour costs reveal a situation that can at best be described by stagnation or fluctuation around a set level, at worst a downward spiral. It is curious that the perceptions around the damaging role of high labour costs are not revealed in the trends. Three other areas of debate, the declining investment, the rising import competition, and the exchange rate require further investigation.

4.2.3 Trends in investment and capital stock

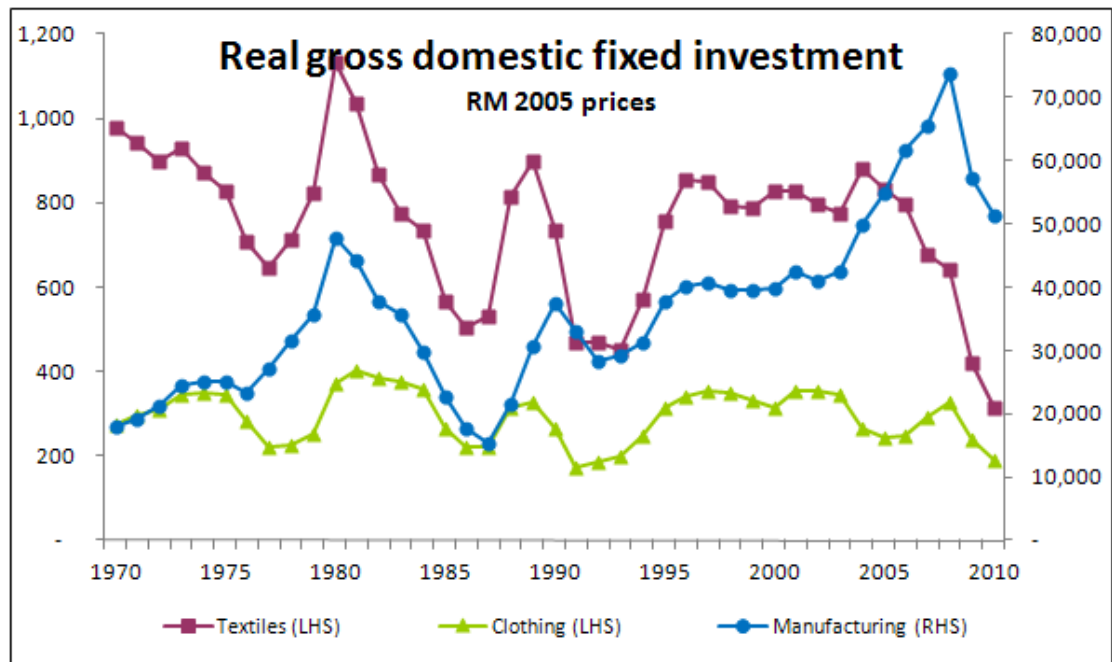
Investment trends displays another limitation facing T&C. Comparing T&C to other manufacturing highlights the low priority position and difficulties in attracting investment, especially for clothing. The first graph below displays real gross domestic investment levels relative to other manufacturing.⁸² It is interesting to note that until the early 2000s, textile sector investments follow the same pattern as overall manufacturing investment with alternating periods of strong growth and decline until the mid-1990s, when investment hovers around the 800m Rand mark. 2004 marks the start of a steady decline deviating from all

⁸¹ See important contribution by Perraudin et al. (2013) looking at the misrepresentation of labour in French subcontracting relations.

⁸² Other manufacturing or SIC 3 includes: food products, beverages and tobacco products (SIC 30), textiles, clothing and leather goods (SIC 31), wood and of products of wood and cork (SIC 32), coke, refined petroleum products and nuclear fuel; manufacture of chemicals and chemical products; manufacture of rubber and plastic products (SIC 33), other non-metallic mineral products (SIC 34), basic metals, fabricated metal products, machinery and equipment and of office, accounting and computing machinery (SIC 35), electrical machinery and apparatus (SIC 36), radio, television and communication equipment and apparatus and of medical, precision and optical instruments, watches and clocks (SIC 37), transport equipment (SIC 38), of furniture; manufacturing not elsewhere categorised; recycling (SIC 39).

manufacturing. Clothing investment displays a much weaker pattern of fluctuation, though with parallels to the textile sector. Clothing displays a slightly later and less dramatic decline in the late 2000s.

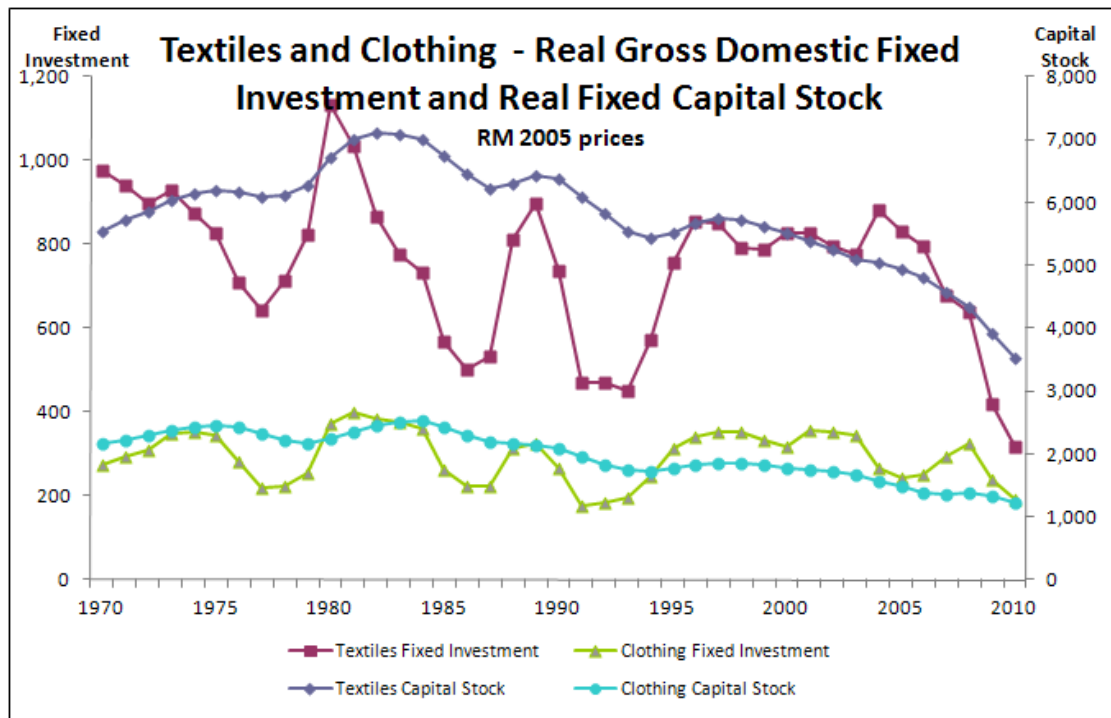
Figure 13 Real Gross Domestic Fixed Investment



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

Looking just at T&C and comparing fixed investment with fixed capital stock highlights a number of differences. Real fixed capital stock for both T&C displays a clear downward trend from the early 1980s. This is in contrast with the volatility of investment data. These developments reflect the complexity of understanding the nature (let alone the causes) of the decline in T&C.

Figure 14 Textiles and Clothing Investment and Capital Stock



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

4.2.4 Trends in imports and exports

The trends in T&C trade have been the subject of much attention and debate since the 1990s. The two most notable developments are the sharp rise in clothing imports from 2002 onwards and the clear decline in textiles exports since 1997. The higher level of textiles imports can be attributed to the capital-intensity of textile production. From the early 1990s onwards, despite the liberalisation of trade, the end of apartheid sanctions, and various policy-led incentives focusing on export growth, both T&C exports have experienced a continuous decline.

Figure 15 Textiles and Clothing Imports and Exports

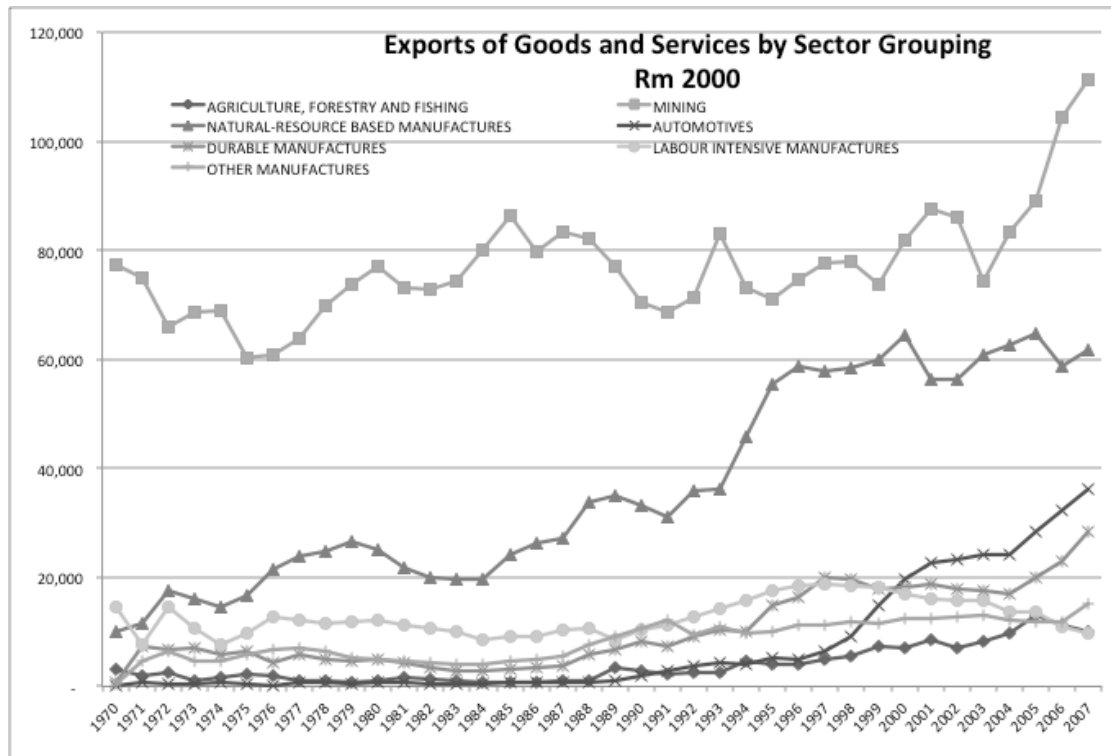


Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

Looking at the export performance of other sectors as shown by the graph below, exports by broad sector groupings have been rising in both mining (led by coal, gold, and platinum), durable manufactures (mainly plastic, glass, machinery, and motor parts) and automotives.⁸³ They have remained high though not growing for natural resource based manufactures (such as chemicals, coke, paper and pulp, iron and steel, non-metallic minerals and petroleum-based products) and slow, but visible, improvement is present in other manufactures and agriculture/forestry/fishing, though the latter two manifest low levels and rates of growth. Similarly, investment has been drawn to the same capital-intensive industries and suggests that both monetary and fiscal policy have selectively benefited the Minerals-Energy Complex with the targeted MIDP boosting the automotive sector. Note the similarity with the trend in employment by sector grouping (DTI 2007 data) where was labour-intensive manufactures presented a notable decline, in contrast with natural resource and durable manufactures.

⁸³ When the data are graphed using 1994 as a base year, the automotive sector outperforms natural resource-based manufactures and mining.

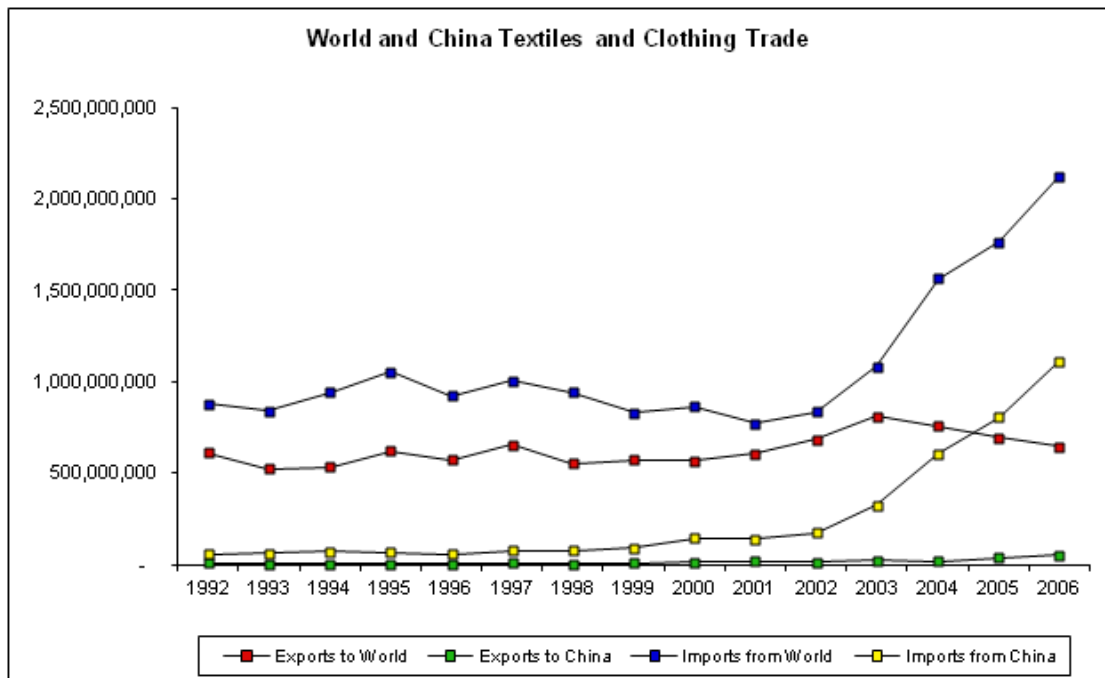
Figure 16 Exports by different industry groups



Source: DTI Sector Data 2008 using SA Standardised Industry Data (Quantec/Stats SA)

Two key issues regarding the lacklustre export performance are: rising international competition, especially from China, and the overvaluation of the exchange rate, deterring potential external customers. The trends in imports and exports with China, as seen in the graph below, show a noticeable rise in imports from China since 2002. This corresponds to the timing of China’s accession to the World Trade Organisation in December 2001. Note how prior to 2002, imports from the rest of the world hovered under the US\$1bn mark. This suggests that rising imports, not just rising imports from China, are an issue.

Figure 17 South Africa's Trade with the World and China



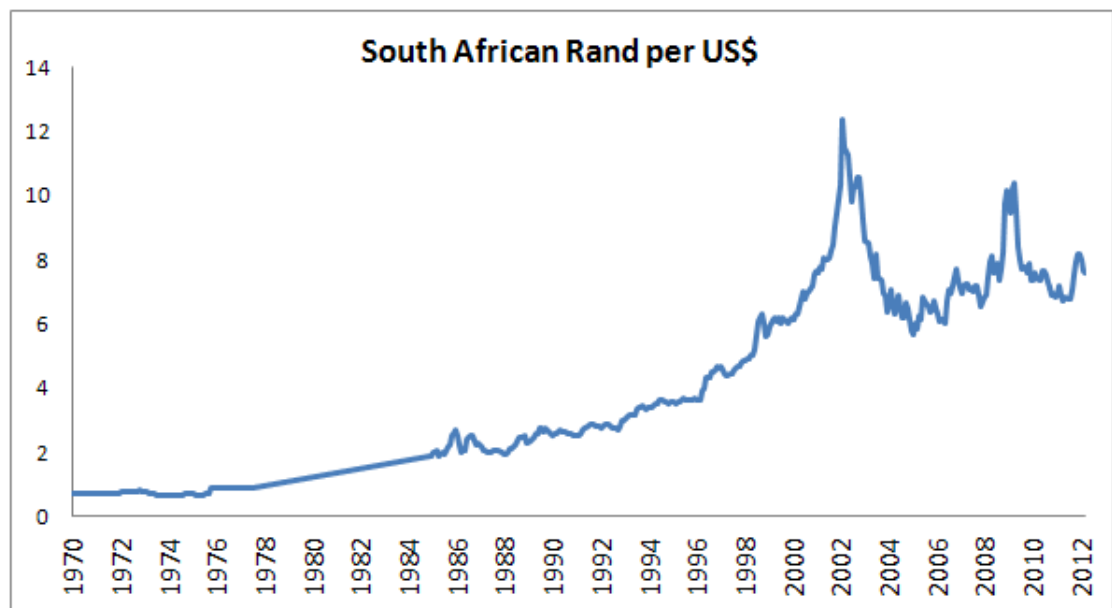
Source: SADC TIPS Trade data 2008 (US\$)

Exports also remained relatively stagnant, with only very slow growth since the liberalisation of the 1990s, and a slow decline from 2003 onwards. Some of this post-2003 decline is also attributed to competition from China in global markets and some to the appreciation of the Rand. The TRALAC World Trade Atlas Data 2007 estimates that of the top 20 imports from China, 9 are in T&C. Exports to China have not grown significantly and remain dominated by minerals and energy products (17 out of 20 top exports are either raw material or partially processed mining goods).

The extent to which these sectors have been affected by exchange rate fluctuations or the gradual rise is also a source of tension. As the graph below shows, exchange rates began to rise steadily in the mid 1980s with small peaks in 1995-1996, again in 1998-1999 and ascending to over 10\$/ZAR in 2001-2002. The argument that rising exchange rates disadvantage the export of T&C products is generally accepted. The appropriate level (for T&C manufacturing), and the impact of the speed at which the Rand has appreciated, is subject to multiple interpretations that vary depending on the interests represented.

Industry and policy representatives interviewed for this study estimated that exports were considered competitive if the exchange rate was lower than 8Rand/\$.⁸⁴ Despite focusing on export promotion as a key mechanism for manufacturing development, the government maintained strict exchange rate controls and only in the period 2000-2003 did manufacturing exports rise in response to the decline in the exchange rate. The volatility and unpredictability of the exchange rate was also cited as a key constraint, especially for textiles given their long investment period and slower production response.⁸⁵

Figure 18 South African Rand-USD Exchange Rates



Source: South African Reserve Bank, (annual averages based on monthly or daily data points). Note that the dataset for the years 1977 and 1984 is incomplete and the data for the years 1978-1983 is missing.

The import-domestic demand ratio and the export-output ratio are the final T&C trends explored here. As the graph below shows, the clothing import-domestic demand ratio has been rising since the late 1980s. Given the flat import growth until the 2000s, this suggests that domestic demand has been gradually falling. A similar, though less steep, growth trend is

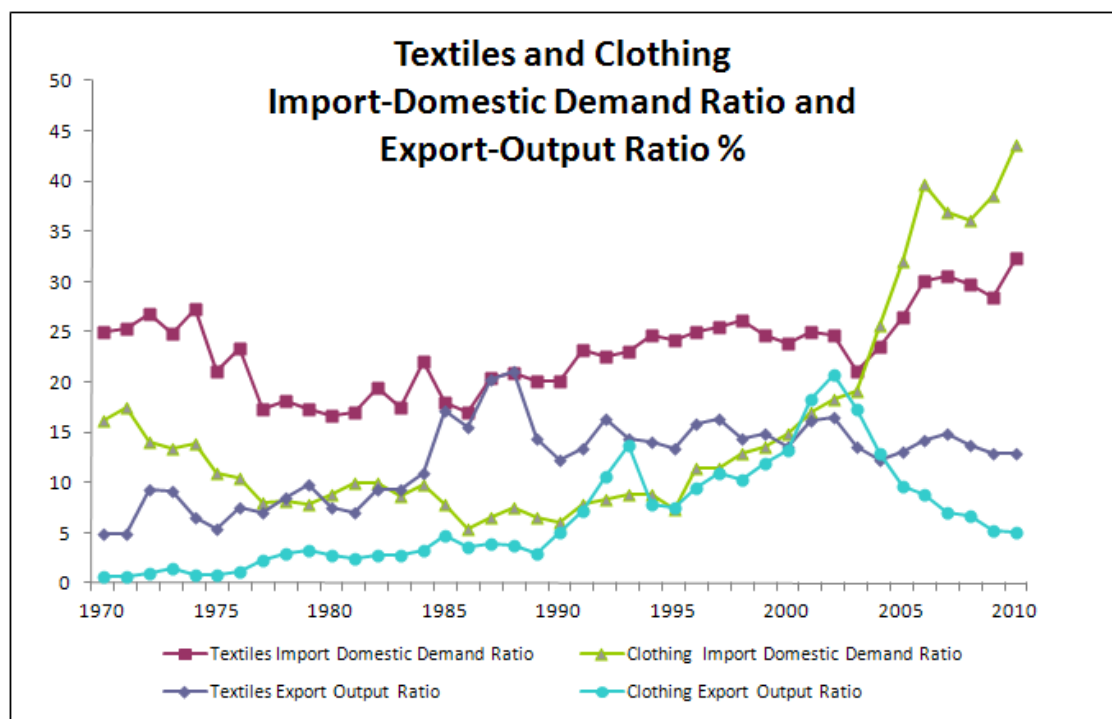
⁸⁴ Interviewee 23, a clothing manufacturer (cut-make-trim) commented that at a rate where the Rand is weaker than 12R/\$(US), what will be imported are long stable runs such as mens shirts, trousers, suits and mass goods. Interviewee 1, an industry expert from within a clothing sector institution (non-production), notes the fluctuation of the exchange rate between 13R/\$ to 5R/\$ and that at 5R/\$ there is a loss of global and local markets resulting in shedding of labour. They also added that even when the exchange rate rises, employers do not re-employ because of fears of the next downturn.

⁸⁵ Recent depreciation of the Rand has not brought about a reversal given production capacity has declined and cannot be repaired over a short period. This also highlights that exchange rates are one of many constraints and an improvement in one does not automatically address others.

visible in textiles import-domestic demand ratio. Textiles imports grew between 1986-1997 suggesting import growth rather than domestic demand lies behind the trend seen below. Export performance for clothing grew between 1988-1993, then hovered above the R3000m mark and has been in decline since 2003. As clothing output growth has been upward but gradually slowing down, the export-output ratio reflects the trend in exports. For textiles, export performance has been on a downward trend with a slower decline or plateau between 1988-1997 and a clear decline since 1997. Output on the other hand has followed a wide U-shape with a decline in real output beginning in the early 1980s, a shallow growth dating back to the early 1990s and a slowdown possibly turning into a downward trend from 2002 onwards. Both of these trends reflect the importance of trade, especially the poor take-off in exports and the increasing dominance of import competition. These trends also reflect the weaknesses and stagnation in the domestic market.

Though this is not displayed here, a similar trend is visible in the evolution of prices. Breitenbach (2008, p. 36) plots consumer price inflation for clothing and footwear 2002-2007 and finds a downward trend that he attributes to cheap imports.

Figure 19 Textiles and Clothing Trade Ratio Overview



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

In summary, an exploration of the select indicators for the T&C sectors presents a stagnant or downward trend that can be traced back to the early 1980s. During the period of analysis there is variation in performance between the sectors, across time and across the different indicators. Employment and export figures show a clearer decline whereas output and value added display a more mixed picture with evidence of decline *and* some recovery, though with a general long-term trend of a slowdown. The long-term prospects for the sectors are weakened by the volatility and limited long-term growth of fixed investment and the parallel decline in capital stock. Rising labour costs and a gradually appreciating exchange rate also erode the prospects for the sectors, especially in light of growing imports and the limitations of domestic demand. Yet it is difficult to see dominant patterns or the emergence of a dominant cause amongst the trends and indicators. They point to the symptoms of a malaise rather than the cause.

4.3 Myths and misconceptions

The exploration of the trends and introducing some of the discussion behind the decline of South African T&C suggests a number of misconceptions. First, the discussion displaying a selection of trends drew attention to the longer-term evolution of the decline and connected the beginning of the decline to the late 1970s and early 1980s. The longer-term decline of T&C is acknowledged, for example, by Jones (2002), Bell (2001), Kaplan (2004), Nordås (2004), Van der Westhuizen (2006), Velia et al. (2006), Roberts & Thoburn (2002 and 2004), and Breitenbach (2008). The downward manufacturing trend is seen as part of the overall declining performance of the SA economy (with the exception of sectors benefiting from the commodity boom). Kaplan (2004), Salinger et al. (1999), in the context of T&C, list a number of factors including, but not restricted to: the global political and economic change (changes in global competition, declining gold prices, rising oil prices), structural constraints within the SA economy, policy, but also population growth, and changes in labour movement, amongst others. Yet much of the analysis focuses on the developments since the 1990s.⁸⁶ A shorter analytical timeframe also contributes to excluding discussions of drivers that emerged or operated prior to that (where the effects may still persist but be misallocated to another cause), and also more broadly, would challenge research approaches that see the T&C decline as a longer-term process to be situated in the context of the South African economic transformation.

⁸⁶ Though some of this may be explained by data quality and a break in data from the introduction of the homelands into the statistics. See for example Roberts & Thoburn (2004, p.78)

Second, maintaining that the decline is due to a single or few key factors reflects a further narrowing within the popular discourse.⁸⁷ One widely written area regarding T&C focuses on issues of trade. Amongst these prominent debates on trade questions are: trade liberalisation and other policies affecting trade, such as exchange rates, trade agreements especially AGOA and MFA, and changes in trade patterns with the rise of import competition from China as an important feature, amongst others. Another common discussion theme focusing on labour-related issues includes: the role of changes in contractual structures with the rise of the informal sector, casual and outsourced employment, debates about the comparative state of labour costs and labour market rigidities, issues associated with skills and training levels, and labour policies alongside policies affecting labour indirectly. Though these are important issues that have contributed to the poor performance, they nevertheless explain only part of the decline. By focusing on just one or a few features (however widely defined) as possible explanations for the trends, the literature on T&C has self-imposed a restriction that has shaped the direction and nature of the debate and limited the analysis. Under such limitations it has become difficult to account for linkages or connections between the large number of explanations or causes identified from the trends. That is, it has made it difficult to address the complexity arising from the interaction and overlap between the many influencing factors and forces. To some extent this type of analytical approach focusing on the apparent and immediate explanations, rather than the hidden or underlying influences, is due to a practical need to list and organize the numerous and complicated factors and forces behind the T&C trends. A single factor focus allows for an in-depth analysis, which for reasons for space and data may be difficult to extend to several contributing factors.

Third, the framing of the policy discussion to address isolated factors holding back competitive production and exchange makes it difficult to consider how policies interact with each other, how policy targeting a specific problem (e.g. import competition from China) does not consider other factors, and an approach focused on sector or sub-sector issues within a competitive market or value chain framing does not consider how this activity is positioned with regard to other industries. This represents a further narrowing and area of contention in the literature that will be explored for T&C in chapter 5 and for the SA economy in chapter 6.

⁸⁷ Within these studies there is variation in terms of the choice of sub-unit of analysis, the depth of focus, whether more than one factor influencing the sector is discussed, as well as variation across the industry (e.g. focus on textiles, clothing, both or subsets) but also geographic scope (KwaZulu Natal, Lesotho, Western Cape).

The fourth area of contention within the literature on T&C is concerned with the different stakeholders and players associated with the industry. Depending on the affiliation of different agents, views vary on the causes (factors and forces) for the trends, what solutions are supported, but also who are the main stakeholders to blame for the decline. The approach to stakeholders taken in the literature draws on the framework and methodology discussions in chapters 2 and 3, highlighting the importance of production relations and tensions within the industry and economy. For example, value or production-chain approaches focus on the role of firms within a supply chain and identify bottlenecks within specific sections of the chain or pipeline. Mainstream neoliberal framing identifies stakeholders in terms of their alignment either within the market or the state. Approaches that focus on a specific factor (trade, labour, technology, skills, investment etc.) contend with the entities relevant for their investigation. For example, studies exploring the decline in labour concentrate on the role of trade unions, bargaining councils, informal sector labour organization, government regulators/policy, employers, subcontractors or labour brokers. Another example would be studies focusing on import competition and export weaknesses investigating the role of domestic and overseas retailers and buyers, competing or supplying T&C manufacturers in other countries, trade policy influences within government, global trade negotiations and agreements including the World Trade Organisation etc. The interviews confirmed divisions in the views held across the entities as well as views on who are the key players. Similarly there was very little consensus on the main causes of the decline with the exception of illegal imports, which was identified as one (possibly the only) factor all (including the government representatives interviewed) agreed was damaging and needed to be urgently addressed. Even with the issue of illegal imports, there was no consensus on how best to address the problem nor how it connected to (or should be addressed jointly alongside) other causes of decline.

It is interesting to note that two types of methodologies are favoured by the literature. The majority of T&C studies focus on one feature through an in-depth analysis, or employ a descriptive approach across a number of factors. These understandably produce conclusions that show the need to address one dominant factor. The research methods tend to favour qualitative and interview-led case approaches, often supported by descriptive statistical analysis. These approaches are justified by the limitations of existing data, as well as the difficulties with obtaining representative data through interviews or surveys. However, it is surprising that these methods yield outcomes that narrow down on one explanation or area

despite most of them acknowledging the presence of multiple factors and the possibility for a role for the broader political economy context. The broader T&C literature thus makes important contributions to uncovering a wide range and varying nature of individual factors, but remains constrained regarding exploring how a combination of these factors offset or reinforce each other, what interests are connected to, oppose or drive them, or what contextual factors constrain or support them. Instead of delving into underlying drivers, interests, and conditions, the factors identified through these studies are treated in isolation in both the analysis and the policy recommendations.

4.4 Concluding remarks

Given the historical establishment of South African T&C, the range and extent of industry support, but also the longevity and contradictions arising from trend analysis, it is difficult to explain the decline with one or two dominant factors, the actions of key interests or groups, or particular external triggers. In this light, it becomes clear that policies or remedies targeting narrowly defined causes or adversities will not alter the downward trend. The literature exploring the decline raises a number of important questions, including what is the relevant time period, extent of the decline, the role of specific factors, and some of the different (internal and external) conditions that have enabled these factors to contribute to the decline rather than to reverse it. The literature also presents a range of views regarding the main causes of the decline. These vary depending on whether they originate from the perspective of textiles, clothing, retail-end of the value chain, from the point of view of labour (and labour representation), or from a policy or regulatory perspective, or represent various third-party views from academia, or views of the general media. The common theme seems to be that a number of different factors and agents are important and that attempts should be made to address the weaknesses and downward pressures. Despite this recognition, there is very little in the literature that seeks to synthesise or theoretically interrogate the multiple and complex web of influences, or to investigate the role of the South African political and economic setting on T&C.

Chapter 5: Exploring the causes of textiles and clothing decline in South Africa – complexity, compounding and context

The previous chapter highlighted select trends to introduce and challenge some of the widely held and persistent views regarding the contributing factors and forces behind the poor performance of SA T&C. Building on these conclusions, this chapter seeks to explore further the constraints and challenges that have shaped the decline of the industry. This chapter draws attention to the complexity arising from the diversity of influences behind the demise, and connects these to the varying and frequently conflicting interests held by the different industry stakeholders and actors. In doing so, this research raises important questions about theoretical framing and methodological approaches in the literature on SA T&C.

Three broad objectives guide the discussion. The first is to show that **different influences** on the industry contribute to the downward trends. Furthermore, though the different influences and their effects evolve over time, the overall effect is a worsening or aggravation and not a reversal of the decline. This is shown to occur at multiple levels and in different ways across the industry. The literature acknowledges a range of influential factors behind the sector decline, but does not extend to investigating the importance of their combined (separate but cumulative) or joint impact.⁸⁸ The second aim is to draw attention to different industry stakeholder **perspectives**. The debates tend to group views as homogenous collectives by function e.g. clothing against textiles, or the views of retail against those involved in clothing and textiles manufacturing. Likewise, views on what would be appropriate remedies tend to be classified along the lines of broad sets of interests such as those of the workers in clothing or those of textiles manufacturers. Yet, like the different industry influences, interests are not static or easily categorised or attributed to distinct or easily identifiable groups. Third, in addition to stressing the need to see the decline as the outcome of multiple and interlinked factors and forces, alongside heterogeneity across and overlap between the different interests and associated stakeholders, the national and global T&C industry **context** within which these influences operate plays an important role in shaping the outcome. The setting is understood

⁸⁸ A few studies go some way to exploring multiple factors in parallel, beginning the process of exploring their joint effects. For example Roberts & Thoburn (2002,2003, 2004) discuss issues of trade liberalisation and restructuring, value chains and production, jointly with employment implications. Salm (2002) explores markets, industry structure and dynamics, key institutions and driving forces alongside constraints and key points of leverage. These provide a key contribution and shift in the literature to consider not just a list of factors, but also their combined role and importance in explaining the industry trends. The aim of this discussion is to build on such studies and to explore the notion of overlap and interlinking between the different influential factors.

to be significant in several ways. It identifies influential aspects of the economy arising from a particular industrial structure, associated with both an historical and current set of policy influences relevant to South Africa. Context can also be seen to include a role for the nature and evolution of the global economy in terms of policy trends and pressures, in particular the developments in the global T&C production and trade. A focus on the context also facilitates incorporating awareness of tensions or balance of forces between various interest groups within and beyond the industry.

With these objectives in mind, section 5.1 draws on the literature to introduce some of the specific methodological and analytical challenges involved in exploring complexity arising from multiple interlinking influences and stakeholders in the T&C industry. Section 5.2 provides a detailed account of the constraints and challenges around production. Section 5.3 focuses on questions of labour and employment restructuring. Section 5.4 focuses on trade agreements and liberalisation for T&C. These discussions draw attention to limitations arising from priced approaches to explaining trends, and reflect on the contribution of myriad industry constraints within a particular policy environment and as framed by global influences on T&C. Section 5.5 concludes with the need to see the evolution of T&C both in the light of, and in parallel with, the evolution of South Africa's industrial and macroeconomic policies as constrained and shaped by the underlying interests and tensions in the SA political economy.

5.1 Challenges in exploring the decline of textiles and clothing

A wealth of literature attests to the interest in exploring the complex nature and evolution of SA T&C industry. Apart from a few overview studies such as Vlok (2006) and Salinger et al. (1999) exploring multiple developments in the entire industry, or Jauch & Traub-Merz (2006) and Morris & Barnes (2008) UNIDO study comparing T&C studies across Sub-Saharan Africa, much of the literature concentrates either on the textiles or the clothing sector, or a specific theme or trend. Particular areas of debate have included the end of Multi-Fibre Agreement and the WTO Agreement on Textiles and Clothing, as instances of global trends or developments that have important implications for T&C across a number of countries. Studies on local developments have included exploring the impact of the Duty Credit Certificate Scheme or the rising T&C imports into South Africa, especially following China's entry to the WTO in 2001. In addition to exploring the particular developments, trends, or studies that attempt to summarise the multiple influences, the literature presents contributions through different:

- methodological approaches (especially firm or worker interviews, case studies, description of trade or production trends),
- geographic delineations (e.g. focus on Kwa-Zulu Natal),
- product groups (e.g. second-hand clothing) or
- forms or structures of production (homeworking, outsourcing, or cut-make-and-trim component of processing).⁸⁹

Three reoccurring themes have produced the most research output. These themes focus in particular on questions of trade policy and agreements, employment relations and structures, as well as issues associated with production across the entire value chain or production network. A cursory investigation of the scholarly publications for SA T&C in the interval 1970-2010, shows the popularity of topics such as trade (13,000 results, with trade liberalisation producing 7,760 results), labour and employment studies (6,350 results), sales and production (6,530 results) and value chain research on SA T&C (a relative newcomer in debates producing 1,350 results). In addition to the broad themes and specific areas of interest, subthemes focus on clusters, competitiveness, institutions, but also studies on the spatial/geographical distribution of T&C activities, second hand clothing, transport and infrastructure, informalisation or casualisation of employment, to name a few.

At first glance, much of the literature seems content with a descriptive approach with few studies explicitly presenting a theoretical framework that would drive the research design, or the structure, organisation or analysis of the material, as well as influence the conclusions or policy recommendations. A closer look suggests that an implicit theoretical grounding based on the supremacy of the market mechanism does shape much of the academic literature. With some notable exceptions, such as Zeng (2008) and Abiola (2006) in a World Bank study on clusters, and Morris and Levy (2010) on the political economy drawing on Ostrom's collective action, the lack of explicit theoretical framing does not preclude many of the studies drawing on market-led notions of competitiveness, productivity, and upgrading of skills, value, technology etc.⁹⁰ For example, Salinger et al. (1999) focus on the failings of T&C from the perspective of their inability to compete, which manifests itself through inefficient production processes, costly inputs, poor export uptake, as well as poor quality, low speed to market or

⁸⁹ See Appendix 2 for a selective outline of the literature reviewed.

⁹⁰ These are evident in the use of terms such as competitiveness, comparative advantage, globalisation, in the structure and organisation of the research, focusing on impediments to upgrading in value chains, identifying sources of inefficiencies (across policy, production, or trade), and improving productivity and competitiveness.

limited scope for or actual economies of scale. Likewise, the policy discourse has been around facilitating market access or competition with great emphasis on trade liberalisation, making labour flexible and competitive, deregulation to facilitate market-based exchange, and incentives for investors, owners, managers, or labour to operate more efficiently within the market parameters.

In what follows, it is argued that T&C research has been analytically confined by an implicit adherence to a neoliberal or market-focused analytical framework. One of the outcomes of this has been the limited interrogation of what causes various industry imperfections (as termed by the mainstream) or context-specificities (as in the heterodox literature), how their impact is interpreted, and whether they can be resolved by facilitating market forces. Related to this, there has been a limited interrogation of the relevant contextual factors arising from the way the economy is structured and arising from the tensions and interests that shape the evolution of the economy. To begin to address these limitations, it is necessary to look beyond questions put forward by theorising around poor competitiveness, limitations to upgrading (e.g. of skills, technology or processes), or too much/little the wrong kind of policy as explanations for the industry deterioration. This challenge is founded on the notion that market mechanisms may not generate the appropriate incentives to allow for the right products to emerge, at the right prices, with access to the right markets. Likewise, the firm as the unit of analysis may not adequately reflect the different interests and tensions across them. It is argued that a focus on industry actions or policies that facilitates or enables market forces and price mechanisms to operate (im)perfectly and efficiently is misplaced. The market may be the appropriate platform for the interaction between producers, buyers, and prices, but may fail to generate incentives or even identify the underlying inputs, factors and dynamics. A second outcome of the implicit assumptions about the explanatory powers of the market-focused framing has been the reduction of the policy discourse to one where the state and market forces are misleadingly presented as opposite and distinct, with the consequence of reducing policy analysis to questions of wrong or right type of policy.⁹¹

A broader approach opens the space for an alternative conceptualisation of the industry developments: one that is informed by the diversity and complexity of influencing factors and forces, by an interrogation of the cumulative impact of multiple causes, and is associated with

⁹¹ A similar argument regarding the misleading reduction of the roles of the state, set against that of markets, is made in Bayliss & Fine (1998, p.842) and Bayliss & Fine (2007) discussing privatisation.

a particular policy and economic setting. The broader approach taken here also enables the discussion of factors and forces that both challenge and contribute to the theoretical debates. One such insight is the importance of incorporating a more varied and evolving role for the different industry stakeholders, and an understanding of the evolution and the tensions between them. It is stressed here that this research does not seek or claim to arrive at an alternative theoretical framework, but instead aims to identify the questions that remain to be asked, and in doing so also contribute to methodological and theoretical discourses that have been employed to explore textiles and clothing. Here the importance of drawing on more than one theoretical framework is reiterated (see chapter 2).

Reflecting on the above challenges, a prominent feature emerging from a review of the T&C literature is the reductionism arising from methodological choices. This presents itself in two fashions. One approach is to attempt to cover all potential industry challenges, but treat them as a separate list of unconnected factors.⁹² The other, visible especially in studies with a particular trade or labour theme under investigation, has been the confining of both the focus and conclusions to one or a small group of related factors under consideration.⁹³ Thus for example a study exploring the rise of informal employment, such as Fakude (2000), explores questions around employment structures, costs, employee-employer tensions, but does not look at how the employment forms were connected to other influences such as trade policies, access to market, or the fragmented and fractious industry relations (between a range of actors across the different sectors, employers, labour representation, policymakers, regulatory bodies etc.). In another example, Sandrey & Fundira (2008) investigating the impact of the China Restraint Arrangement consider the impact of the quotas, but does not investigate what was constraining production or the changes in the structure of relations between labour and employers. A third example that reflects this separation of themes is the Key Action Programmes that were part of the research building towards a disputed T&C industry policy (Textiles and Clothing Customised Sector Programme debated in 2005/2006 and eventually formalised in 2009).⁹⁴ As mentioned in chapter 3, in terms of the research tools used, most studies seek to combine official statistics about trade, employment or production with insights

⁹² Van der Westhuizen (2006) and Salm (2002) provide useful summaries of the broad range of factors though do not explicitly explore the connections or overlapping effects between them.

⁹³ For example Morris & Reed (2008) on skill gaps and shortages in T&C, or Breitenbach (2008) on the DCCS and textiles.

⁹⁴ See Barnes 2005 for details of the Key Action Programmes, and Edcon et al. (2005, 2006) for a collection of letters on behalf of retail to the DTI during 2005-2006, Interviews no. 1,3,8,9, 12, 15, 17, Customised Sector Programme (2009)

from interviews or surveys. With the exception of Truett & Truett (2010), econometric analysis was not a common research approach, despite the relatively good availability of data especially on the dominant themes of trade, employment and production.

It is noteworthy, that despite in-depth research, none of the studies reviewed for this research investigated the implicit theoretical framework or the theoretical implications of their findings. Likewise, there is limited interrogation of the broader policy or economic context within which these studies and their conclusions were situated.⁹⁵ Instead, conclusions from the literature either pointed the finger at the limitations of particular domestic policies, such as export incentives, macroeconomic policies, such as exchange rates, or challenges attributed to global policy and market developments, problematic inter- and intra-industry developments, or damaging actions of particular agents or stakeholders in the industry.

The exploratory, triangulated and multi-source approach employed in this research has been useful in drawing out the role of linkages between multiple factors, bringing to the fore the role of non-price factors such as tensions between stakeholders, and reflecting the need to delve beyond the proximate explanations. As seen in chapter 4, one of the key contributions has been the finding that no isolated industry factor, stakeholder, or policy exists to explain or remedy the decline of T&C. Though this was identified as a shortcoming within the general T&C literature, explaining the complexity, connections, and cumulative nature of the different influencing factors continues to present a challenge to this research. It is acknowledged that whilst this research contributes to a better understanding of the decline and debates about the appropriate methodological and analytical approaches, many unanswered questions remain.⁹⁶

5.1.1 Dealing with complexity

Delving further into the way in which the complexity of the industry decline is discussed in the literature is a useful entry point for the three themes of production, labour and trade that are discussed in sections 5.2-5.4. Several studies acknowledge diversity and complexity and even point to the importance of historical and economic context (Barnes (2005), Breitenbach (2008), Salinger et al. (1999), Salm (2002), Roberts & Thoburn (2002,2004), Van der Westhuizen (2006),

⁹⁵ Though several studies mentioned some extra-industry factors such as components of macroeconomic policy (e.g. exchange rates), these were not portrayed together with other non-industry factors nor presented as part of other contextual factors (such as policy history, or economic structure).

⁹⁶ Some of these were listed in section 3.3

and Velia et al. (2006)). In addition, many of the industry studies, irrespective of their focus, commented on the interdependence of textiles, clothing and subsectors.⁹⁷ One of the key challenges in exploring the complexity arising from combined and cumulative impact of influences has been around the problem of establishing the magnitude, nature, or causality of these linkages.⁹⁸ Rather than focusing on quantifying or establishing proof, instead it is argued that a way to develop the notion of complexity further would be to draw attention to debates going beyond the notions of constraints to upgrading within a value chain, improving competitiveness and addressing issues around competition and productivity. This means allowing for factors that cannot necessarily be measured, agreed upon, or supported other than through the stated views and experiences of industry stakeholders and actors.

In addition to looking beyond the above ways to explore notions of complexity, is important to see the constraints of T&C as different from those of another country textile and clothing industry. Likewise, the constraints and influences, interests and actions of stakeholders in 2004 (at the time of the Customised Sector Policy negotiations and end of the Agreement on Textiles and Clothing), are different from those in 1994 (at the time the Reconstruction and Development Programme, the launch of the democratic government, and end of the multi-fibre agreement, but also during a period of exchange rate appreciation affecting manufacturing competitiveness), or in 1974 (when the multi-fibre agreement and the slowdown of the SA economy began, alongside the slow path to export incentives in the 1980s).⁹⁹

Organising the range of influencing factors and forces behind the decline in a meaningful manner has presented a challenge for this research. Attempting a synthesis to capture the multiple different factors contributing to the sectors' demise has the advantage of focusing on more than one factor or development at a time. It is also difficult to explore the underlying tensions between interests, and the form of their interaction within the SA political economy,

⁹⁷ For example Velia et al. (2006) refer to complexity arising from different forms of employment; variation in nature, size, or form of production; degree of integration either geographically or into a GVC; variation in performance arising from location, historical or other factors that have shaped choices of production. Salinger et al. (1999) discuss functional and policy complexity arising from a range of skills associated with different products, or from challenges or changes in production, technology, remuneration, inefficient links with upstream or downstream producers, or from tariff and trade incentive structures.

⁹⁸ Although Salinger et al. 1999 do run Granger causality tests for the relation between T&C employment and find some support for this link in the presence of time lags. They also question the robustness and usefulness of these findings.

⁹⁹ See Clark (1994 p.133), Gelb (1987, p.2), WTO (Differences between ATC and MFA, accessed 16 Aug 2014), Salinger et al. (1999Sept, p.9)

without a sense of the range of factors and the complexity arising from their interaction and variation over time. Initial attempts at organising the combination of insights from interviews and the literature focused on grouping the important factors by scale: sector- or stakeholder level influences, industry-wide challenges, domestic and global influences. Another attempt to organise the material grouped factors by source of influence. These were: sector/industry-related, policy-related, and external (domestic or global) influences. Whilst each presented advantages in drawing out the detailed nature of the decline with respect to the range of influencing factors, the key shortcoming was that they created yet another separation between the causes rather than drawing attention to the linkages and their overlap. Though it is not entirely satisfactory, the material was finally organised based on the three key themes from the literature: production, labour, and trade-related factors. See Appendices 1 and 3 for further details on organising the findings.

The advantage with this structure was the opportunity to highlight complexity within each key theme, complexity arising from the number of different variables or factors, a range of interests and entities involved. This approach also allowed for an investigation of the overlap and interaction between and across the various influences. This structure permitted continuity with the literature by seeking to highlight the complexity and diversity of separate or discrete influences contributing to the decline.

5.1.2 Exploring the factors behind the textile and clothing decline

The next three sections provide a selective synthesis of key influences associated with the themes of production, trade and labour. Amongst the main findings of the investigation into the complexity of the decline are:

- the compartmentalisation of factors which removes the possibility to look into any interaction or cumulative effects,
- the influence of tensions between industry stakeholders, and
- the limitations arising from analyses confined to a price-driven market-based framework, be it through competitiveness, value chain, productivity, or cost-reduction.

Problems faced by clothing manufacturers are kept separate from those of textiles manufacturers, and retailers, and the perspectives of workers and employers are distinct. Though the production, structure, and challenges faced by each subsector are distinct and different, their dependence on each other within the broader value or production chain means that problems faced by one segment will affect others, but also that the combination of

challenges across sectors goes beyond the sum of the individual sector or activity challenges.¹⁰⁰ This supports the core contention of chapters 4 and 5, that understanding the decline and industry challenges requires a macro approach that allows for the interplay and evolution of influences, rather than one focusing on very specific or narrowly defined factors or interests. The findings, summarised below, show that the varying influences and actors operate across different levels and spheres, from production to policy factors at industry, the macro-economic, or global level.

¹⁰⁰ This is relevant even if many sections of the chain take place beyond the SA policy, economic or geographical sphere

Table 2 Summary of factors and circumstances raised in interviews

Issues related to textiles and clothing	Policy- and state-related issues
<p>Decline in T&C precedes independence Supply issues (quality, volume, accessibility, cost) Skills and product quality issues Process upgrading (tech and skills investment) stunted Fragmentation of interests and tensions in relations between T&C (esp. relations between retail and clothing) Rise in power and concentration of retail (domestic and global)</p>	<p>Focus of policy on supply-side measures at the expense of developing demand. Linkages with MEC sectors especially between textiles and chemicals limited Separation between Treasury, DTI and other policy-making entities (and policies) Policy space restrictions because of need to distance from apartheid government National and global economic transformation</p>
<p>Tensions around policy processes such as the customised sector programme and China quota arrangement. Trust in government affected by unaddressed on-going problems.</p>	<p>Government claims commitment to T&C alongside auto industry Government perceived focus on other sectors Policy bias towards capital intensive mining and extractive industries Market size small and constrained by unemployment (domestic) Regional development as way forward not really explored despite possibilities.</p>
<p>Trade liberalisation implemented faster than required by WTO. Duty Credit Certificate Scheme on-going, not generating sufficient export growth.</p>	<p>Export promotion policies not generating desired export Trade liberalisation increased pressure on costs and prices. WTO compliance reducing space for policy Trade agreements not addressing or benefiting industry needs Global policy alongside globalisation of competition creating additional pressure</p>
<p>Race to the bottom (price bias) Labour costs rise resulting in shedding of labour, outsourcing, shutdown of factories. Labour regulation perceived to be restrictive and costly by manufacturers Labour restructuring, rise of informal sector and use of casual labour outsourcing with downward pressure on wages</p>	<p>Apartheid labour regulation as a legacy influence Post-apartheid labour regulation creating conflicting incentives Dominant SA conglomerates invest abroad / offshore funds instead of domestic industry investment.</p>
<p>Domestic demand for T&C affected by uncertainty, economic performance and unemployment. Foreign and domestic investment decline Access to finance problems Cluster initiatives important but on small scale. Cooperatives could be more successful but impact small in comparison to industry problems. Value chain development is affected by tensions in relations. Access to global value chain or upgrading is difficult.</p>	<p>Foreign investment not forthcoming into T&C Interest rate policy favouring high interest rate creating challenges for borrowing and drawing investment away from industry Access to credit for T&C businesses not easy Financial liberalisation affecting mobility of capital, especially outflow of capital. Fiscal policy constrained because of the poor state of the economy in post-apartheid period. Reduction of the channelling of government revenue to industry.</p>
<p>Import and export competition Illegal imports / under-invoicing are considered a problem for entire sector. Attempts to address them are limited because of capacity and commitment issues. China competition effect emerges after entry into WTO 2001 Quotas 2007+ on Chinese imports not successful in addressing industry problems.</p>	<p>Perceived shift from import substitution to export promotion Import substitution of the past not generating products and processes that were suitable to the type of competition nationally and globally in late 1980s and 1990s. Overvalued exchange rate making manufacturing output less competitive globally</p>

5.2 Key theme: production issues and industry relations

The challenges associated with the organisation and relations of production, the way in which these factors interact with each other, and the way in which they reflect a variety of interests are at the core of the T&C industry decline. This sub-section discusses several of the complex range of production factors arising from the multiple products and forms of production, different structures and ownership, as well as different interests across T&C. The production challenges include influences that operate at the level of specific sectors and sub-sectors, but also constraints that affect multiple parts of the industry, albeit in a number of different ways, subject to the nature and needs of that industry segment. The wide range and interdependence of the industry activities mean that failings in one segment can affect other parts of production and processing, irrespective whether these are connected as production networks, value chains, or through overlapping markets, or other functions. This complexity, and connections of the different industry influences, presents a number of challenges for analysis, policy-making and firm strategy. In part driven by practical, and in part by theoretical reasons, much of the literature and debate has resorted to a compartmentalisation of the industry constraints. That is, whilst the complexity and interconnectedness of multiple industry influences is acknowledged, much of the literature and policy debates treat the production factors and forces behind the decline separately.

Attempting to explore this brings to the fore a number of processes and limitations that have worsened the industry prospects. As mentioned, one of these limitations is a cumulative build-up of different production constraints together with trade and labour factors, intra-industry tensions, and structural transformation, in a downward trend. This combined effect is neglected by both policy and methodological compartmentalisation of the different constraints. Though the compartmentalisation enables a narrow and more in-depth focus on one or few factors that are perceived to be critical or dominant, it limits the space for the formulation of appropriate production remedies or policy solutions beyond the select factors. For example, production remedies are separated from the formulation and impact of trade policy or labour policy. This makes it difficult to address the cumulative downward effects across multiple factors or influences. Another challenge in the literature and debates has been the dominant analytical framing focusing on the direct impact on prices through input costs or output prices, or indirect effects through competitiveness or contribution to value added. These neglect a number of important non-price influences such as the relations and tensions between industry participants as well as non-productive stakeholders. These tensions in

industry relations together with the tensions across global T&C production and trading environment are, nevertheless, important factors in shaping the decline.

What follows is an exploration of this compartmentalisation of influences using the examples of the Customised Sector Programme and the China Restraint Arrangement to highlight the policy challenges and to provide further insights into the drivers of production challenges.

5.2.1 Compartmentalisation and build-up

Production challenges feature extensively in the academic literature and range from interrogating firm performance indicators such as quality, delivery, price, to broader questions of trade and labour, frequently measured through competitiveness in input or output markets. Performance is captured through access to appropriate inputs, production skills, and managing orders in terms of timing and quantities to allow for on-going production. Indicators such as lead times, absenteeism, delivery reliability, but also inventory levels, customer return rates, and output per employee, are used alongside prices, input costs, and production quantities both economies of scale and smaller minimum quantities. The literature typically explores productivity or competitiveness through specific enabling or impeding factors. For example, Barnes (2005, p.8), details “inherent competitive weaknesses” in clothing to include figures on total inventory, customer return rates and output per employee. Salm (2002, p.3) on garments notes that “(t)o compete globally and export successfully, SA faces two major constraints, the first is regionally produced fabric, and the second is the cost of labour.” Likewise for textiles, the literature has explored structural change at the firm or industry level with trade providing the platform and measure of success. This has ranged from a focus on the impact of export incentives by Breitenbach (2008), questions of markets access and entering GVCs as in Roberts & Thoburn (2002), and to a lesser extent, with a focus on questions of labour, seen either as a cost, or viewed through a decline and or structural change in employment.

The table below shows select production challenges and perceptions about the challenges that have been identified in the literature and this research.¹⁰¹ What is interesting is the range and scale of factors noted and the interdependence of the different factors. It is also useful to draw attention to the differences across segments of production. For example, declining investment has been a problem for both T&C studies given the need to upgrade skills, technology, and

¹⁰¹ This list is not exhaustive as the aim is to explore the main themes and implications in terms of the connections within production factors and relations and the interaction with other influencing factors and forces.

processes. Investment originated previously from government, but has been in decline because of a conscious policy shift, balance of payments problems, and focus on other industries (MEC). Despite signals through market liberalisation, restructuring to favour capital, and at least in theory, changes to production and supply structures that could generate revenue and return on investment once realised in domestic and global markets, private investors have not been forthcoming. From the perspective of employers, Van der Westhuizen (2008, p.14) suggests risk-aversity as an explanation for low capital investment levels. Connected to this, the industry is perceived to be run by family capital, and is not attracting a new generation of investors. Risk-aversity and family ownership imply investment is not based on purely business but also personal decisions. Foreign investors have also been deterred for reasons of risk, with production not seen as competitive, and high cost of other inputs increasing the pressure and reliance on labour.

Though low investment affects the entire industry, the nature of the needs varies greatly across the sectors and sub-sectors.¹⁰² The status of the existing capital equipment and technology is more advanced in textiles than in clothing, particularly the cut-make-and trim segment of production for the latter. The different starting points, challenges, but also speed of investing or upgrading, create space for different perspectives to emerge regarding the main concerns, constraints and opportunities across the entire industry. For example, investment into textiles is primarily about capital equipment upgrading which tends to be a slower process than expanding production through employment growth in clothing. Investment needs in clothing also includes the need to upgrade skills. Abiola (2006, p.11) notes that “over the period 1992 to 2000, the manufacturing sector spent an average of 5.8% of its sales on new capital assets, compared to 3.8% in the textiles sector, and 1.4% in the clothing sector. China, India and Pakistan are spending intensively in new capital assets whereas South Africa is so far lagging behind.” These differences are one of the sources of tensions in productive relations. The way in which a particular constraint, such as investment shortages, stacks on top of other industry limitations also varies across the different segments of production. Some authors have noted the layering of influences. For example, Vlok (2006, p.241) talks of the difficulties in attracting graduates due to poor perceptions of the industry prospects being “compounded by the lack of investment in skills development”.

¹⁰² The issues around investment are revisited under the theme of labour section 5.3 with some unavoidable repetition.

Table 3 Selective overview of production constraints and remedies in the literature

Textiles production constraint	Clothing production constraint	Suggestion forward
Long lead times, Poor delivery reliability, Deteriorating quality performance	Inflexible production, unresponsive to global environment, unwilling to invest in capital goods, unable to improve production efficiency. Long lead times, high non-labour inputs costs. Logistics costs, inadequate or unreliable telecommunications, physical and technical infrastructure.	Niche markets (response to high prices and lead times).
Access to finance seen as a constraint to expansion and investment in new technologies by industrialists. High interest rates add to costs and “inhibit re-investment in the textile industry when it should be gearing up for increased demand” (Salm 2002, p.35)	High cost structure (resulting in relocation of buyer contracts or production to low-cost competitors in other countries). High labour and management costs (especially in relation to output).	South Africa’s perceived high cost structure makes it difficult to compete with China, India, Indonesia Turkey and Pakistan, yet opportunities exist with the growth of demand for clothing in middle-income countries. (Barnes, 2005, p.7-8).
Poor performance with competitiveness indicators (as calculated by B&M Analysts 2005). Textiles performed worse than clothing in inventory, return and delivery reliability rates. <ul style="list-style-type: none"> • output/employee (R’000) 387.9 • inventory days 66.9 • customer return rate 1.9% • delivery reliability 88% 	Poor performance with competitiveness indicators (as calculated by B&M Analysts 2005). Clothing performed worse than textiles on output/employee, and absenteeism (7.93 compared to 4.03 in textiles), but lagged behind in comparison with similar international clothing indicators. <ul style="list-style-type: none"> • output/employee (R’000) 91.35 • inventory days 45.83 • customer return rate 0.49% • delivery reliability 86.67% 	Focus on man-made fibres and woollen articles where SA is seen to be competitive.
End of Multi-Fibre Agreement removing rules on production location with expectations about the increasing cost-competition and relocation of production to lower-cost producers.		Explore alternative export markets (e.g. other middle income countries or emerging African countries where demand for apparel exceeds their own production). Develop trade agreements to enable access and enhance production networking at the regional level and with other (competing) developing countries. Regional market development for supply and shared value chains has also not been fully explored. For example, Zimbabwe has a substantial cotton and textiles capacity that together with the SA clothing and textiles could be the basis for regional industrial integration.
AGOA triple-stage rules of origin mean textiles are locked into production pipelines with SA clothing. This accentuates weaknesses and tensions in relations between the two sectors.	Poor penetration into exports with main targets being US and EU markets. This, despite trade agreements (especially AGOA) and a decline of domestic production in these regions (US imports approximately 85% of clothing). This is in part because of the sourcing from other developing country producers, increasing control by developed country buyers, and more tightly defined vertical value chains.	Focus on woollen articles to take advantage of preferential trade agreements especially in light of high US import duties for competing countries. Develop trade agreements to focus on South Africa’s competitive advantage.

Textiles production constraint	Clothing production constraint	Suggestion forward
Industry relations between T&C and with retailers tense and exacerbated by weaknesses in product quality, delivery and speed.	Skills base and training inadequate. Management capabilities weak. Difficulty in attracting new and high calibre graduates due to perceptions about clothing (and textiles) as a declining (sunset) industry. – Investment into industry is negatively affected by risk adversity, fears of increased competition due to ease of setup, type of firm (family) contributing to risk-aversity, and lack of confidence about the future (Van der Westerhuizen 2008, p.14).	Clothing industry affected by inefficiencies in textiles. Likewise, textiles held back by clothing sector limitations. Both T&C affected by perception that retailers not sourcing sufficiently from domestic producers.
	Clothing developed during period when domestic market was isolated from outside markets and did not achieve economies of scale.	Regional market, African brand development or sourcing lower-cost inputs from the region.
Industry protection under ISI products and attributes	limited development of competitive	Upgrading industry production and product-market (domestic, regional and export) capabilities.
Textiles industry perceived (by clothing firms) to be uncompetitive internationally. Yet, pressure to source locally and the costs arising from the AGOA triple-stage rule create challenges for clothing firms. (Barnes 2005, p.11)	Investment and technology, innovation and design capacity limited. Barnes (2005) estimated capital expenditure on new assets at 1.4% of sales between 1992-2002, 2.4% and 2.6% in 203 and 2004 (Barnes notes this overestimates capital expenditure as sales in based on SIC 313-314 and capital expenditure also includes SIC 315). Clothing manufacturers perceived not to have “world class manufacturing standards...or state of the art technologies; skills deficiencies created by the perception of many professionals that clothing is a ‘sunset industry’” (Barnes 2005, p.11)	Develop trade agreements to access technology, skills and capital from sources outside the domestic industry.
Employment decline (attributed to liberalisation and restructuring). Perceived rising cost of employment frequently associated with greater labour regulation. National bargaining council established in 2002 to regulate labour practices and wages (wage bands). Many manufacturers argue that this removes their ability to compete and forces them to shutdown/relocate.		Productivity improvements based on cost-minimisation and downsizing rather than production growth.
Rising imports especially from China. This also includes sale of distressed goods, production overruns sold at discounted values and dumping. It is argued (by Barnes (2005, p10) that SA customs have been rendered powerless because of present WTO rules.		Expansion in domestic retail sales (though limited impact on production due to rising clothing imports).
Illegal imports includes mislabelling, under-invoicing, false declaration of goods, rerouting via other countries, misuse of duty rebates and credits, corruption/payments to customs (compiled from Wolmarans 2011, p.68 who draws on DTI 2005, p.40). Vlok (2006, p. 243) notes estimates for the level of illegal imports at 10-30% of total clothing and textile sales. One interviewee quoted that in 2007, they estimate the value of the illegal imports at 500m Rand and 50,000 jobs.		
Strong Rand increases competition from low-cost imports and makes exports less competitive. The exchange rate was another adverse influence that the majority of the industry respondents agreed upon.		

Sources: Barnes (2005, p.5,7,8,11 in particular); Van der Westhuizen (2008, p.14), Breitenbach (2008), Vlok (2006) and Morris (2006), Salm (2002)

A key source of debate regarding the industry is how to resolve the individual firm, location- or product(ion)-specific challenges, given varying starting points and needs within the industry. As the tables above suggest, there is scope to focus remedies on different levels. These could consider micro- or meso-level challenges faced by firms or production pipelines, such as speeding up lead times, or improving delivery reliability. This also applies to more widely shared problems in input or output markets, for example through labour regulation or trade policy. An example of a collective influence is illegal imports. Whilst this affects all parts of the industry, and is one of the few areas where there is collective agreement on the need for immediate and targeted attention, efforts to resolve this have returned to finger pointing. For example, the Mbeki 2006 task team consisted of combined efforts across the South African Police Services, Revenue Services, the Department of Trade and Industry and included industry expertise for example from the National Bargaining Council (NBC). Yet, one of the obstacles that affected the operations of the task team were resource shortages with, for example, police requesting overtime pay to accompany the NBC on raids (Interview 14, November 2008).

This space for different prioritisation or interpretation of what are the key problems, together with the complexity arising from the large range and type of challenges, to some extent explains the segmented or compartmentalised focus that has dominated discussions about what is wrong with the industry, and consequently also debates on appropriate policies and industry remedies. This may help explain why industry problems arising from, or exacerbated by, the complexity and combination of multiple interacting factors are not addressed by policy. The research approach could be seen as the outcome of a pragmatic compromise. It may also be driven by the dominant analytical framework, favouring notions of competitiveness, value chain development, or other approaches based on a price-market mechanism. It can also be explained by the transformation of the industry to one driven by buyer decisions and the growing organisation of the production-retail relations within GVCs, where power is concentrated with a few powerful buyers or multinationals controlling retail for several if not all of the production pipelines and value chains. Drawing on the literature, the table below highlights a selection of competitiveness challenges and possible solutions.

Table 4 Select challenges and solutions for enhancing competitiveness

Industry challenge	Policy suggestion or industry remedy
Significant scaling up of skills required. Innovation and design capacity lags behind other industries	Enlarge skill base through the set up of the Clothing, Textiles, Footwear and Leather Sector Education and Training Authority in 2000. Early research work suggests the CTFL-SETA lacks credibility and support within the industry. ¹⁰³ Clotex under the support of the Department of Economic Development and Tourism provides training on legal, financial, computer and technology skills as well as funding for an exhibition and mentoring project.
Beneficiation schemes to integrate the value chain (going from "agriculture, fibre production, textiles, finished textiles products, clothing design and clothing manufacturing" Vlok (2006, p.242)	Establish Textiles and Clothing Industry Development Council in 2006 to provide a platform for government and industry to develop policy.
Promote local sourcing, products, design and innovation, employment sustainability. Improve beneficiation of local or regionally produced raw materials	Various exhibitions and platforms to forge links between designers, industry, suppliers, customers. E.g. Fashion Imbizo, Fashion and Lifestyle expo, Cape Town Fashion Festival.
Raise investment levels and improve technology	IDC finance programme consisting of loans, suspensive sales or equity between 35-50% of total assets with min of R500,000 (~US\$50,000). Focus is on expanding and/or modernise production capacity; distress due to global economic trading conditions; start up of small to medium manufacturing facilities. ¹⁰⁴ Other non-industry-specific sources of finance are available through the Department of Trade and Industry Small and Medium Sized Enterprise Development Programme, as well as various provincial funding and entrepreneurship and other support schemes (especially in the Western Cape).
Inventory holding weak, large differences between individual firms affect firm-level competitiveness. Differences in productivity and performance indicators.	
Illegal imports and under-invoicing	Problem identified to date back to the 1990s. In 2014, these issues were still under on-going debate. A report on the capacity of SA Police Services, SA Revenue Services and International Trade Administration Commission, as the customs enforcement agencies found "they have been plagued by poor integration, budget and capacity constraints as well as lack of project continuity" (IDC 2013, p.ii) ¹⁰⁵
Removing trade distortions and develop competitiveness on global markets	Interim Textile and Clothing Industry Development Programme (ITCDP) set up in 1995 (interim) with the aims to improve international competitiveness through the use of the Duty Credit Certifications and training. One of the restrictions applied in 2006 was on trading the duty credit certificates. The expiry was set for 2010 (thereafter replaced by the Production Incentive Scheme). One of the key limitations has been the focus on exports when the majority of production is for the domestic market. ¹⁰⁶
Explore joint interventions and foster greater strategic collaboration.	Cluster initiatives such as the Cape Clothing Cluster established in 2004.

Source: Author's compilation drawing on Barnes (2005), Vlok (2006), Abiola (2006) and own interviews

¹⁰³ Abiola (2006, p.11) citing Textiles Industry Development Council Research (2004)

¹⁰⁴ IDC Strategic Business Units website accessed 10 Aug 2014

¹⁰⁵ FRIDGE Research (2010)

¹⁰⁶ Fibre2Fashion (2010)

The table above highlights how the constraints remain focused on enhancing competitiveness, developing exports, and addressing any industry production and trade components that could either improve competitiveness through reduced costs, increased revenue, or better access at better prices to inputs and output markets. This presents the industry challenges within a narrow space based on price/cost implications and an equally limiting focus on vertically-contained production activities as opposed to looking at the role of industry relations, the national and global context, or a combination of multiple price and on-price industry influences.

Whilst this research does not doubt that developing more competitive products and practices is important, creating something to sell, when production is affected and employment cannot be sustained or developed, presents a more immediate obstacle. Policy and remedy lists, such as the one presented above, frequently omit to address the employment issues. Despite the trends and descriptions of the textile and clothing demise, debates on the employment decline and labour structure transformation, the increasing casualisation, outsourcing and informalisation of clothing labour, these factors are repeatedly omitted from decisions on long-term restorative policy and industry rejuvenation (these are discussed in section 5.3).

5.2.2 Policy challenges: CSP and China Restraint Arrangement

The need to incorporate an understanding of the combination of multiple influences, and the need to consider the role of industry relations and tensions, are two limitations that manifest through production challenges and policy responses. What follows, discusses how these challenges are visible through two policy examples, the Customised Sector Programme and the China Restraint Arrangement.

A fresh, thematic approach to resolving various production problems was proposed by Barnes (2005) in his Key Action Programme proposed for the Customised Sector Programme policy initiative that underwent negotiations in the early to mid-2000s.¹⁰⁷ This was a shift away from earlier sector policies focusing on broad schemes such as trade incentives but also represented

¹⁰⁷ The Key Action Programmes seek to focus policy on “first stabilizing the industry, second re-establishing its foundations, and third providing an enabling environment for its future growth” Barnes (2005, p.11).

a shift away from the single factor focus.¹⁰⁸ The seven key action programmes included a specific focus on production problems through ‘creating a sustainable skills base’, improving ‘firm-level competitiveness’; but also extended to meso- or macro-level industry constraints such as ‘capital upgrading’, addressing access to markets through ‘maintenance and growth of exports’, ‘recapturing domestic market share’, ‘coordinating value chain opportunities’, and general industry transformation. What is useful is the listing and prioritising of focus on competitive challenges (illegal imports, mislabelling, under-invoicing). The KAPs also provided a list of industry constraints that range from trade to production and drew attention to problems that much of the industry can agree upon.

Whilst a welcome contribution to broadening the debates of what multiple levels and types of influences played a role in the decline of T&C, a number of limitations remain. The KAPs did not reflect on how the different constraints interacted or worsened each others’ effects, but instead presented them as separate problems to address. The tensions amongst industry agents and the impact of fragmented relations in production, and with non-productive stakeholders, was also not captured. More specifically, other than a mention of ‘labour market investment flexibility’ under the strategic theme of capital upgrading and skills training, there was no coverage of the way in which the restructuring of employment, the labour tensions, and the trend towards low-cost competition (race to the bottom) has constrained production or affected long-term industry development. Though it would be possible to incorporate questions arising from tensions in relations and different needs, or the labour restructuring, for example under the KAP of ‘industry transformation’, instead the focus was on Black Economic Empowerment.

What is surprising is that there is general and widespread awareness of the presence and importance of complicated industry relations and tensions associated with a range of different needs, interests and stakeholders. Two examples of these tensions are seen through attempts to formulate sector policy (Customised Sector Programme) and specific trade policy (China Restraint Arrangement). The Customised Sector Programme represented an attempt to identify and address shared problems across the textiles-clothing industry. It is interesting to

¹⁰⁸ General industrial policy evolution is discussed further in chapter 6. Other than a range of trade policies, much of the post-apartheid industrial sector policy debate leaned on the findings of the ISP which (grossly generalising) advocated focusing on the supply-side barriers to developing competitiveness.

note that prior to the CSP, there had not been any substantial policy negotiations seeking to address multiple industry problems involving multiple industry agents.¹⁰⁹

The Key Action Programmes represent a practical approach to the negotiations of the CSP, mindful of the different priorities and challenges. Yet these priorities were not universally shared, nor did they address and show awareness for the fundamental or long-term causes of decline. Instead, the focus was firmly on the proximate or immediate critical issues that were impeding short-term production and competition, focusing on factors separately, ordering priorities through competition and competitiveness perspectives (market access and trade issues).

The CSP is rooted in a series of benchmarking exercises at the turn of the millennium, seeking to assess T&C through key performance indicators such as price, quality, defects, industry performance, foreign suppliers and perceptions (Interview no. 9, 4th November 2008).¹¹⁰ Very quickly, a discrepancy between the perceptions of retailers, manufacturers and the union emerged with a number of firms agreeing to start work on the CSP (Interview no. 9, 4th November 2008), but others, including a number of clothing firms and some of the labour representation rejecting the CSP or not showing interest in a national policy, opting instead for regional approaches. The Cape Provincial government cluster focus is an example of the aforementioned regional approach.

Some of these tensions are highlighted in the comments below.

- As noted by one of the key industry stakeholders (non-producing/association), ‘the CSP was under progress from 2003 with a draft available in June 2005. Nevertheless, the union did not sign it, and it was perceived that the DTI were merely taking orders from elsewhere’ (and not driving the process). (Paraphrasing from Interview 1, 3rd November 2008).

¹⁰⁹ Some industry experts explain this by the reluctance or lack of interest in sector-specific industrial policy in general, and in alignment with the prevailing policy trends of the 1990s to reduce what was perceived to be damaging government intervention. Others attribute this reluctance to the peripheral position held by T&C within the SA economy and industrial policy interests. A third group of opinions maintains that the lack of direct interest and capacity can be linked to the nature of the DTI and the minister (Alec Erwin) at the time 1994-1999, and explains the lack of any broader sector policy initiatives until the CSP. (See Interview no.9, November 2008).

¹¹⁰ Attempts to access this benchmarking report 1999 were unsuccessful.

- Another respondent suggested ‘that SARS (team on illegal imports) came into the CSP process uncommitted, turned down training of officials in fear of corruption, and never took the opportunity for training’ (Paraphrasing interview 3, 4th December 2008)
- Several respondents blamed the trade union for either refusing to participate and thus stalling the CSP process (Interview no. 15, 11th November 2008), or doing a backdoor deal with the DTI (Interview no. 12, 23rd November 2008), though one respondent noted that the general industry feeling about the CSP was ‘cynical because the industry couldn’t write it all, and that it involved a lot of compromise but still something everyone can relate to’ (Interview no. 20, 30th October 2008).

After protracted negotiations and no agreement, a draft CSP was produced in 2006 with the participation of the IDC, Treasury, clothing and textiles manufacturers and some retailers representatives.

As a reflection of their dissatisfaction and the tensions amongst stakeholders, an alternative plan produced under the trade union (ANC and SACTWU the South African Textiles and Clothing Workers Union) was also presented to the Department of Trade and Industry.¹¹¹ Retailers including Edcon, Foschini Retail Group, Truworths and Woolworths also expressed their dissatisfaction with the CSP content and process and produced a set of revisions (See Edcon et al. 2006). In 2008 the CSP was still not finalised and the only agreement seemed to be around the dysfunctions surrounding the process and the content, as seen from select quotes below. As the comment by an industry expert below shows, after nearly a decade of work towards an industry strategy, a feeling of missed opportunity was beginning to emerge.

- ‘CSP stalled because trade union refused to participate (i.e. never came to discussions despite the fact that got CSP with all parties in agreement. Watered down CSP now for end of year. The original CSP would have saved 20,000 jobs.’ (Interview no.15, November 2008)
- ‘The CSP is still not happening. Quotas (against Chinese imports) would not work for textiles. Structural issues too big that such short-run issues would make a big difference.’ (Interview no.22, December 2008).

The reasons for the failure of the CSP are both specific to this policy process, such as the failure to consult appropriately and lack of sufficient or equal commitment by participants, but also reflect the influence and depth of the tensions and divisions of interests as shown by some of the respondent comments. They also reflect a narrow focus on domestic concerns,

¹¹¹ Attempts to access the draft CSP report and the alternative plan were unsuccessful.

despite the relocation of many producers to regional neighbours to take advantage of lower labour and other costs. For example, one respondent suggested that the 'early version of the CSP had SADC in it' and that 'regional development is important because (SA) cannot find complete value chains anywhere except Mauritius'. Nevertheless the respondent noted that 'regional cooperation was more to evade quotas and maybe at ministerial level, but not communicated to the DTI and that the mindset was against regional'. Though the same respondent did note recent changes with the 'DTI trying to build consensus and saying let's not go back into strategy but try to implement the CSP together with retailers'. (Paraphrasing respondent Interview 3, 4th December 2008).

On the regional development question, another respondent commented that 'there is capacity but (production coordination) needs to be planned but commitment from government not there'. (Interview 14, 18th November 2008). A respondent with insight into government policy noted that 'whilst regional development is critical, bringing about regional integration is an exceptionally difficult task. You cannot do it in an imperial mode but problem here is difference in size, no natural partners, and all neighbours view us with a degree of apprehension' (Interview 24, 10th December 2008).

The China Restraint Arrangement or quantitative restrictions on Chinese imports represents another policy and process where designing and implementing industry support was constrained by the attempts to target a particular problem rather than a collection of factors, and by the challenges arising from conflicting and fragmented interests within the industry. The China Restraint Arrangement refers to a quota on Chinese imports agreed to in 2005 and implemented for a two-year period in January 2007 to December 2008. The quotas applied to 31 tariff lines under clothing and textiles, and according to Van Eeden (2009), accounted for about 70% of clothing and textiles imports from China. The aim of the quotas was to provide space for domestic manufacturers to address the production problems that constrained their competitiveness in domestic markets, but with a view to leveraging this learning/upgrading period to improve global market access and competitiveness as well. The impact of the quotas unexpectedly brought about some consensus amongst industry stakeholders and across academic literature and public media. As early as 3 January 2006, 5 retailers wrote to the Deputy Ministers of Trade and Industry to protest against the quotas and raise concerns (Edcon et al. 2006). Amongst others, these concerns (from Edcon 2006, p.1) suggested that:

- the legal quota impact would be offset by illegal exports from China;

- quota allowances were likely to be traded in the export country thus raising cost of South African imports;
- quotas on one country may be offset by imports from another rather than domestic production;
- quotas do not address illegal imports (under-invoicing or dumping).

Like with the CSP, retailers had felt left out of the policy decision-making process, despite the impact on their businesses. Some textiles manufacturers also felt they were not benefiting from the quota. This in part because of the lead time between the quota discussions and implementation allowing clothing manufacturers to stockpile inputs from external sources. It was argued by one respondent that the quota was 'based on historical standards and that those relying on international brands and imports benefited' (Interview no.3, 4th December 2008). Another argued the contrary, that the quotas were good for some textiles mills which were losing production capacity and hoping that the quota would lead domestic clothing manufacturers to look local. This same respondent noted a belief that 'the union made an application to extend quotas' and commented that 'SACTWU drive everything with policy and control the DTI' (Interview no.9, 12th December 2008).

The tensions around the China Restraint Arrangement added a further layer of complexity to the industry relations. Tensions aside, several studies assessed the impact both during and after the quota implementation (see for example Sandrey and Fundira 2008, Woolfrey 2009, van Eeden 2009, Morris and Reed 2008). The main finding was that, though the quota reduced imports from China, they were replaced by imports from other countries (Malaysia and Bangladesh), and not from local manufacturers. The quotas did not result in increased domestic manufacturing investment or improve technology and skills challenges, nor did they address supply chain capacity issues. Morris & Reed (2008) also raised the issue of Chinese imports being rerouted through trading partners suspected not to have any substantial clothing production capacity (Hong Kong, Myanmar, Zimbabwe). Given the lead and limited time to the implementation of the quota, retailers and manufacturers were able to stockpile supplies, thus offsetting the need to seek local suppliers. Morris and Reed (2008) found no significant improvement in local manufacturing output levels, and an on-going deterioration in employment levels. Relating back to the theoretical questions of how industrialisation takes place, these policies (especially the import restriction) bear some resemblance to ISI policies, but have not been successful in promoting industrialisation let alone industry development.

These two policy examples highlight the need to consider multiple factors, but also to consider how the different interests shape production and policy debates. It is suggested that whilst the industry is facing many different problems, and addressing their combined effects is important, the regeneration of the industry is unlikely to emerge from stop-gap solutions to the indicators that present the problem. That is, amongst others, poor output or value growth, limited export growth, increasing unemployment, illegal imports, and poor performance or constrained linkages in production, are an outcome of the underlying causes and setting for these. To uncover these, a more comprehensive investigation into the fundamental causes of production difficulties and conflicting interests is required. As one policy insider commented, 'we do well in sectors we understand well' (Interview no. 11, 3rd December 2008).

In light of the above two examples, the industry tensions have affected policy-making and attempts to agree on solutions to production problems by fueling the fragmentation of interests and needs. This situation has made it difficult to identify remedies, or lobby for shared causes, let alone seek to counter factors that only (or directly) affect sub-segments of the industry, with uncertain possibilities/probabilities of spillovers or other indirect effects on the rest of the industry. It has shifted the focus away from the need to resolve the impact of multiple production problems, or from addressing the adverse effects of structural transformation. It has also diverted the focus away from the development of long-term industry rejuvenation strategies.

5.2.3 Underlying factors driving production problems

In addition to reflecting on the tensions associated with, or arising from, the policy arena, there are other patterns of divergent interests that influence T&C. Tensions in production relations or the tensions in relations with non-productive units or industry stakeholders have been noted to exist along the following lines:

- Between textiles and clothing manufacturers;
- Between retailers and T&C manufacturers;
- Manufacturers and retail with government (e.g. on investment, exchange rate and interest rate policy, and trade);
- Manufacturers with labour, labour policy and regulation (labour policy and regulation increases cost pressures which in the short term lead to difficulties competing or decisions to shed or outsource labour, in some cases shutdown);

- Labour with government (despite being in government, tensions on rising unemployment and failure to enforce labour conditions).

This is not an exhaustive list, nor is the idea of intra-industry tensions (or tensions between key stakeholders) new.¹¹² Industry (hi)stories that have surfaced, in particular in the media, highlight how the constraints faced by the industry are reflected in industry relations and vice-versa.

For example, the closure and selling off the Sans Fibres textiles business portrayed some of these tensions in the face of business realities. A failed attempt to continue operations through a buyout from a consortium made up of the management, the IDC and a workers trust, highlighted the multiple conflicting views influencing the final decision. As per the Cape Business News (20 May 2008), AECL, the parent company decided on the shutdown of Sans Fibres based on a number of factors including overinvestment in plants with a lower cost-base in the Far East creating a surplus capacity and downward pressure on prices, inability to recover raw material costs, strength of the South African Rand, and the dropout of a key South African customer.¹¹³ The closure decision was based on a shift in the AECL strategy, despite Sans Fibres showing record and growing year-on-year sales of R2.14billion and an improvement from a loss of R6million in 2006 to profits of R9million in 2007. Interviews with industry insiders argued that the strike against worker retrenchments, which was supported by the South African Clothing and Textile Workers Union (SACTWU), was the final straw for AECL and was not logical in light of attempts to keep some of the operations going and negotiate a buyout. Further insights into the management buyout suggested that reasons for the failure of the management buyout included the small size of the local market, the price focus and the challenges this presented to competing globally, given the high exchange rate. It was also suggested that the buyout was unsuccessful because neither government nor the IDC would guarantee the business, and because workers were enticed away from the buyout and an uncertain immediate future (in particular because of the cost of raw materials, power shortages, controlled shut-downs of power and rising power costs) by generous retrenchment packages from the parent company AECL (Interview no. 22, 11th December 2008).

¹¹² See Roberts & Thoburn (2002), Salm (2002), and Van der Westhuizen (2008)

¹¹³ Cape Business News (2008)

As one of the interviewees noted, 'we can't do global procurement, the local market is very small and though duties helped, we became price-focused. We became globally uncompetitive because of SA high inflation, the drop in the exchange rate from 12R to 6R (to the US\$) and because of the (small) scale' (Interview no. 22, 11th December 2008). It was argued that the shareholder wanted out because of the failure to develop a strong position in global markets/or against global competition and because of the exposure of the export-side of the business to exchange rates. Further investigation into the company closure revealed that SANS Fibres had pushed for fibre tariffs of up to 15% and had used the DCC Scheme to import duty free yarn to keep going. It was noted that as the industry became more export-oriented, the demand to invest in new capacity rose, but with equipment older than 20 years the need for new investment grew, but 'cash flow problem' and '2004-7 profits down' and 'industrial action in tyre industry' affected shareholder confidence who were unwilling to invest and instead favoured 'cutting back on waste', 'not reinvesting into modern textiles'. Other sources of funding were problematic with 'IDC loans have a 15-18% interest' and the management buyout bid was with IDC but government were not prepared to guarantee the business (Interview no. 22, 11th December 2008). These insights highlighted the multiple pressures that eventually contributed to the downfall and failure to rescue the enterprise. They also showcase the lack of shared or long-term vision between the manufacturer, the shareholder the union and various government agents like the IDC.

There are numerous other stories of production problems being exacerbated by tensions in T&C manufacturing. The purpose is not to delve into all the details, but to explore the underlying causes and the persistence of select tensions, all which contribute to and worsen the downward trend. Popular explanations for intra-industry fragmentation of opinion draw on the differences in production processes, needs and timescale for change. For example, the speed of change in textiles is slower than in clothing production (Salm 2002, p.34 notes a similar difference in adding capacity). Other explanations turn to the different capital-intensities especially between textiles and clothing, the different degrees of vertical integration, or differences in the type of product or production. For example, full-package manufacturers that are involved in fabric cutting, stitching, finishing, and trimmings are more likely to have higher fixed costs, machinery and be slower to change production than the flexible and targeted activity of the cut-make-and trim operations, which have been known to be shut-down or setup in a short period of time with comparatively less setup costs or capital intensity. Concentration of different sub-sectors is also used to explain some of the tensions,

with textiles manufacturing representing a highly concentrated sector, clothing consisting of many different types of manufacturers and operation, and the clothing retail also concentrated by ownership and activity. In addition to specific events or the nature of intra-industry linkages generating tensions, *perceptions* of behaviour and perceptions of possible adverse outcomes or adverse actions by industry players, stakeholders and agents, also influence the form of interaction and can contribute to the tensions in industry relations. Thus, shifts in the tensions are affected by a combination of actual differences as well as perceptions of other parties and their wrong-doings.

For example, within the manufacturers of clothing, there is a perception that retailers are undercutting their business through the purchase of lower cost imported clothing. Whilst this is true for some product lines, retailers are driven by their own questions of viability and cannot be expected to sacrifice their own cost-profit driven strategies in the face of market pressures. This points to the need for collective, longer-term industry planning, possibly with an outside entity such as the government, to provide support and a negotiation platform to allow individual components space to compromise on immediate business needs for some longer-term collective industry sustainability and growth. Finally, the lines of conflict or tension are not homogenous or static within these groupings. What is important can change across sub-sectors, and it is also important to be aware of divisions within groups of similar interests. For example, manufacturers of clothing are divided over whether clothing manufacturers owned by South East Asian industrialists are cutting production costs or not by not adhering to labour legislation on working conditions and standards (see Salm 2002, p.34).

All this suggests that interests and needs conflict in a way that significantly constrains productive interaction and long-term collective decision-making, and in doing so, adds to the multiple layers of challenges faced by the industry. Two developments that have transformed the industry structure have contributed to the persistence and continuity of both the tensions and the combined downward impact. These are the structural transformation of domestic and global T&C, as a result of the increasing (global and domestic) cost-competition or race-to-the-bottom, and related to this, the organisation of the production processes using a value chain approach with growing control by the retailer or buyer. These two trends are discussed here and later with regard to labour and trade issues affecting the industry.

The increasing cost-focus is both a global and a domestic trend resulting from growing global competition, new patterns of trade arising from changes to trade agreements (such as the end of the multi-fibre agreement discussed in the key theme on trade), declining transport costs and delivery times, and increasing capital mobility, enabling the relocation of production to areas of low cost. The domestic cost-competition has also been fuelled, amongst other factors, by the rapid liberalisation of domestic markets to imports, the entry of new outside competitors (e.g. Chinese imports of clothing), and the difficulties in delivering products desired by the market. The latter, in particular, reflects the historical build-up of production limitations (such as out-dated processes and technology), but also the gradual withdrawal of government support and investment, the difficulties addressing industry mistrust and breakdown of supply agreements within the production pipeline as discussed earlier, and the gradual decline of domestic and foreign investors needed to rejuvenate products and processes. One of the key ways in which cost-competition manifests itself is through the transformation of labour structures with the goal of reducing costs, and creating flexibility for scaling employment up and down when production pressures so require. This cost focus features in many of the sector analyses. See Van der Westhuizen (2008), Ernst (2005), Truett & Truett (2010) for varying angles on the theme.¹¹⁴

The organisation and analysis of production using a value chain approach has drawn attention to the need to focus on costs and control of the value chain. Textiles and clothing in SA and globally is a buyer-driven chain. Retail ownership is concentrated, making it increasingly difficult for T&C manufacturers to break from the control and pressures to reduce costs, improve or speed up delivery, make rapid changes to products or finishing, or respond to other demands from buyers. “The rise of the retail chains or branded marketers has been associated with the rise of ‘arm’s length global production networks; (Gereffi 1994 in Gibbon 2002, p.5) a process mirrored in SA with the explosion in CMT’s” (Van der Westhuizen, 2008, p.19). The implications of this have been the reduction of competition to one based almost exclusively on price between domestic providers, but also the increase in imports, with the retailers focusing on delivering what they can sell, rather than on prioritising domestic products or saving domestic production.¹¹⁵

¹¹⁴ Summarising from Ernst et al. (2005, p.7-8) provides a telling list of factors that influence global competitiveness: labour costs, quality and availability of skilled labour, other production costs e.g. energy and inputs, transport costs, production processes, macroeconomic environment e.g. interest rates, taxation, exchange rates’.

¹¹⁵ Although Van der Westhuizen (2008, p.19) does also note based on a Business Day article 13/7/2005 and an interview with a retailer that “retailers insist that they are strong supporters of local manufacturers” and that for

In sum, this section has shown that there are a many different types of production challenges that influence the industry, and that, these multiple factors interact and combine to aggravate the decline. Given the many pressures as well as forms of production, the industry consists of different interests or views, with tensions between stakeholders reflecting varying prioritisations and perceptions. Attempts to resolve industry challenges are frustrated by addressing them as separate rather than as a build-up of multiple downward pressures. Policy solutions also neglect to incorporate an understanding of the divergent or conflicting views and positions. The decline of the industry is in part seen as the sum of many different interlinked factors, perpetuated by a neglect of the role of industry tensions and relations, and exacerbated by an industry transformation and recent trends that increasingly favour analysis through competitiveness based on costs within GVCs. The increasing focus on price/cost in firm strategy as well as in industry analysis presents a challenge for addressing the complex layering of influences. It also provides a restricted space for understanding and incorporating a role for relationship tensions and divergent interests, amongst other factors that cannot be captured through the price mechanism or interaction of supply and demand.

The next section looks more closely at the industry labour transformation in order to highlight the flexibility and tensions created by restructuring labour to respond to cost competition. This shows how labour structural transformation is at the heart of the long-term failure to grow, and returns to the weaknesses of a cost-led analytical framework in capturing such developments.

5.3 Key theme: labour structural changes, tensions, wages and investment

The poor performance of T&C is often seen through declining employment, with employment costs and rigidity perceived to be a key reason for the decline. This section looks at how the structural change in forms of employment actually provides the industry great flexibility on labour and labour costs, but with the converse effect of creating tensions that limit the future and long-term re-development and growth prospects. Selectively focusing on the issues around wages, skills, and productivity highlights several areas for further research around the

retailers, “importing is regarded as a headache, which is why Truworths imports only what cannot be produced locally”. See Wolmarans (2011, p.68) on the power of retailers and the role of trade agreements e.g. AGOA in providing different outlets for domestic produce.

role of labour in GVCs, notions of social upgrading and the challenges for long-run sector development under cost-competition.

Labour issues influencing the decline of T&C refer to the complex nature of the structural change in employment as a response to increased cost competition, and the implications in terms of heightening tensions between labour, manufacturers, government and regulatory bodies, trade unions and other industry groupings. These are explored through the debates around wages and low investment, especially into skills and productivity. It is argued that rather than viewing labour as a cost and constraint to the industry, it should be considered as a key asset for sector and employment sustainability. Reconceptualising labour to one that understands the role and multiple forms of the labour process could represent a path to rebuilding sector relations, employment growth, and industry regeneration. This would also imply a rethinking of the role and development of labour within GVCs.

5.3.1 Complexity and change in employment structures affecting labour relations

Structural change in T&C employment refers to the increasing use of outsourced, casual and informal labour in production. At the same time both formal and informal employment levels have been declining. A number of specific aspects with regards to the employment trends have been raised in the literature and help explain the difficulties in exploring labour developments. Firstly, there is variation in the patterns and types of employment between and within T&C, across regions (KZN, Cape Area, Gauteng), metropolitan versus non-metropolitan manufacturers, and types of firms. As seen in the trends presented in chapter 4, textile production displays a period of output growth in the 1970s with a sharp decline in output and employment visible from 1980s onwards. Clothing output continues to rise gently whilst formal employment stagnates, recovers, and then begins to decline after 1995. The combined formal and informal employment for clothing rises to a peak between 1995-2002, followed by a sharp decline thereafter. Employment structures and patterns and how firms face challenges also vary between the different types of firms (by ownership, structure and activities). Salm (2002, p.18) summarises the different types of firms to include: large publicly traded/vertically integrated; smaller vertically integrated (fabric knitting and garments); small and medium-sized garment manufacturers with design and merchandising or own label clothing; cut-make-and-trim operators of different sizes; and firms owned by South East Asian investors with a focus on mass exports and imported raw materials.

The literature confirms the importance of understanding the impact of intra-industry variation though data availability limits a formal description or analysis. For example, Salm (2002) discusses firms' sensitivity to competitiveness, inputs from textiles, labour costs, or output price changes. The depreciation of the Rand between 2000-2002 resulted in some domestic manufacturers re-prioritising in favour of export contracts, renegeing in the process on contracts with domestic retailers.¹¹⁶ Natrass & Seekings (2013) also discuss different firm coping mechanisms and ability to pay different wages as will be discussed below. This represents a gap in the literature that could be addressed by further surveying to understand the differences and their implications for firms' decisions and policy needs.

One of the prominent coping mechanisms has been the rise of the cut-make and trim operations, and the increased use of non-formal labour to respond to the cost pressures (see for example Abiola 2006, Van der Westhuizen 2008, Interviews no. 14 and 23 in November 2008, Reed & Morris 2010, Morris & Barnes 2014). Van der Westhuizen (2008) defines these informal employment structures to include outsourced labour and casual labour. Using her definitions, outsourcing or externalisation means clothing assembly takes place outside a formal factory environment (homeworking) through an arrangement where the product (quantity and price) determines working relationship rather than employment contracts and wages. Casualisation is defined as the use of previously formally employed workers now employed in a part-time, temporary or sporadic capacity. Casual labour can be outsourced directly or through a temporary employment service (TES) or labour broker / outsourcing agency.¹¹⁷ Van der Westhuizen (2008) also notes that casualisation has been used both as a cost-reduction strategy as well as a livelihood strategy. There is some overlap between the definitions. STATS SA, as presented by Theron et al. (2005, p.19), overcome some of the confusion by categorising workers as permanent or non-permanent, with the latter including subgroups such as "workers on a fixed-term contract, temporary workers, casual workers and seasonal workers". Casual labour (defined by a specific wage) could also be defined through a specific quantity and type of output at a set price, i.e. used for outsourcing.

¹¹⁶ This point appears repeatedly in the literature and interviews. Most recently in Natrass & Seekings (2012, p.7) quoting Morris & Einhorn (2008).

¹¹⁷ The term temporary employment services is used in the Labour Relations Act (1995). A useful survey by Theron et al. (2005) looks at the challenges in defining work relations, payments and problems arising from these triangular employment relations.

The confusion around the definitions and categories, and attempts to address the different work arrangements, are reflected at the policy level. Generally, it is considered that the “broader regulatory environment does not directly affect the manufacture of clothing, as it is a non-intrusive manufacturing process” (Barnes 2005, p.11). The Labour Relation Act (1995) sets out the regulatory structure for employment relations:¹¹⁸

“Employers in South Africa are obliged to comply with seven key labour statutes. The statutes are the Labour Relations Act 66 of 1995, the Basic Conditions of Employment Act 75 of 1997, the Occupational Health and Safety Act 85 of 1993, the Compensation for Occupational Injuries and Diseases Act 130 of 1993, the Unemployment Insurance Act 63 of 2001, the Employment Equity Act 55 of 1998, and the Skills Development Act 97 of 1998.” (RSA 1995)

Most homeworking operations do not comply with these statutes. This generally has serious implications for workers, but in the clothing industry non-compliance with the bargaining council agreement is probably the most pressing issue. Historically, much of the clothing industry was covered by five regional bargaining councils. These councils recently amalgamated to form a National Bargaining Council. A set of collective agreements now covers the entire country. The agreements set minimum wage levels, maximum hours of work, annual leave, sick leave, and provide for a sick benefit fund and a provident fund. Bargaining council inspectors visit registered firms to ensure that they are complying with the agreements. The inspectors also try to locate unregistered firms within the jurisdiction of the council so that they can be compelled to register and comply with the relevant standards.” Godfrey et al. (2005, p.12)

A closer investigation of the scope and definition of the legislation and how it is enforced or affects different sector interests suggests a complex web of tensions. Extending and enforcing the LRA and employment legislation, especially in light of the growing informal and CMT activities, has been the subject of heated debate. Drawing further on Godfrey (2005, p.38-39), an amendment to the Labour Relations Act and the Basic Conditions of Employment in August 2002 attempted to address the difficulty in capturing homeworkers, informal and casual labourers by using economic dependence as a criteria for defining a worker or employee, alongside providing work for another person, or being supplied equipment for the completion of the work. The latter point reflected a frequently repeated perception that retrenched

¹¹⁸ In addition, Salinger et al. (1999Aug, p.31) documents that the T&C sector is governed by the Basic Conditions of Employment Act (1997), Workmen’s Compensation Act (1941), and the Unemployment Insurance Act (1966).

workers continued to work for their former employer using sewing machines, thread and needles provided by or purchased from the employers operations (Interviews no. 23 and 11 November 2014).¹¹⁹ A detailed study by Theron et al. (2005) confirms that defining relations through labour brokers or temporary employment services also continues to challenge policy and regulation. Many brokers are not registered with an employees association, the bargaining council or as formal businesses. This arises from ambiguity about the relationship to be regulated. The LRA of 1956 specified workers of the labour broker, in 1983 the notion of the TES as the employer (not the client for whom work was being done) was detailed as the legal relationship under focus. The 1995 LRA made provision for independent contractors who were not viewed as employers of the labour broker. These presented a confusing position for interpretation. Contract workers and those provided by a broker were in a similar predicament given they work on tasks and duties at the premises of the entity that is not their legal employer. This description could extend to cover self-employed, contract workers, those in triangular employer relations, but also franchising and subcontracting. This lack of clarity and difficulty defining and identifying these workers explains in part why global conventions such as the ILO 1996 Homeworking and the ILO 1997 Private Employment were difficult to agree on and to enforce. In line with this, a proposal for the ILO 1997/1998 convention on contract work was rejected due to resistance from employers.¹²⁰

What is common to these arrangements is the introduction of degrees of informality into the labour arrangement, as a means to reduce fixed labour costs, increase labour flexibility and reduce regulation from the perspective of the manufacturer. Workers income is reduced either as a reduction of the total remuneration resulting from a wage decline, a decline or removal of other non-wage benefits such as the provident fund, severance pay, pensions funds, holiday or sick pay, or access to funeral or sickness funds, or through the transformation of contracts to be based on production of output or piece-meal rather than through hours worked as part of an employment contract. The workers' bargaining position is reduced with the threat of a shift to an informal employment arrangement. Bargaining power of those in a casual or outsourcing work relationship is also poor, with the threat of replacement or shutdown/relocation of operations as labour is reduced to compete with others in the geographic proximity but also regionally and globally.

¹¹⁹ This was also an unconfirmed finding of the survey carried out by Godfrey et al. (2005) and a point made also by Nattrass & Seekings (2012, p.12) quoting interviews by Skinner & Valodia (2002) and comments by Johann Baard (2011), Head of the Association of Manufacturers in SA.

¹²⁰ The proposal implied the regulation of commercial contracts (Theron et al. 2005, p.4)

These structural transformations created asymmetric power relations and increased tensions in relations between workers and employers (brokers, homeworkers subcontracting, the clients for who work was being done for), but also negatively affected views about the role or relevance of the trade union for informal, casual or outsourced workers. Likewise views on the ability of government policy to address these inequalities were negative. These problems were made worse by lack of information about the initiatives and roles of different institutions. Godfrey et al. (2005) documents homeworkers' lack of knowledge about relevant initiatives driven by SACTWU (the union), or mistaken beliefs about the union and not the NBC being responsible for the administration of benefits (pensions, sick pay). The lack of information, relevance of this information, and the absence of ability or willingness to address their problems, exacerbated the relations between homeworkers and those contracting the work. It also worsened tensions between the industry (workers, intermediaries and manufacturers) and the union/SACTWU.¹²¹ Further sources of tension arose from different views regarding the usefulness of minimum wages, tension between manufacturers and the NBC, and tension between industry and government regarding labour policy and regulation, as discussed below.¹²²

5.3.2 Wages and tensions

The imposition of labour regulation, the changes in legislation and the tension between manufacturers and government have led to a collection of firm strategies to surmount what are perceived to be onerous and unhelpful interventions. One of these strategies is the variation in wages across the main producing regions, but also across the urban-rural division. The wage-differentials have been detailed and discussed most recently as part of the debate on minimum wages following the creation of the NBC in 2002 and the 2003 minimum wage agreement.¹²³ Historically, wages and employment conditions were negotiated through the

¹²¹ "It was not only the owners of homeworking operations who were antagonistic to the union. Interviewees at design houses, formal clothing manufacturers and retailers all expressed negative or hostile attitudes to SACTWU." Godfrey et al. (2005, p.34)

¹²² The tension between the two main legal structures BCEA and LRA is noted by Salinger et al. (1991, p.31) in terms of the objective of the LRA to loosen regulatory conditions whilst the BCEA is argued to be driven by aims to protect workers rights. Whilst this conflict is to some extent reflected in the minimum wage debate, about survival of industry and employment growth versus improving employment conditions for those who have work, it is contradictory to the industry perception of the LRA as constraining.

¹²³ See for example Morris and Reed (2008, p.26) on skills shortages detailing the collective wage agreements for metro and non-metro areas broken down by category and type of work position for the non-metro. Nattrass and Seekings (2013 February, p.3-5) provide information about the registration of employers with the National Bargaining Council and wage-differences between Newcastle and Cape Town.

industrial council with the wage board (Wage Determination Schedule WD471) capturing non-unionised labourers not covered by the council. Since it's setup in 1989 union workers' wages have been under SACTWU with enforcement attributed first to regional bargaining councils and after 2002 with the NBC (see Salinger et al. 1999, Nattrass & Seekings 2012, 2013). The Wage Board was deemed largely inactive in the 1970-1990 period with an investigation (1997) concluding the need to extend the WD471 to all areas, banning piece wages in favour of hourly wages, and a cancellation of the small and medium-sized enterprise exception rule. These conclusions were connected with the Regional Industrial Development Programme promoting decentralisation of clothing production. These, together with the tightening of labour legislation, the different needs and ability to cope across manufacturers, and the confusion around understanding or capturing the growing CMT and informal sector, were important contributors to the employment losses. One of the ways in which this variation emerges is through wage differentials. As shown in the table below, wages represent possibly the main space for production (cost) flexibility. This table also reflects on the scattered nature of data on wages and highlights another gap in the literature to canvas systematically the patterns and evolution of wages.

Table 5 Minimum wage comparison of select countries

Country	2002 US\$/hour	2005
SA (apparel industry average hourly wage)	0.51 (non-metro minimum) 1.09 informal sector urban) 2.40 min textiles wage	1.6
SA (alternative estimate)	1.38	
Republic of Korea		2.7
Hebei (China)	0.40	
China	0.68-0.88	
Hong Kong		5.1
Macau		2.5
Mexico		1.8
Lithuania		1.5
Malaysia		1.4
Bangladesh	0.39	
Sri Lanka	0.48	
India	0.38	
Kenya	0.38	
Mauritius	1.25	
Madagascar	0.33	

Source: Salm (2002), UNCTAD (2005), Barnes (2005)

The UNCTAD (2005) report emphasises that low cost and highly productive labour is an important, but not a sufficient condition to attract or keep investment, production, global buyers and retailers. Kaplinsky (2005) also comments on US firms, attracted by low wages,

seeking contracts with Dominican Republic clothing producers, but relocating to lower cost alternatives. The desire not to compete on prices (through wages) has occasionally surfaced in South Africa. Initiatives have included a focus on quality and niches, clusters, and stressing lead times, as well as attempts to create South African brands e.g. Proudly South Africa and Mandela shirts.

Table 6 Wage Variation – anecdotal evidence

Wage category (Wages are per week unless otherwise stated.)	2002 (Date reflects source date if the actual value date is not indicated.)	2005	2008	2011
National Bargaining Council Minimum Wage clothing	R489 (2003)		R383 non-urban R631 metro	R 684.25 (2010 data)
Minimum Wage textiles	2.40 US\$/hour			
SA apparel industry average hourly wage	1.38 US\$/hour	1.6 US\$/hour	R 696 R918 (manufacturing)	
Cooperative to supply to Win-Cool (setup in 2008). 1. Basic wage 2. Total incl. productivity bonus				1. R250 2. R630
Cape Town - metro rate		R611	R643.94 – R1134.30 (varies /job) ¹²⁴	
Cape surroundings –non-metro		R500 (2006-07)	R287 / 348.50 R778.5 / 608	
KwaZulu Natal - metro rate (Durban)		R400 (2006-07) R463 (2005)		
Lesotho (piece rate or bonus pay is not restricted)		R170 (trainee) R184 (non-trainee)		
Cut-make-trim	R250		R96-200	
Urban clothing workers (includes provident fund, unemployment insurance fund, medical aid fees) USITC data	R211.15			
Basic Conditions of Employment Act, Natal Region, clothing	R230 Overtime/Saturday work paid 1.5x, Sunday 2x standard hourly wage.			
Industrial Council Agreement, Regional Bargaining Forum setting minimum working conditions for clothing industry	R480 Additional overhead costs R140/week			

Source: Authors compilations using Salm (2002), UNIDO (2005), Barnes (2005), Morris & Reed (2008, p.26), Natrass & Seekings (2012,2013), Interviews no. 14, 23, in November 2008, Barnes (2005), Van der Westhuizen (2006, 2008), Morris & Barnes (2014).¹²⁵

¹²⁴ Morris & Reed (2008, p.26) provide a breakdown by metro and non-metro wages as well as by different types of categories (from highest to lowest wage: head R1134.40, mechanic R1134.40, pattern grader R915.35, clerk R772.59, sewing R701.45, foreperson R643.94). They also break down wages by new employed for less than 24months and established worker, as well as by providing two sub-categories of non-metro workers (again broken down into 11 different positions). They also divide between two different types of non-metropolitan areas and within these between new and established workers. The difference between new and established wages ranges at most from R39R in the lowest categories to R242.5 difference in highest category for the better-paid non-metro area. The head cutter is the best paid for both non-metro groups at R608.00- R778.50.

¹²⁵ It is interesting to note that real remuneration remains stable during this period. Roberts & Thoburn (2002, p.50) also point out that “contractions in employment have not been associated with downward pressure on wages in

One of the most heated industry debates has been around the minimum wage, first introduced in 2003. The minimum wage debate is polarised by views held at SACTWU on the need to ensure basic conditions or decent work in principle, against practical views crystallised in the position of Natrass & Seekings (2012, 2013 Aug, SABC online debate in February 2013) arguing that this leads to employment losses in the short term and, they argue, a bias against low-wage and low-productivity jobs resulting in the long-term loss of employment and production to other countries.¹²⁶ In addition to the fundamental principles, there is disagreement on the main priorities and way forward for the industry, and the wage debate brings to the fore the variation in coping mechanisms across firms. Some firms relocate to rural areas (Morris & Reed 2008, p.10), or other countries, others “under-register the number of workers to reduce levy costs” (Van der Westhuizen 2008, p.17). Not all areas, employers or workers are covered by, or registered with, the bargaining council. There was evidence of some partial compliance or acceptance through the payment of fees. This did not extend to the minimum wage question, or to asking for time to implement the policy or shift operations to lower-cost areas despite some space for negotiation with the NBC (Natrass & Seekings 2013, p11, 14). Informal sector operations, especially the cut-make-and-trim, can also avoid compliance e.g. skills training, registration levies, or provident or sick fund contributions, even though they are by production connected or integrated into the formal sector. The NBC 2009 compliance drive points to continuous attempts to cope through non-compliance, and highlights the challenges of not adequately understanding and capturing the myriad forms of informal activities and payment. For example, some firms argued that lower wages allow them to make retainers or off-season payments available to workers, bonuses based on piece-rates to supplement low weekly wages, practices that would cease with full compliance. Resistance by factory workers to some of these practices suggests that whilst driven by motivations of what is ‘right’, there is no universal agreement on the best way forward within labour, manufacturers, policymakers or industry experts. The lack of agreement is evidenced by the heated debate around the regulatory drive of the NBC and calls for a minimum wage. These are fuelled by different perceptions of what is the main or primary problem (i.e. unfair labour practices or decline in employment), as well as how to best address these.

textiles”. Unit labour costs for textiles rise sharply after 1980, clothing unit labour costs also rise, but the pattern is for slower cost growth.

¹²⁶ SABC Groundup debate on February 14th, 2013

One of the observations that emerges from the complex dynamics and on-going tensions and debates is the notion of labour being continually perceived through a price, with the parameters (the industry challenges) seen through the juxtaposition of the short term profit and business sustainability issues with the equally short-term moral and social dimension of providing appropriate conditions of employment for those who are employed. Presented as such, it becomes impossible to move beyond an impasse between two important, but largely negative, perspectives. What is missing is an approach that would see labour as the source of growth of production, revenue, innovation and industry solutions in the short term, as well as developing labour as the route to long term growth of employment and consumption within the industry and the economy beyond. A starting step on this equally complex path would be an alternative conceptualisation of labour and a framework of analysis and strategy that incorporates dimensions beyond the short-term profit of the firm. Looking at the skills upgrading and investment into labour reflects on some of the challenges and opportunities that emerge from this type of thinking.

5.3.3 Labour skills, productivity and investment

As well as requiring investment into upgrading other aspects of production, investment into skills and labour in general has represented another prominent contribution of the literature on T&C. Roberts & Thoburn (2002), researching the textiles sector, summarise this as the attempt to respond to competition, not on price but quality and design and delivery terms, with implications for investment and upgrading capital stock. Barnes et al. (2005) understand this as the need to upgrade to world-class manufacturing, design and marketing skills. Morris & Reed (2008) refer to the deepening of the crisis through underinvestment in human and physical capital and up-skill to promote innovation. These are important contributions providing useful entry points to the issues.

Though in no way contesting the importance of developing skills, this research concentrates on two contradictions regarding labour-related investment and the implications of situating the investment/upgrading analysis within the framework of competitiveness and GVCs. First, it is debatable whether investment into skills or other productivity upgrades addresses the core industry constraints. Secondly, the evidence of the downward pressure of FDI on wages contributes to the industry challenges in light of the declining domestic private and government investment. These highlight the root of the problem at the level of relations of production, and in the increasing marginalisation of labour through employment restructuring

and cost-minimisation. They also suggest the need to look beyond the proximate questions around skills, wages, and productivity and towards a more grounded understanding the complexities of the labour process.

Returning once more to what is the nature of investment into T&C highlights a classic problem of industry development. Although there are data problems, the evidence available points to a sharp decline in capital investment and utilisation levels.¹²⁷ The capital stock trends in chapter 4 presented an overall pattern of declining investment since 1980-1981, supported by findings from the literature (e.g. Roberts & Thoburn 2002, p.33; Morris & Reed 2008). Textiles gross domestic fixed investment shows a period of stagnating investment between 1995 and 2004 with a sharp decline especially in textiles GDFI after 2004. In light of the political transition and poor foreign direct investment response to South Africa's market liberalisation, this is not surprising. Clothing shows short recovery periods in 1990-1995, 2003-2005 and again in 2006-2008. Two points help stress the poor investment trends. Firstly, the high point of 1980 for textiles, and 1981 for clothing is not matched by subsequent years irrespective of the short-term recovery periods. Secondly, the trend for manufacturing GDFI is one of sharp rise from 1987 onwards (with a small dip between 1990-1992 possibly due to the balance of payments constraints and political factors in light of the upcoming 1994 elections). Abiola (2006, p.9), looking at the 1992-2000 period, quote the manufacturing sector spending "5.8% of ... sales on new capital assets, compared to 3.8% in the textiles sector, and 1.4% in the clothing sector". Natrass & Seekings (2013, p.2), quote Stats SA 2010 data suggesting that investment in clothing is lagging severely behind manufacturing investment per job at R10,000 for clothing and R150,000 spent on manufacturing jobs. However, this comparison may be unrealistic given manufacturing also includes minerals processing (e.g. iron, steel etc.) where capital-intensity and thus investment requirements are much higher and not comparable to textiles, let alone clothing. Nevertheless, the literature agrees on the poor investment performance, and with the IDC estimating that 67% of the investment is foreign re-investment into existing assets or new investment, the problem is grave (IDC interviewed by Roberts & Thoburn (2002, p.18). Though an important and undisputed industry challenge, from all this it is not clear that a poor investment performance, foreign or domestic, is the main source of the production problems

¹²⁷ There are no official foreign investment statistics. StatsSA capital expenditure statistics were discontinued in 2001.

or industry decline, or that investing into skills would be sufficient to alter the industry trends.¹²⁸

To highlight this, it is worth delving further into the findings of Roberts & Thoburn (2002). Their postal survey identifies that whilst access to finance was considered an important firm development strategy, along with shifting into differentiated and niche products, and upgrading capital and skills to achieve this (p.34, 56), the sector was nevertheless showing evidence of unbundling, vertical disintegration and scaling down the range of products (p.17, 35). Foreign investment was seen to be an important source of capital upgrading (p.34), but was not perceived to be the source of technology transfer and spillovers (p.19) or increases in the variety of products. Firms commented on difficulties in obtaining loans from domestic banks (p.56), but only two had been successful in the uptake of industry funding made available by the IDC (p.34).

This is, of course, a simplified presentation of the outcomes and statements, underpinned by a number of different drivers and influences. One such factor could be the different criteria arising from markets targeted, with the UK exports characterised through smaller volumes and long-term relations, US exports characterised by price pressure and large volumes, and whether exports were in response to competition in domestic markets (defensive) or to take up exports as a way to gain from access or capture higher value-added segments of the GVC. Most of the firms surveyed noted exports as a survival and defensive strategy. Roberts & Thoburn (2002, p.52) document falling capacity utilisation since the 1990s due to weak domestic demand, declining domestic market share (imports, illegal imports, misrepresentation of imports) and point to exports as a strategy to bridge revenues with the consequence of exposing the sector to the price pressures of global T&C competition. Yet, in a later paper, Roberts & Thoburn (2004) highlight a further contradiction in that firms investing in production changes reported they were driven by domestic demand factors. Furthermore, firms driven by domestic demand were more likely to have a high turnover (sales volume). What emerges is a complex picture of different factors driving what are limited investment and exports.

The above discussion covered issues arising from textiles, with investment needs understood primarily as machinery and equipment, new production techniques and processes. Investment

¹²⁸ A similar point is made by Allais (2012).

into clothing has centred much more around the question of skills. Morris & Reed (2008) summarise the issues arising from a growing global skill market, the South African legacy of discrimination affecting the skills base, and negative skills impact of transformation policies. Low capital investment is understood to have also impacted skills development and attracting and retaining high calibre workers, though the extent of these possible shortages is subject to debate. Morris & Reed (2008) note the disagreement between the Department of Labour and the Sector Education and Training Authority on the qualifications and skills/experience that are scarce. Their study refers to a SWOT analysis completed by Morris et al. (2004) which identifies amongst a number of other constraints:

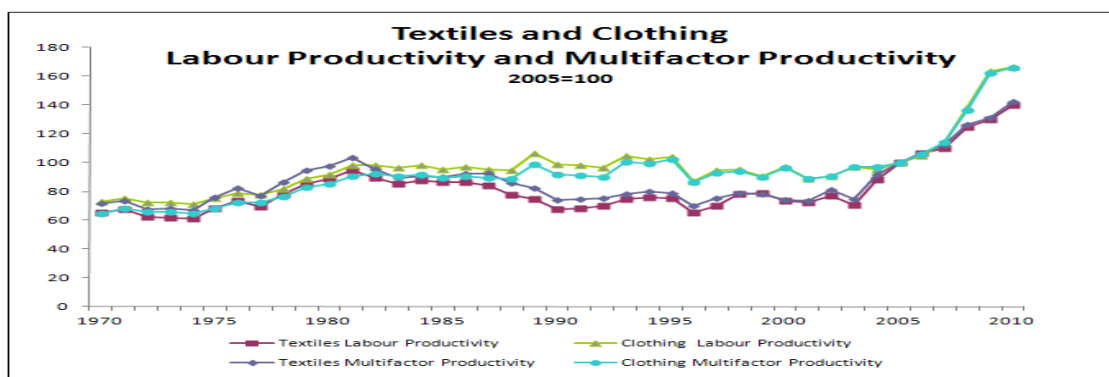
- threats in management capabilities, textiles product development capabilities, clothing design capabilities,
- weaknesses in capability of management,
- limited R&D and independent fashion.

From the above findings it is not immediately clear why skills development or investment are the main obstacle, that if addressed, will alter the decline. Furthermore, Morris & Reed (2008, P.10) suggest that integrating into domestic and GVCs has led to learning and adoption of world class manufacturing techniques. These are argued to focus on speeding up lead and delivery times, reducing inventory levels, reducing defect rates, introduce new work practices, aligning the value chain between retail and supplier, and through these a change in the skills demanded and utilised. This has been noted within firms that are part of the Cape and KZN clusters; firms that are focusing on performance issues and improving chain relations. It is undeniable that investment and skills development is important in general and the link between skills/investment and productivity is intuitive. However, it is not clear that this stands out from the larger list of challenges identified, nor that skills upgrading will resolve industry tensions, the constraints placed on labour through restructuring, let alone the multiple production challenges.

This point is illustrated by industry productivity figures. The graph below on labour and multifactor productivity shows similar patterns both across the two sectors as well as across the two types of productivity indicators. Productivity is at a slightly higher level for clothing than textiles, both sectors show a flat curve until the early 2000s when productivity begins to rise. Morris & Reed (2008, p.24) present similar findings for T&C output/employee during 1995-2003, highlighting the gap with manufacturing productivity. They show that

manufacturing output/employee is consistently above the T&C values, and displays a gradual rise over the same period. A superficial interpretation would imply that, though behind other manufacturing, the trends in T&C productivity indicate a turning point at 2003 for textiles and 2007 for clothing, after which the industry begins to rebuild its competitiveness. A closer investigation contests this in that the point where productivity is ‘improving’ is also the point where output and employment declines, import competition increases, investment (especially in textiles) begins to fall sharply, and industry relationships are tested with the pressure to prioritise exports over domestic contracts in light of the drop in the value of the Rand. Rather than a rejuvenation, this is where the industry is experiencing heightened competition based on input costs and where low-cost imports have penetrated the domestic market, weakening the competitiveness of domestic producers.

Figure 20 Productivity Trends



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

It is easy to conclude that T&C productivity is lagging behind manufacturing, but not automatic that low or stagnant productivity is the cause of the industry decline, or that improvements in productivity are a reflection of the industry achieving sustainable rebuilding and rejuvenation. Furthermore, as competitiveness-based analytical frameworks and sector strategy identify higher productivity as a target, a circular argument emerges whereby resolving productivity becomes the solution, irrespective of how this numerical change is achieved, or how durable the change is.¹²⁹

¹²⁹ Blanchflower & Machin (1995) draw on evidence from British workplace and conclude against predictions by mainstream economic theory whereby increasing competition should lower prices and increase productivity.

Related to these discussions, and an important omission in the context of T&C debates, the notion of productivity has not been addressed despite other literature contesting its relevance and accuracy as a measure. Fischer (2011) makes several important points with regard to problematic use of the concept of productivity in the context of transnational networks. First, he posits that using a monetary valuation as an approximation of actual productivity in a complex modern economy can be termed according to him a ‘fallacy of productivity reductionism’. Second, “in a monetary world with heterogeneous goods and services, ‘capital’ is effectively almost impossible to measure...in contrast to mainstream (broadly neoclassical) approaches that treat capital as substitutable to consumption goods” (Fischer 2011, p.522). A similar argument is made by Subasat (2003) and discussed in chapter 2. Third, building on the previous two, productivity is thus measured through prices not in physical terms. Fourth, he notes that the variation in productivity, as measured through prices, will reflect differences in prices (wages or value added) not differences in actual productivity suggesting that prices are not necessarily a good indicator of actual effort or output. This can be the case when non-quantifiable or non-price factors affect wages. Using the example of services such as finance where remuneration is often inflated, value-added increases may be the results of accounting profits elsewhere (i.e. not resulting from the activity they are attributed to). Transfer pricing also affects value distribution. These raise important questions of ownership, power and the control over value circulation – pertinent especially in transnational corporations and GVCs - with uneven value, profit and power distribution. Fischer (2011) raises further questions about influential factors outside the specific industry and value flows that nevertheless affect the calculation of productivity and value, and ultimately influence inequality and marginalisation. These include the damaging effect of legal and illegal outflows of wealth undermining (monetary) demand that could contribute to employment creation or financing social policy, as well as the role of national ownership and national control over exchange rates.

One of the main cornerstones of the SA productivity debate has emerged from the Industrial Strategy Project, which argued for a greater focus on exports and asserting a relationship between productivity and export growth (Joffe et al. 1995).¹³⁰ In light of the centrality of productivity to the proposed strategy of increasing exports and international market penetration, supporters of the ISP acknowledge, but do not explore, the complications and

¹³⁰ The ISP is discussed here with respect to T&C and again in the context of industrial policy in chapter 6. At the risk of repetition, this is useful to distinguish between the specific and general questions around the SA industrialisation debate.

contentions around productivity as a measure, or address the questions about the relevance of underlying assumptions on the beneficial impact of competition for productivity or learning (see Valodia 1996 for a summary of the debate between Bell against Kaplan and Lewis on the ISP). These assumptions rest on the problematic theoretical insights put forward by new growth theory and trade theory, described and challenged in chapter 2.¹³¹

Turning to another source of disagreement, investment and labour, the discussion builds on the productivity reductionism and highlights some of the analytical problems with the view that upgrading and investment represent easy solutions to industry problems. Seguino (2007) addresses the relationship between investment and labour from the perspective of how it reflects power relations. Using panel data for 37 countries, she finds evidence to support the causal link between greater firm mobility and wages depression. She argues that total FDI (inflows and outflows) reflects increased scope of options for firm relocation, presenting a challenge and risk to labour and reducing its bargaining power. The threat of relocating, as well as actual relocation of capital, is seen to contribute to the low-wage low-productivity trap that is realised via a shift towards more profitable (but she argues less efficient) production processes i.e. through the increased use of subcontracting, casual labour, home-based production, and other labour arrangements that reduce labour costs.

Seguino (2007) then suggests that the existence of technological limits, i.e. exhausting the scope for improving productivity by replacing labour by capital, and the possible reduction of mobility and thus bargaining power as a result of investment, may lead a firm to choose the low-wage/low-cost option instead. Decisions about, and success of, investments in technology or into skills and processes will vary depending on the nature of the industry (e.g. stability of demand) and the nature of the investment (e.g. risk or uncertainty of return), but may also be affected by considerations of continued firm mobility and power. The circular relation of firm power affecting investments, but also being the outcome of greater scope for investment, suggests a trap. Higher investment mobility can depress wages and productivity questioning the existence of a low-wage- high productivity link. This suggests that investment decisions are intricately connected to labour marginalisation through downward wage pressure and structural changes, with the effect of reducing labour bargaining power. It also implies that

¹³¹ Valodia (1996) provides a further discussion of the problems with new growth theory and productivity improvements from export liberalisation.

productivity is not necessarily the outcome of poor performance, but of the capital-labour power dynamic.

A decline in, or relatively low, investment levels can explain poor competitiveness and poor performance, especially when using global performance indicators such as the World Class Manufacturing standards. In addition to cost, global competition may also be defined through the remaining variable factors that can alter performance indicator. In a labour-intensive industry, labour productivity and skills as part of this will be one of these variable factors to manage. That does not mean that this is sufficient, or even that these aspects identified through a competitiveness analysis are at the core of the problem. Nor is it likely that addressing skills and labour productivity in general will address the many other tensions, challenges and downward pressures. UNCTAD (2005) report that focusing on low-wage competition may be insufficient to reverse the structural and cumulative weaknesses, even if high costs are perceived to be the source of the poor performance. A similar argument is proposed here regarding skills and investment. Whilst low investment and skills gaps present a weakness in comparison to import and global competitors, it does not follow that fixing these will alter industry prospects. Like minimum wages, skills development and investment into production is undeniably important, but they neglect the bigger picture of what lies behind the industry decline. So the argument of having jobs for many as opposed to basic employment conditions and wages for a few (if any) is important, but not pivotal. If this focus on employment creation is taken a step further, it becomes clear that neither the minimum wage nor the skills/investment gap are the root or cause of the decline, and framing the debate through these presents an unduly simplified picture, and limits the scope for broader and contextualised analysis.

Skills and investment into production processes are important, but are likely to be meaningless, beyond small niche markets, if the nature of production and industry structure does not allow for a long-term redevelopment and a suspension of the dominant cost-focus, or at least a broadening, to allow for other factors, forces, conditions and tensions to be considered. What the above account highlights is that a narrowly framed analysis focusing on the price factors that constrain the industry, and measuring these through various monetary criteria, such as wages, investment, profits, and import prices, will produce findings that confirm their importance and exclude factors that cannot be measured, even if they affect competitiveness, wages, exports or other priceable factors. What is needed is a framework that enables the

identification of the multiple influences, a look beyond the symptoms or proximate causes at the underlying structures and forces, and a framework that allows for awareness and understanding of the complex relations or dynamics between them. Competition, a focus on productivity increases and the price mechanism do not seem to allow for notions of context, compounding, and complexity to be explored. It is argued that the search for a universally applicable, measurable, and sufficiently context-specific framework is futile. The point of understanding a complex, cumulative or stacked interaction between various forces, structures, and settings stems from situating industry development within an environment determined by a combination of economic, social, historical and political influences. These contribute to building a particular type of accumulation system, which in turn helps explain the differences in evolution across industries and over time.

In sum, these discussions suggest that the competitiveness and price or value-led framework results in a limited focus on symptoms and upgrading or fixing the symptoms, rather than the underlying causes or processes. Without interrogating the nature and constraints of the processes, it is difficult to see how other outcomes would emerge. Questions around remuneration or investment may be important features once underlying tensions and structures are understood in their appropriate context.

5.3.4 Drivers of restructuring and marginalisation of labour

Understanding the drivers of the structural change and marginalisation of labour requires a discussion of historical and contextual factors arising from the evolution of domestic and global T&C production, the structure of the SA economy and political tensions leading up to the end of apartheid and afterwards. It also points to specific industry weaknesses, and the way in which they were approached, namely through implicit assumptions of the supremacy of the market and price mechanism.

The nature and history of T&C production and the political and economic structures and developments of SA help explain the increasing focus on cost-competition through labour control. Entry barriers and skill requirements are low, production can be initiated on a small scale, and capital requirements or technology needs can be scaled up as investment or orders grow. T&C is labour-intensive in comparison to other important manufacturing industries in South Africa, in particular relative to mining and minerals processing or the auto industry. As mentioned above, labour broking as a path for access to flexible labour is not new in SA, where

there is a history of migrant or seasonal workers. The apartheid era awarded further layers of labour control through the restrictions of movement, with workers assigned to rural or metropolitan areas, and rising metro(politan) costs resolved by shifting production to rural areas where lower wages could be justified and maintained. The heightened political tensions were channelled through the workplace and subsequently through unions adding to the friction between workers and employers in T&C.¹³² In addition, the SA textiles, and especially the clothing industry, has been seen as 'historically conservative', in part explained by patterns of ownership (family and small- to medium-scale), and the reasons and way in which it emerged (to provide basic consumer goods).¹³³ Economics as a discipline has focused on understanding the tensions between capital and labour and the inherent marginalisation of labour in capitalist structures of production, whether looking at the labour process, as in the sociology literature, or at the macroeconomic balance between capital and labour, and with the reserve army of unemployed serving as a source of discipline for wages. Selwyn (2011, p.6) summarises this, drawing on Marx (1990), Brenner (1977, 1986), and Wood (1995) to understand capitalism "as a system of competitive capital accumulation based upon the extraction of surplus value by capital from labour...conceptualised not simply as a system of production for profit, but as an historically particular mode of production based on a unique set of social relations". Similarly, the LPT draws on Marx's notion of the "'hidden abode of production': the site of the labour process conducted within an employment relationship" (as cited in Böhm & Land 2012, p.217)

Attempts by manufacturers and capital owners to discipline labour and keep bargaining power low through downward pressure on wages and increased labour flexibility are not isolated pressures on labour. A number of further drivers, specific to the South African textiles and clothing manufacturing also contributed to the restructuring and marginalisation of labour. The industry in the late 1970s and early 1980s was arriving at a stage where it began to require the renewal of technology, processes, skills and products. This was in part driven by the obsolescence of old equipment, and in part with the need to meet the growing needs (quantity, variety, price) of the domestic market, closed through sanctions and policies of import substitution with tariffs restricting imports. During the 1980s, the location of production began to shift towards Asian countries and away from European and North

¹³² See for example Salinger et al. (1999, August, p.14-15) exploring T&C competitiveness in the context of a manufacturing decline with mention of "structural factors...period of increasing political turbulence and international isolation".

¹³³ See Altman (1993, p.13) in Van der Westhuizen (2008, p.14)

American manufacture. Global production of clothing also grew with growing consumer demand. The relocation of production was largely driven by cost competition, with producers increasingly connected (or understood) within GVCs, controlled by retail buyers in developed economies. SA was for a long time not part of these chains given its political and economic isolation. It could be argued that the isolation did not help develop a broad range of competitive products, but the exposure to cost-competition and rigid power-dynamics and market relations in global T&C also did not foster an environment where the industry could rejuvenate, upgrade skills, technology and processes. The isolation also did not facilitate a shift away from a structure that treats labour as a cost and source of inflexibility, as opposed to a core component in the production of competitive or desired goods and services. Underneath this, the South African historical injustices of racial discrimination and poor labour practices presented a particularly disadvantageous setting for redressing the adverse pressure on labour, given labour in T&C consisted predominantly of low-skill, female, rural and non-unionised workers.

Finally, the state of manufacturing in SA during the late 1970s and 1980s was generally problematic. As the ISP notes:

“The poor performance of South Africa’s manufacturing sector loomed large in the litany of problems bedeviling the South African economy. The 1980s had been, in economic terms, something of a lost decade. The manufacturing sector was particularly conspicuous in its inability to produce jobs, or to produce commodities that satisfied either the divergent needs of the domestic market or of the international market. A range of factors contributed to this malaise – apartheid’s impact on the skills profile of the work-force, repressive and outmoded industrial relations systems and work organisation, technological backwardness, a highly concentrated industrial structure coupled with a concomitantly weak and repressed SME and micro-enterprise sector, and a poorly structured system of protection were the most obvious sources of the crisis in manufacturing.” (Joffe et al. 1995, p.xi)

The manifestation of the manufacturing decline between 1970-1990 was identified as stagnating output, erratic exports concentrated in primary products, poor capacity to import, especially in comparison to Asian Newly Industrialising Countries, employment decline since the 1980s, sharply declining investment as % of GDP, and sustained low productivity. These are not dissimilar to the trends and observations presented in chapter 3. The conclusion drawn by the ISP (Joffe et al. 1995) was that manufacturing resources were employed inefficiently and

that the export focus would stimulate improvements in efficiency, productivity and competitiveness. This is in stark contradiction to the emerging evidence whereby exports were not growing let alone generating sector development. The effect of imports became visible in the 1990s through the downward pressure on prices. The industry was generally acknowledged not to be internationally or domestically competitive. Yet, despite these being the core focus of the Industry Strategy Programme and at the centre of debates regarding the industry, it is surprising that they were not used to challenge further liberalisation as a poor path for industry re-development. In part this reflects the dogmatic belief (as raised in chapter 2) in the supremacy of the price-led neoclassical framework for exploring and assessing industry trends, characteristics and development strategies.

In light of these national, industry and global developments, it is easy to see how the market pressures consolidated the historical and systemic labour marginalisation. These also explain how cost-competition pressures, changes to domestic and global T&C, and the political and policy environment all contributed to a worsening of production challenges, the detrimental effects of the tensions in industry relations, and to the general failure to address the decline. It is also easy to draw connections between the price-led analysis and solutions arising from this (e.g. focus on relaxing minimum wages, labour policy and regulation perceived to constrain flexibility, investing in skills).

These are important contextual features that help explain the drivers behind the restructuring and on-going marginalisation of labour (albeit taking new forms condoned by 'market forces and agents'). The use of labour flexibility as a coping strategy with the accompanying failure to address the labour tensions both contribute to the production problems presented earlier. Whilst providing short-term competitive leverage and enabling manufacturers to continue production, they do not address the historical inefficiencies or build-up of production obsolescence, nor do they provide an environment where innovation in process, product or technology can arise from the creativity of labour. They do not address the tensions within manufacturing or stakeholder relations, instead they reinforce the existence of a source of tension located at the core of the very activity that could or should generate the products, profits and firm or industry growth.

Taking this idea further, it is argued that the solutions to the general manufacturing and specific sector problems put forward in the 1990s were limited by their focus on remedying

the outcomes and not exploring the underlying causes. By limiting the employment focus on remuneration or upgrading of skills or productivity through some form of investment, and not seeking to understand the destructive nature and role of labour tensions, the debate has remained stuck with analysis set symptoms and outcomes. The focus on developing competitiveness, access to export markets and GVCs, and upgrading as understood within these value chains and value added, contributes to this narrow approach in analysis and in manufacturing or retailer strategy, and in the thinking behind industry redevelopment strategies and policies. Despite an already high degree of labour flexibility, the perception was that industry competitiveness could be improved by greater wage and employment flexibility.¹³⁴ This narrow approach, together with policies supporting and promoting exports, enabling imports, seeking investment through policy signalling and market liberalisation, failed to address the production weaknesses, whether viewed as isolated problems or as part of a broader collection of interlinked sector- and economy-wide influences.¹³⁵

Positive change to the debate is visible with suggestions of new and more nuanced ways of understanding self-employment and informal labour. An example of this was the Self-Employed Women's Association (est. 1994) proposal to allow those defined as self-employed to employ up to 3 workers. Other proposals suggested providing business services to homeworkers to improve their longer-term prospects and help them address or update employment standards to those required of formal businesses. These examples suggest that policies and support, targeting small, medium and micro-enterprises, as well as those of the Department of Labour, can be designed and implemented with some degree of coherence and consistency as well as consideration of varying needs.¹³⁶ Other avenues for progress (in the debate) would be to focus on increasing or supporting domestic demand to reduce the competition with inputs from outside SA and give manufacturers and retailers further reason to remain local. In this vein, the Proudly South African campaign by SACTWU sought to encourage local sourcing and boost the domestic market, albeit with poor support from SA retailers and manufacturers.¹³⁷

¹³⁴ See for example Skinner and Valodia (2002) on the debate between those e.g. Fallon and Lucas (1998) asserting labour rigidity and unrealistically progressive labour legislation are an obstacle to employment growth, in contrast with e.g. Standing et al. (1996) suggesting the labour market is already very flexible.

¹³⁵ For example, political instability or appreciation of the Rand damaging industry prospects – see Salinger et al. (1999).

¹³⁶ An example of this is the extension of collective NBC wage decisions to non-members. Note also the exemption from NBC regulation if less than 5 workers to accommodate for different needs.

¹³⁷ This paragraph draws from Godfrey et al. (2005), Theron et al. (2005), Theron et al.(2007).

Though only touching upon the contributions of labour process theory in relation to the limitations it highlights with GCC/GVC approaches, the LPT does provide a source of optimism of moving towards more progressive debating of the theoretical perspectives.¹³⁸ This can be seen in recent contributions regarding re-incorporating labour into global commodity or value chains, calls for reconceptualising labour within global production networks, and the return, albeit only in select political economy, development and heterodox economics circles, to build on insights from sociology contributing to an enhanced understanding of the role of labour as a “constitutive actors in economic development” (Selwyn 2013, p.78). Pegler et al. (2011) use labour process theory to explain how separating ownership, design and execution has heightened the division and bias of control between management and workers in favour of the former.¹³⁹ This draws on seminal contributions within the industrial sociology literature. These include the argument about de-skilling within Fordist production as a means of control and reduction of bargaining power, serving as instruments of capital accumulation (Braverman (1974)). Similarly, key insights on the need to focus on organisation of production to understand the production or factory regime as the outcome of political and ideological dimensions that regulate the labour process, are provided by Burawoy (1985). Pegler et al. (2011, p.104) highlight that Burawoy (1985) takes this a step further in his calls for the workplace focus to be “complemented (by)...other determinants of the labour process, such as state policies, market changes and quality improvements”.¹⁴⁰

Exploring labour and the labour process in global commodity chains, Selwyn (2013) notes that the original conceptualisation of GCC analysis contributed notions of firm governance and upgrading as paths to increase competitiveness, with workers conceptualised as passive victims or homogenous inputs characterised by their price. In an earlier paper, Selwyn (2011, p.6) documents recent attempts to move beyond the impact of global chains on labour, towards a more nuanced “conceptualisation of the capital-labour relations as organic co-determinants of capitalist development”. Drawing on Wright (2000) in Selwyn (2011), this

¹³⁸ LPT has been prominent in the SA sociology literature discussing the apartheid economy, trade union movements and manufacturing challenges. See for example Webster (1985 or 2004) for an introduction.

¹³⁹ Labour process is understood as “the social relations into which men and women enter in order to produce useful things...distinguished from the relations of exploitation between labour and capital... Thus the relations of production include both appropriation and the distribution of surplus.” (Burawoy 1985, 13-14)

¹⁴⁰ Burawoy (1985, p.246) notes the “failure of development literature to analyse the labour process and therefore to consider its relationship to politics and the state” (with the exception of Immanuel Wallerstein), and expands on the “importance of penetrating the mode of production to the hidden abodes of production, the organisation of enterprises, the relations in production, and the constraints these pose for production politics and their relationship to state politics” (p.248-249).

brings him to look at the variation in, nature of, and evolution of capital-labour relations in terms of the impact on workers structural, associational and positional power.

These bring welcome insights into the T&C labour issues raised earlier and present an area for future research. The latter would move towards a conceptualisation of labour as an active constituent in production, and as a way to determine the needs and challenges around specific forms of production and power distribution, and in doing so, draw attention to the limitations of the price mechanism as embodied by the industry strategies (and analytical frameworks) of competitiveness, productivity and value added. These would entail in-depth and structured investigations of labour relations at the workplace, as well as broader contextualisation of specific firm and sector labour patterns and processes in the context of the policy and the political environment, and the capital-labour balance at the macro level. Though a comprehensive review of these concepts is beyond the scope of this research, they are revisited briefly in Part III of this research.

5.4 Key theme: trade policy and trade agreements

Returning to the question of what lies behind the decline of T&C, the third and last theme on trade explores the way in which the space for exchange has been constrained by trade agreements and policy, and how this has contributed to the increased race-to-the-bottom and the narrow conceptualisation of the downward industry trends and pressures. Two types of trade developments are discussed in terms of how they shape the space for exchange and how they influence the conceptualisation of the challenges faced by the industry. These cover:

- trade protection and liberalisation policies;
- the role and impact of trade agreements, covering the end of MFA/phase-down of ATC, AGOA, and various regional agreements).

Trade policy debates have been framed by the questions of whether trade liberalisation has taken place and been a key determinant of the T&C decline. These are divided by different ideological stances regarding the role of state or market forces in providing appropriate incentives for industry development and growth. The literature review highlights the predominant supply-focus in policy, with trade seen as the mechanism for access to inputs, output markets and GVCs.

A number of agreements also govern SA T&C trade. Two of the most influential trade agreements have been the Multi-fibre Agreement (MFA) between 1974-1994, commuted into the Agreement on Textiles and Clothing (ATC) 1994-2005, and the African Growth and Opportunities Act (AGOA) 2000-2015. The implications of the changes and conditions imposed by the MFA and AGOA, alongside agreements specific to the region and SA, are important components in understanding the trade patterns in T&C. Trade agreements are dominated by interests outside T&C (often with only a thinly disguised bias in favour of the dominant developed country partner). Several of the regional trade agreements also explicitly exclude or postpone inclusions of T&C. At first glance it would seem that poorly defined agreements neither improve nor reduce the scope for domestic industry development. A closer look suggests they actively damage the industry by failing to address the on-going production and labour constraints detailed in the previous two sections.

Trade policy has been focused on addressing specific trade outcomes in the short-term. Trade measures have remained separated from other policies or from addressing problems arising from production problems, labour tensions, or from the conflicting interests revealed in the domestic sphere as well as globally. This type of approach not only reduces the scope for

understanding the industry decline from a macro perspective, but also narrows the impact of any corrections to single factors or forces. Highlighting the limitations of this approach creates space to show how production and labour tensions cannot be resolved if the trade arena is not aware of how it reinforces an industry framework favouring competition on low-cost and a bias in favour of market forces.

This section aims to describe the main developments in trade policy and trade agreements, and to explore how they have contributed to the decline through a heightened focus on price competition, and a reduced space for the inclusion of non-price influences and other constraints faced by SA T&C.

5.4.1 Trade policy and liberalisation of textiles and clothing

Trade patterns and policy have been among the most important and debated developments for SA T&C. The liberalisation of trade in T&C, first through the promotion of exports and second through the harmonisation and reduction of protection, has been used to explain the two main outcomes of: 1) import growth especially for clothing, and 2) limited export performance. Amongst the controversies have been the policy focus on stimulating export and supply growth, and liberalisation implemented at a faster pace than originally set out by the WTO requirements agreed to in 1994. The literature speaks extensively on the general and specific benefits and problems associated with trade liberalisation for T&C. The aim here is not to repeat these debates, but instead to look at the way in which the trade liberalisation debate has been conducted, the parameters set by the literature, and how this has contributed to the race-to-the-bottom and short-term competition on prices that are externally determined. These highlight the narrowing of the scope for industry development and debates which might otherwise incorporate non-price factors and a more pronounced focus on domestic demand and procurement amongst other approaches to developing T&C.

SA has undergone a process of trade liberalisation seen in the reduction and harmonisation of tariffs, duties, and other instruments controlling imports and exports. Trade reforms date back to the two waves 1972-1977 and 1983-1990 before the end of apartheid and the liberalisation

that took place after 1990.¹⁴¹ Liberalisation after the 1990s included a number of features around the removal of protection that affected T&C directly:

- conversion of quantitative and formula duties to ad valorem tariffs,
- abolish local content requirements and some export incentive,
- tariff and quota liberalisation extending beyond the WTO agreement,
- phasing out of rebates with the exception of 470.03 exempting exporters from duty when importing raw materials such as fabric for local processing and export.¹⁴²

The majority of the discussion in the T&C literature focuses on the post-1990 period liberalisation. Liberalisation has taken the form of removing import-protection and export-promotion under the assumption that this will subject the sector to market forces in order to realise its comparative advantage and remove the bias against exports. The limited exports from T&C in the 1990s can be seen in conjunction with limitations imposed by weak and unstable domestic demand. The global recession of the 2000s also re-focused on the role of demand in industry development. Yet, the policy focus has remained fixed on supply-side measures at the expense of developing demand through employment growth (consumption-led demand), government procurement, or fostering inter-sector linkages to generate demand and spillovers of labour, skills, technology and best practices. Trade liberalisation in general will be discussed further in the next chapter on policy. This section focuses on the developments specific to T&C.

5.4.2 Multi-Fibre Agreement, Agreement on Textiles and Clothing

The end of the Multi-Fibre Agreement and Agreement on Textiles and Clothing has arguably been one of the most debated global trade developments for T&C, with particular outcomes for SA arising from their historical setup and characteristics. The significance of the MFA and ATC for the T&C industry cannot be overstated. Much of transformation of the global T&C industry hinges on the background to the MFA and the processes and economic environment

¹⁴¹ Cassim (2002) dates the start of the trade liberalisation to the Reynders Report 1982. The first period of liberalisation was characterised by Bell et al. (1993) as 'mild'. The Reynders report sought competitiveness improvements and proposed the replacement of quantitative restrictions by tariffs, a devaluation of the Rand and a diversification away from minerals especially the dependence on Gold. Many of the support measures implemented in the 1980s drew on the Reynders Committee recommendations of "cash grants, tax concessions on export turnover and export profits, rail freight concessions, tax concessions on the use of tariff-laden inputs, and rebates on import duties paid on imported inputs" (Cassim 2002, p.19). The second phase of liberalisation from 1983-1990 also focused on export promotion with the Van Huysteens Report (1978) and Kleu Report (1983) proposing export incentives to address relatively high local production and access to market costs and moving away from ISI respectively. Further detail can be found in Takala (2003) and in chapter 6 revisiting questions of SA trade policy in the context of industrial and macroeconomic policy.

¹⁴² Salinger et al. (1999), Roberts & Thoburn (2002)

in which it was terminated. The nature and impact of the MFA in general and for SA is described below.

The MFA was set up to manage the gradual opening of developed country T&C markets to imports from developing countries. As detailed in Adhikari & Yamamoto (2007) and Nordås (2004), the history of protectionism in T&C with voluntary export restraints implemented by the US government in 1957 served as the background for the MFA and the ATC. These voluntary restraints protected US T&C manufacturing from imports originating from Japan, Hong Kong, India, and Pakistan. Nordås (2004) and Hyvärinen (2001) also note the Short Term Agreement in International Trade in Cotton Textiles (1961) and the Long Term Agreement regarding International Trade in Clothing Textiles negotiated within GATT implemented in 1963-1967 as background to the different forms of protection that characterised global T&C.

The MFA and the climate of protectionism that characterised T&C in the post-war period influenced the way in which global T&C was structured. Likewise the termination in 2006 triggered a transformation of global T&C structures with huge implications for SA T&C production. The global quotas enabled developed countries to control T&C imports with the stated aim to appease but also to restructure and re-organise domestic (developed country) production in response to growing import competition (especially from countries with lower production costs). Yet as seen by the quotes below, both Nordås (2004) and Hyvärinen (2001) note alternative aims for the MFA:

“MFA aimed at an orderly opening of restricted markets in order to avoid "market disruption” Nordås (2004, p.13).

“The MFA was to achieve the expansion of trade, the reduction of barriers to trade and the progressive liberalisation of world trade in textile products. At the same time it was expected to ensure the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries. MFA was also to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide for a greater share for them in world trade in these products.” Hyvärinen (2001, p.3).

Rather than pursue this ‘opening’ and support the developing country industrialisation, the MFA period of 1974-1994 instead continued with what can be seen as effective and on-going

protection of developed country markets – with damaging implications for developing countries. The MFA was renewed five times, with new products, expanding to affect up to 35 developing countries, even though it was planned as a temporary measure. Further constraints to developing countries arose from ambiguities in the wording and definitions of the MFA (for example what constituted a market disruption or orderly transition), the limitations in the analysis of trade (especially during the 1970s and 1980s), the various bilateral trade agreements that set out import quotas, and the broad country and product coverage of these measures. Naumann (2005, p.1-2) also notes the complexity arising from varied application of rules across products and countries and the challenges in managing this variation and annual revisions. As a result, developed countries had little space for developing their T&C manufacturing outside the scope of these protectionist parameters.¹⁴³ This is significant, given it also set the scene for constraining the employment, training, accumulation, industrial diversification, and developmental role that T&C manufacturing has historically played.

Though the MFA and parallel bilateral agreements constrained much of global T&C, some argue that there were some benefits and loopholes that were favourable to developing countries. Naumann (2005) mentions the increased investment into countries with basic manufacturing capacity but not yet subject to quotas. Hyvärinen (2001) highlights that the agreement was not comprehensive in terms of its product coverage and it did not restrict trade amongst developing countries. In addition, many of the export quotas remained underutilised by developing countries with surprising consequences for other countries using the excess allocations as ways of circumventing the country quotas on imports. For examples of how domestic T&C manufacturing emerged in Bangladesh, the Caribbean, and parts of Sub-Saharan Africa as a direct result of support from South Korean manufacturers seeking ways to get past the restrictions see Khan 2011 Adhikari & Yamamoto 2007, and Hyvärinen 2001. Similarly, Chinese investment into Nepal, Sri Lankan and Mauritian investment into Madagascar and the Maldives enabled the establishment of domestic T&C manufacturing.¹⁴⁴

“Even during the heyday of the quota system, characterized by a distorted global market for T&C products, entrepreneurs in countries restricted by quotas found ways to exploit the system. They established factories in countries with low levels of quota utilization and in some

¹⁴³Interestingly, Nordås (2004, p.14) notes that “the MFA violated the principles of the multilateral system in several ways: it violated the most favoured nation principle; it applied quantitative restrictions rather than tariffs; it discriminated against developing countries; it was non-transparent.”

¹⁴⁴The end of the ATC and the quota system meant the withdrawal of foreign investors and the collapse of several domestic industries dependent on external funding, manufacturing and export expertise and market access. See Adhikari & Yamamoto (2007)

instances even helped in the industrialisation process of those countries. For example, Korean companies established factories in Bangladesh, Caribbean and Sub-Saharan Africa, Chinese companies established factories in several Asian and African locations, Indian companies in Nepal and even relatively minor players in the global market such as Sri Lankan and Mauritian businesspersons established factories in the Maldives and Madagascar, respectively, to overcome quota restrictions. While the indigenisation of this industry took place in some countries (e.g., Bangladesh, Nepal) due to the entry of the local entrepreneurs, in other countries (e.g., Maldives) the industry itself got wiped off the industrial map once the foreign investors pulled out.” Adhikari and Yamamoto (2007, p.184)

The ATC, covering 73 countries, was not designed as an extension of the MFA, but nevertheless allowed the US, Canada, Norway and EU countries to carry MFA restrictions into the ATC - again with a gradual phasing out of import quotas planned between 1994-2005. Mindful of the contradictions presented by the MFA at least with respect to the GATT rules (especially of non-discrimination), the ATC aimed to liberalise T&C trade through a gradual increase and eventual phasing out of the quotas, increasing product coverage, providing mechanisms to address special (damaging) cases during the transition, addressing the circumvention of the trade agreement and establishing a monitoring body to address grievances from members.¹⁴⁵

One of the key outcomes of the ATC was the “spread of production to an ever-increasing number of countries” (Morris 2006, p.37). As Morris (2006) details, this was in part because the allocated quotas were spread across multiple countries, because the quotas were mostly underutilised and as a result served as an incentive for manufacturers to relocate production. Morris (2006, p.38) also notes the growth of third party suppliers coordinating what is known as full package manufacturing, and also reiterates the notion of triangle manufacturing or triangular production networks.¹⁴⁶ Many of these manufacturers / investors originated from the Asian newly industrialising economies (in particular Taiwan and Hong Kong). Roberts & Thoburn (2002, p.41) mention the special relationship that the Taiwanese government had with the apartheid government to boost investment into SA with the aim of serving the domestic market. Key differences with the investors classified as Taiwanese (in contrast with

¹⁴⁵ See WTO for the differences between the MFA and ATC. The full text for the Agreement on Textiles and Clothing (1995-2004) is available from http://www.wto.org/english/docs_e/legal_e/16-tex_e.htm

¹⁴⁶ Full package manufacture = all manufacturing stages

Triangular production networks = “Western buyers source from developing countries via firms from newly industrialising countries” definition from Roberts and Thoburn (2002, p.41) based on Gereffi (1999).

those originating from Hong Kong or elsewhere in Asia) is that they are immigrants or have integrated into both the SA economy and society. Though they play the part of an investor, they do not have the extensive global networks or access to Asian or other markets. This became apparent as the liberalisation of South Africa's trade, the growing import competition, and the growth of the Asian market in the 1990s provided an opportunity and a need to access outside markets. In addition, these developments in manufacturing both coincided with, *and* were driven by the growing power associated with what Morris (2006, p.38) terms retailers or branded marketers some of which were large discount or speciality clothing chains (he mentions Wal-Mart, Nike, Reebok).

A number of studies looking at the impact of the MFA/ATC on T&C in Sub-Saharan Africa note negative outcomes both during its existence and the closing phase.¹⁴⁷ These can be summarised into three areas: adverse effect on prices, failure to meet supply requirements (volume, quality, speed) or stimulate supply, and failure to overcome challenges in access to markets.¹⁴⁸ Morris (2006), on SA, confirms the increasing downward pressure on prices. Quotas have also been linked to the growing buyer control on production processes: speed of production, lead times, quality and specific characteristics of outputs, and control over inputs such as fabrics. The control aspect together with fragmentation of production across multiple sites (coordinated by a central investor/manufacturer) are reflections of the type of value chain in SA T&C, as well as the increasing difficulty in manufacturers entering or increasing capture of the GVC. Growing control over the manufacturing processes, the fragmentation of production, and the downward price pressures have reinforced the power associated with both local and global retailers. These have in turn contributed to the marginalisation of labour and increased use of various cost-minimisation strategies. These negative influences both mirror and worsen the domestic patterns of industry fragmentation, conflicting intra-industry interests, downward pressure on wages and increasing marginalisation of labour. The nature

¹⁴⁷ See for example ILO (2005), Audet (2007), and several country case studies including Sedowski (2008) on Madagascar, Ghori (2009) on various Asian countries, Yang (2004) on Bangladesh, and Francois (2010) commenting on Yang (1995) on China.

¹⁴⁸ There is an extensive critical literature challenging the empirical and theoretical justification behind the positive effects of trade liberalisation. The neoclassical approach to trade liberalisation maintains benefits based on improved access to markets and global production networks, lower import and domestic product prices benefiting consumers and increasing demand for imports and exports, and efficiency and factor productivity gains through: increased exposure to competition, inflows of investment and better technology and skills, and as a result of labour shifting to more productive sectors. See for example, Chang (2002), Rodriguez & Rodrik (1999) and UNCTAD Less Developed Country Reports for limited empirical evidence especially the LDC Report (2002) on supply or other limitations in the uptake even when market access is improved; Spilimbergo et al. (1999), Deraniyagala & Fine (2001) on the theoretical weaknesses; Wood (1995) on adverse wage effects; Amsden (1997) and Shadlen (2006) on trade agreements limiting industrial policy space; IMF-WB (2002), Özden (2003) on continued market access restrictions for developing countries; Sindzingre (2009) amongst others.

of the phasing out of quotas under the ATC, in particular the faster pace of quota reduction, is also seen as part of the cumulative downward effect, and reflects the general bias towards trade liberalisation without consideration of the existing industry challenges and the implications of fast quota liberalisation. Appendix 2 provides the detailed values and dates for the proposed and actual quota phasing out.

To some extent SA was not directly affected by the end of the MFA/ATC (Salinger et al. 1999). The closed and protected nature of T&C until the end of the MFA in 1994 and the low level of trade meant SA did not face restrictions to trade under the MFA. However, the increased global mobility awarded by the ATC phase out did affect SA in light of the increased and changing global competition, and the reduction of restrictions to global competition after 2005. Countries that stood to gain most from the end of the MFA were those which had experienced greatest restrictions and those which were globally competitive on price as was subsequently the case for China. Increased global cost-competition and greater firm mobility at the global level added to the adverse effects of domestic trade liberalisation and export focus, and the detrimental effects of rising exchange rates, low investment from domestic and foreign investors, and the pressing needs to upgrade technology, skills and processes. Whilst not a direct cause of the decline, the MFA/ATC phasing out, together with the national policy and economic conditions did not enable the South African textiles and clothing industry to take advantage of the improved access to global markets.

Despite the protection awarded by the MFA to developed countries, domestic production capacity in USA, Japan and European countries declined and increasingly focused on branding and marketing activities, creating space and growing demand for imported clothing, but also changing the nature of the global industry and the distribution of power within this industry. To some extent this was a reflection or response of the growing cost competition. It also reflected the globalisation of production and trade and the new market opportunities that the structural transformation of the developed country manufacturing provided for developing countries. The end of the MFA/ATC also consolidated the popularity conceptualising T&C production within global value chains. The focus on value added as a measure of competitiveness, with sector development understood through upgrading and capture of greater value added, altered the way in which firms and in many cases policy-makers approached T&C production, performance measurement, and perceptions of constraints. This is a critical and to some extent misunderstood element in developing, implementing and assessing sector strategies as well as industry or national policy. Though the dispersion of

activities and increasing use of value chain notions in industry strategy and analysis are important components, they do not explain the collection of constraints arising from domestic conditions, policies, sector weaknesses and limitations, industry structure and position within the SA economy and the global T&C and policy pressures. For example, the phasing out of the ATC in 2005, and the entry of China into the WTO in 2000, led to a rapid growth in the presence of Chinese T&C in both global and SA markets. Though this rise can be understood as an entry into GVCs, and successful competition in global markets, it does not shed light on the conditions and drivers behind the superior performance of Chinese manufacturers. Conversely, it does not explain why, with existing production capacity, skills, trade agreements and prospects, SA was not able to create and exploit these global and regional opportunities.

Coming back to the discussion around quota reduction, though it is tightly connected to import growth, there is some debate on the actual changes in tariffs for South Africa. Though nominal tariffs on T&C have declined, real or effective import protection remains high in both clothing and especially spinning and weaving of textiles. The calculation varies based on whether collected or posted tariff rates are used and what type of calculation method is employed. Roberts & Thoburn (2002, p.23) draw on estimates by Cassim et al. (2002) to show how nominal and effective rates declined between 1989 and in 2000 but using a collected rate estimate of effective rates the tariff was estimated much higher than the nominal. In 1989, the highest nominal rates were for garment and hosiery knitting at 87%, and effective rates at 99%. By 2000, the wearing apparel category was estimated at a nominal 24.6% (collected rates) with effective protection ranging between 45.2%-85.2% depending on the method of calculation used (e.g. Balassa and Corden).

In addition to the removal of import restrictions, a number of export incentives and other export support policies were made available to T&C. These included the Category A and B export incentive scheme, the General Export Incentive Scheme, the Duty Credit Certificate Scheme and others detailed in the table below.

Table 7 Description of trade and investment policies supporting exporting

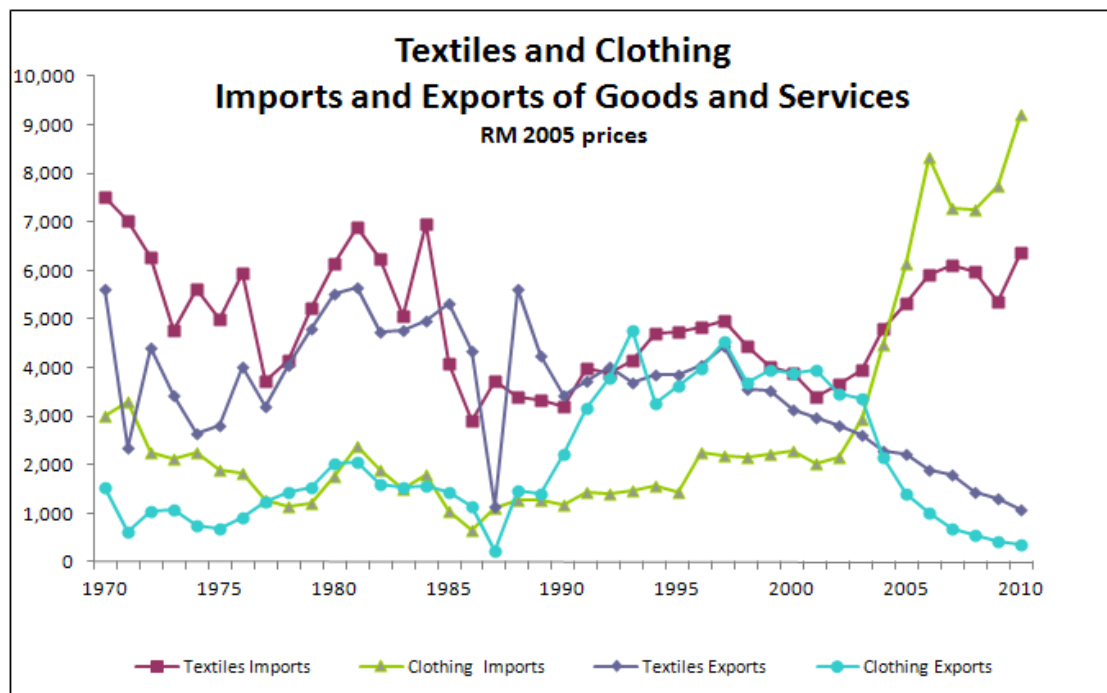
Trade policy (in chronological order)	Description / Aim
Structural Adjustment Programme and additional Category A and B export incentive scheme	Address anti-export bias of the 1980s. Export performance enabled firms to earn import certificates that addressed the impact of high import duties. Category A payments against import duties for imported inputs to production. Category B payments on value added. Board of Trade and Tariffs saw the SAP as disruptive and attributed destruction of parts of T&C manufacturing using the example of jerseys in SA (see Breitenbach (2008, p.33)
General Export Incentive Scheme	Tax free subsidies based on value of exports, degree of processing, local content, and overvaluation of exchange rate. Replaced Category A and B incentives in 1990 with the aim to offset export price disadvantage arising from relatively higher manufacturing costs (due in part to higher input costs for both labour and other inputs). Estimated average value of award around 18% of export value.
Duty Credit Certificate Scheme	Focus on level of beneficiation and promote outward orientation through import duty rebates post-exports. The rebates could also be traded to other importers of clothing or textiles. Estimated average value of award around 25% of export value. DCC Value for: clothing and accessories 30% of export sales, 20% household textiles, 15% fabrics and other textiles, 10% yarn. Exporters could be in receipt of GEIS and DCCS at the same time. Due to end March 2005, actual termination end 2009.
Interim Textiles and Clothing Scheme / Interim Textiles and Clothing Development Programme	Replaced the DCCS and was due to expire September 2006 but has been extended until end of 2010. Replaced by CTCP in 2011.
Customised Sector Programme	Debated between 2002-2005, draft version 2006, rejected by labour and disputed by retailers 2008. Reduced version published 2009 with disputes unresolved. Provided inputs into CTCP. Consists of: CTCP and Production Incentive, a skills development plan, broad-based BEE, a technology and innovation plan, the review of import tariffs on raw material, and combating customs fraud.
China Quota Restraint Arrangement	In response to fast growth of clothing imports from China between 1996-2006, SA imposed quantitative restrictions to imports from China in 2006 -2008
Clothing and Textile Competitiveness Programme	Launched in 2010 onwards with a desk established at the IDC in 2009 to manage the CTCP. Part of the revised CSP Aimed to upgrade T&C and improve ability to compete in both domestic and global markets. "The aim of the scheme is to provide support for the industry and to address challenges to upgrade productivity, product design, the hardware and the capital equipment." Minister Davies (Fin24, 2010)
In addition to the specific export incentives, there were some sources of funding and other policy to support exporting. E.g funding for SMEs with less than 20 workers and assets below R5 million, short term export finance, Life Scheme whereby the IDC provides low interest rate finance for export promotion, Competitiveness Fund for technical and marketing expertise, World player Scheme, South African National Accreditation Scheme (see Salinger et al. 1999, p.38)	

Sources: Salinger et al. (1999), Robert & Thoburn (2001, 2002, 2004) Barnes (2005), Breitenbach (2008), Reed & Morris (2010)

The questions about the effective decline of import protection as a form of anti-export bias, and the effective role of export incentives, present some ambiguity about the dominant impact. First, though it is undeniable that the effective protection remains relatively high, it

can also be argued that import protection was removed to a great extent given the growing import competition and illegal import problem in the domestic markets. Second, though export performance has been limited, it has also been argued that exports did grow for some categories so the export incentives (or at least the removal of the anti-export bias) were successful to a degree.¹⁴⁹ As was seen in from figure 15 (reproduced below as figure 21), export growth has been limited with a general trend of gradual decline from 1988/1989 onwards, if looking towards 2010 for both sectors. However, if we separate the period from 1990-1997, then a gentle recovery for textiles is noted. For clothing, there is a slight growth in exports between 1987-1993 (there seem to be some errors in the data around 1987) but then and a gradual decline from 1994 onwards also for clothing. Some of the export ambiguity is explained by a few years of recovery possibly based on favourable exchange rates. Disaggregating further down to individual HS categories, it can be seen that there were export successes in the period between 1990-2000. After that the effect of factors such as: the exchange rate, arrival of Chinese imports, growing illegal import problem and various production and other industry challenges begin to dominate. It is interesting to note that exports for the industry begin to decline from around 1998 onwards, before the sharp rise in imports from ~2000-2001 onwards.

Figure 21 Textiles and Clothing Imports and Exports



Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing SIC 313-315

¹⁴⁹ Roberts & Thoburn (2002, p.25-26) document export successes.

Though the policy focus was on exports, the growth of imports represents a more important outcome and area of debate. A long-term rise of imports began in 1986 for both T&C. In addition to the export and import trends, the change in the composition of by target/source country is worth noting. The main trading partners have shifted away from the EU and United States to China and SACU.¹⁵⁰

A further outcome of trade liberalisation has been the increased homogenisation and simplification of products and processes, an increased or dominant focus on cost-competition, with terms set by global products and markets. In doing so, the removal of industry strategies and structures away from former advantages and assets based on multiple small product lines or quality, and away from short production runs that created flexibility to meet domestic market needs. Exports did not generate the additional demand, or the product quality improvements, skills, technology access, or investment, let alone addressing production challenges such as the problematic relations between producers. This may, at least for textiles, be explained by the reasons for exporting. Roberts & Thoburn (2001) find that for 76% of firms taking part in their survey, exports were driven by weak domestic demand and lost domestic markets due to import growth. Domestic demand rather than exports were also seen as the main driver for investment. Turning the question around, they also find that high turnover growth was not linked to exports. Their study only covers the period up to 2001, but the statistics do not show an improvement after that. The picture for clothing is even starker. Exports have not grown, nor have they resolved production challenges. In sum, export market forces and prices have not generated appropriate solutions, incentives or coping strategies. The focus has remained on exports as opposed to identifying alternative sources of demand i.e. addressing weak domestic demand as one of the original challenges. Given these combined challenges, it is easy to see how trade liberalisation contributes to the damaging focus on reducing labour costs as the source of flexibility. These patterns also help explain why industry strategies have shifted away from incorporating multiple roles for production. Going beyond developing short-term competitiveness would require, as a minimum, to consider social and

¹⁵⁰ For example, in 1990 North America accounted for 1% of textile exports. In 1999, more than half of the textile exports were going to Europe with Asia at 17%, Africa 14%, and North America 11% (Roberts & Thoburn 2002, p.21). Clothing imports from China increased from 16.1% in 1996 to 60.7% in 2008. Naude and Rossow (2007 p.738) and Wolmarans (2011 p.47) note Chinese clothing imports are 74% of SA's clothing and 19% of textiles imports. Textiles imports from Africa in 1999 were 8.6% of total textile imports into SA. Further trade data on the main partners can be found from StatsSA (1990-2010), from Roberts & Thoburn (2002, p.21 p.28 on trade with the EU and USA. TRALAC or Sandrey and Fundira (2008) provide data on trade with China (2000-2010).

long-term industry functions such as the provision of employment, skills development through training on the job, or the formation of consumption linkages.

It has been argued that the fast liberalisation of tariffs was necessary to signal market-friendliness to potential buyers and investors, and more fundamentally to allow exporters to benefit from the information and incentive embodied by trade prices to develop appropriate products for external markets. This reflects both the small size of the domestic market, the potential growth in both sales and value added by accessing export markets, but also the dominant ideological position based on comparative advantage under free trade as detailed within the Heckscher-Ohlin theory of the benefits of trade. Other questions have explored the extent to which trade liberalisation has contributed to increased cost competition and has driven down the industry. Likewise, questions on whether, how, why and to what extent trade liberalisation took place, and what has been the impact of trade liberalisation on the South African T&C, and the economy more broadly, are important and have been covered elsewhere.¹⁵¹ Whilst these represent interesting exercises in situating one's opinion within the underlying normative question of should the market operate through the price mechanism or the should the government through policy, regulation and direct involvement be the primary driver for industrial activity, they remain confined to the parameters set by assumptions that the state and market are somehow two distinct, homogenous and opposing elements in shaping economic activity. This presents a narrow, misleading and ideologically driven framework, where the questions are likely to produce answers only within that framework, and reinforce the underlying ideological tendencies. Whilst there may be justification for specific instances of prioritising market or state influences, beyond providing impressive summaries of the different policies, instruments, trends and estimations of the impact in particular examples, these cannot satisfactorily explain what lies behind the decline of SA T&C.

5.4.3 African Growth and Opportunity Act

Another important global trade development that has affected SA T&C has been the African Growth and Opportunity Act. AGOA enabled 37 Sub-Saharan African countries to export to the US between 2000-2015. The preferential trade access is governed by rules about the origin of inputs and products, and the number of production/processing stages that must take place in the exporting country. SA is not classified as a less-developed country and is thus subject to a

¹⁵¹ See for example Bell & Cattaneo (1997) or Edwards & Behar (no date).

triple stage processing rule meaning yarn, fabric and clothing need to be of South African or US origin. This has limited the extent of AGOA uptake (Naumann 2005). In a ranking of partner countries by export volume, SA in 2004 was 54th out of 100, exporting only 57m tons. The table below provides an overview of both T&C and total imports from SA to the US, as well as the overall T&C imports from all eligible African countries. Of 38 member countries in total, 27 are eligible for T&C imports under AGOA. These include Botswana, Burkina Faso, Cameroun, Cape Verde, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Mauritius, Malawi, Mali, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda, and Zambia. Zimbabwe is excluded from AGOA.¹⁵² The table below summarises (all) SA exports and T&C exports under AGOA.

Lesotho leads with greatest exports under AGOA, with Madagascar and Kenya following closely. The peak year for T&C imports under AGOA was in 2004 with 1,613,408 ('000 USD). After that, total T&C imports under AGOA to the US decline. Total AGOA imports start at 5bn rising to a peak in 2008 of 28bn (measured in '000 US\$). T&C constitutes approximately 9% of 2004 of all product imports to the US under AGOA. Of the total AGOA imports from South Africa, 2004 is also a peak year in terms of T&C exports from South Africa to the US, with total AGOA imports from SA peaking in 2008. T&C imports from SA in 2004 constitute 17% of all SA AGOA imports and 7% of all T&C imports into the US. The equivalent figures for SA in 2008 show that T&C account for less than 1% of all SA AGOA imports into the US, and 1.4% of total textiles imports under AGOA coming from SA. Given the established nature of SA textiles and clothing, the poor uptake or performance under AGOA reflects the problems of the industry as well as the restrictions of the AGOA agreement.

The triple stage rule creates supply constraints in light of the industry decline and the challenges in finding appropriate local providers. Overall capacity to produce and take up AGOA quotas will have been affected by the end of the MFA/ATC in 2005 and the general increase in global competition that followed the removal of these restrictions. As for the period after the end of the MFA in 1994, the difficulties in taking up the export opportunity offered by AGOA since 2000 reflect the production limitations and labour challenges, and the

¹⁵² Salm (2002, p.26) comments that Zimbabwe is excluded from AGOA despite being one of the largest cotton growers in the region with historically substantial textiles production capacity. This presents challenges for regional trade (and agreements) and regional industrial development.

inability of trade agreements to address these, or to create the appropriate incentives to allow manufacturers within the SA T&C industry to overcome them.

Table 8 South African exports to USA with AGOA

General Customs Value at HTS8 level ('000 USD)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD (Jan-Jun)	
South Africa T&C – imports to US under AGOA	30,487	85,261	126,885	114,616	61,621	41,978	21,335	15,955	10,114	2,200	
South Africa total imports US to under AGOA	416,999	441,446	727,752	668,101	330,515	385,818	608,964	1,099,046	1,016,314	519,715	
Top sources of AGOA Textiles and Clothing imports (figure in brackets = value of trade from top AGOA exporter)	Lesotho (129,242) Madagascar Kenya	Lesotho (317,660) Kenya Mauritius	Lesotho (372,614) Madagascar Kenya	Lesotho (446,494) Madagascar Kenya	Lesotho (388,344) Madagascar Kenya	Lesotho (385,452) Madagascar Kenya	Lesotho (379,464) Madagascar Kenya	Lesotho (338,686) Madagascar Kenya	Lesotho (276,885) Madagascar Kenya		
Total textiles and clothing imports to US	355,389	798,446	1,197,474	1,613,408	1,421,852	1,292,680	1,269,803	1,199,761	914,001	286,929	

Source: compiled from USITC Data from AU Conference of Ministers of Trade, 6th Ordinary Session, 29 October – 1 November, 2010, Kigali, Rwanda.

http://fi.au.int/en/sites/default/files/AGOA_issues%20Paper.doc

5.4.4 Regional and bilateral trade agreements

A number of regional and bilateral trade agreements also govern South Africa's textile and clothing trade. A proliferation of bilateral trade agreements, or trade agreements with regional blocs, emerged to counter the conditions set by the MFA/ATC and its phasing out. These often award a most-favoured nation status to the dominant market (US, UK, EU) – a trend that has been reproduced in several subsequent SA trade agreements.¹⁵³ Barnes (2005, p.8) notes how “trade agreements not only provide export opportunities, but also create the potential for access to cheaper inputs, as well as technology”. Breitenbach (2008, p. 44-45) comments that “trade agreements are much more specific to the needs of producers as it is negotiated by classification of the product by harmonized system (HS) classification.” Regional trade agreements seek to reduce competition amongst competitors of similar levels of economic or industry development, provide space for the development of regional value chains taking advantage of the respective advantages and, according to theory, facilitate the development of a regional market that could replace or compete against imports on the basis of some threshold transport cost effects. This would have the benefit of addressing the limitations set by small domestic markets. Bilateral trade agreements are also seen as a way to overcome restrictive rules of origin and non-tariff barriers (Maringwa 2009, p.30). Within the literature, there are also views against regional agreements as explained in the quote below.

“It is generally established, in trade theory, that regional trade agreements are a second-best option over multilateral trade liberalisation. In particular, there is the danger, in bilateral or regional deals, of trade being diverted away from low-cost non-participating suppliers. In addition, regional negotiations draw scarce negotiating resources away from multilateral trade negotiations. Regional trade deals also add considerable monitoring and administrative costs onto government staff. Overlapping memberships in Southern Africa compound these problems (Hess & Hess, 2004). On the other hand, regional trade agreements can pave the way towards positive multilateral outcomes as preferences granted (and eroded) become more widespread and break down resistance to multilateral liberalisation.” (TIPS 2010, p.6)

Of the different trade agreements, the SACU, SADC and EU agreements are of interest given the historical role of the EU for SA exports, and SACU and SADC in terms of the potential for

¹⁵³ See Barnes (2005), Morris (2006) and Breitenbach (2008) and the table of trade agreements below.

regional development.¹⁵⁴ However, trade volumes remain low, SA T&C exports to the EU have been declining and growth in regional (SADC) trade has been slow and limited. Maringwa (2009, p.13) comments that:

“Statistics on SADC trade show that total SADC exports increased by more than 100% between 2000 and 2006 from US\$50 billion to about US\$ 113 billion (TIPS SADC Database) with leading destination markets being the European Union, Eastern Asia and the North American Free Trade Area. However, intra-regional SADC trade fell to below 10% of total exports over the same reported period (Malaba, 2008:10.) The SADC regional integration process sought to liberalise trade between member states so as to increase bilateral trade flows but statistics show that the tariff liberalisation may not have spurred a growth in intra-regional trade. It therefore becomes interesting to explore why intra-regional trade has not been increasing.”

As the table below shows, many of the regional and bilateral agreements are recent, with long-term impacts still to be seen. SA’s dominant position within the region, together with the importance of T&C production in neighbouring countries, implies that without complementary policy or other intervention, trade agreements are unlikely to be the trigger for the rejuvenation of the T&C industry in SA.

¹⁵⁴See Roos (2011) on trade developments since AGOA’s inception and McDonald and Thierfelder (2009, p.5) for an overview of the constraints and benefits of regional integration.

Table 9 Existing and potential trade agreements

Existing trade agreements (start year)	Potential trade agreements	Impact on textiles and clothing
SA / EU Trade Development and Cooperation Agreement (2000)		EU tariffs to be reduced to 0, SA tariffs on apparel imports from EU reduced to half (apparel down to 20%, fabric to 10%, yarn to 7.5%). Weak or no impact on exports of T&C. Overall significance of EU as trading partner declining.
Generalised System of Preferences US and EU. Unilateral abolishment of quotas and duties for developed countries to access US and EU markets.		Complex rules of origin requirements, specific set of products covered may deter diversification. Ambiguity in additional provisions for development, financial and trade needs of beneficiaries. EU GSP governs the SA-EU relationship. US GSP replaced by AGOA and expired 2013.
Southern African Development Community Free Trade Agreement (SA joined negotiations in 2007)	SADC (8) EU Economic Partnership Agreement (EPA) and SADC Free Trade Agreement Mid-term Review	The SADC FTA excludes T&C. SA has not signed the SADC-EU EPA given objections the main one being the most favoured nation clause (MFN). ¹⁵⁵
SACU / Mercosur Preferential Trade Agreement (2004)		Excludes T&C. Overall trade balance in favour of Mercosur. TIPS (2010) notes small opportunities for (niche) clothing exporters may emerge from greater economic ties.
SACU – EFTA (2008)		Industrial goods and processed agricultural products. The agreement makes no specific mention of T&C.
World Trade Organization Doha Development Round (launched in 2001)		Textiles and clothing - “Effective” use of the agreement’s provisions on early integration of products into normal GATT rules, and elimination of quotas. - Restraint in anti-dumping actions. - The possibility of examining governments’ new rules of origin. - Members to consider favourable quota treatment for small suppliers and least-developed countries, and larger quotas in general. (thetradebeat.com)
	SACU / India Preferential Trade Agreement (delayed in 2013)	On the Indian request list are 190 T&C items and 31.1% import tariffs (the highest average tariff applied by SACU)
	Discussions between SACU the US and SACU – China A Memorandum of Understanding between SA and China to promote trade and economic cooperation SADC-EAC-COMESA Tripartite FTA	China is the main trading partner with imports dominating exports. Exports to the US under textiles declined. Attempts to negotiate SACU-US agreement have failed with SA objections to requests for rapid and extensive liberalisation, or inclusions of labour, investment, and intellectual property. Potential areas of interest include T&C excluded from AGOA and GSP.
Zimbabwe/SA bilateral trade agreement (version 1996)		Tariff and quota reductions on textile imports into South Africa.

Source: Breitenbach (2008), Barnes (2005), Roberts & Thoburn (2002), Bursvik (2010), TIPS 2010, thetradebeat.com, Tralac (2012), DTI.gov.za trade agreements

¹⁵⁵ See Bursvik (2010) and Tradebeat for an overview of the objections.

Regional trade, production and market development represents an important potential area for Sub-Saharan T&C market development and is also suggested as further research, especially in exploring the scope for regional demand and regional import substitution to counter pressures from low-cost imports. This regional development is unlikely to emerge through trade agreements, in part due to the sensitive nature of T&C. It is interesting to note that for many of the bilateral or regional trade agreements, T&C production is either excluded, inclusion is postponed for a temporary period, or favours producers outside SA. It seems that the regional and country-specific trade agreements do have a strong impact on T&C, and certainly do not address the production, labour and other constraints discussed earlier. Given this limited impact, it can also be argued that the trade agreements, in particular with India and China, are unlikely to generate desired benefits given the cost-competitiveness of the domestic T&C production in these countries.

The unequal political and economic distribution of power within several of the above trade agreements (e.g with large economies of US, EU, China) also implies the negotiations are unlikely to reflect the needs of the SA T&C industry. Even within the Southern African region, South Africa's dominant position as a middle-income economy suggests neighboring nations are unlikely to think favourably of the concerns of SA T&C, and are also not likely to generate a sufficiently large demand effect for South African products. Without specific policy intervention, competition in these countries is likely to remain dominated by costs, so the presence of a trade agreement may not overcome the quantity, quality and price issues, or the competition from low-cost imports from outside SADC or Southern Africa. In addition, there is little evidence that the regional trade agreements represent a sufficient influence to alter the industry structure, nature of competition, or challenges faced by the T&C industry in SA or the region – even if the policies were intended to do so.

Much of the impact on T&C is general and more in terms of the failure to capitalise on the agreements or support to develop exports or to counter import competition. The limited positive effect of trade agreements for SA T&C arises from their focus on potential market access and the ideological optimism regarding the role of exports. This reinforces the aforementioned need to question why supply-side policies and export growth were proposed and persist as the answer to the problems faced by T&C, despite poor evidence from SA T&C. A discussion on the evolution and setting for South Africa's industrial policy is in chapter 6.

5.4.5 Taking a step further

The overview of SA trade policies for T&C helps establish that trade liberalisation has taken place and has achieved the objective of increased access to market. However, this access has not translated into significant export growth, or a resolution of the production problems and tensions, a reversal of the marginalisation of labour or the increased flexibility and power allocated to firms, or a sustainable way to address the various industry challenges raised. It has generated increases in imports, and has been associated with many of the adverse trends such as employment loss, increased cost-competition, factory shutdowns, relocation of factories (or production) to areas or countries that are more cost-competitive, low investment, and limited or no upgrading of technology and skills etc. Investigating the impact of trade liberalisation cannot establish whether there needs to be more or less trade liberalisation or suggest alternative policies or industry challenges to focus on. In terms of addressing the decline of T&C, trade policies have missed the mark. Taking this argument further suggests that the policy limitations lie precisely in their failure to address the production challenges, industry tensions or other adverse effects of labour restructuring and marginalisation. Posing the question in terms of whether trade liberalisation resulted in the decline of T&C, is flawed. Trade liberalisation has contributed to, and worsened the industry decline. However, this is also explained by the failure of the market mechanisms and prices to embody appropriate information about multiple production, labour and trade challenges, or to address long-term structural and historical problems. Despite these fundamental limitations, the notions of the supremacy of the price mechanisms in terms of allocating power and incentives, continue to be reproduced in debates about more export support, upgrading, accessing and competing on price terms as set by GVCs. A more relevant question, even if accepting the relevance of the market and price mechanisms would be, why and when is liberalisation justified if the product and production is not competitive. Taking a step further would ask, what other mechanisms and forces present challenges to the industry? Alternatively, reversing the causality would seek to investigate what are the different (social) roles, and challenges within those roles, that T&C perform for the economy. These alternative questions allow for a return to different conceptualisation of the goals of T&C through their functions as sources of employment or skills generation, and demand for intermediate and consumption goods. These also create space for understanding supply improvements through process, product and technology innovation by conceptualising labour not as a costly input, but instead as a creative and varied source of production, and ultimately, as a source of industry regeneration.

Multiple components explain the poor T&C performance. These include the short-term focus on market forces as embodied by firm profit maximisation strategies and exacerbated by market liberalisation. Problematic assumptions, of the supremacy of the price mechanisms to incorporate both information and incentives that would enable the production and process changes or address other obstacles, are not borne by the evidence. A bias towards developing supply at the expense of the domestic market, neglects the evidence that the crisis for T&C was not exclusively one of supply problems, but also one of demand limitations. The domestic demand limitations of the 1980s are rooted in the crises of the apartheid economy, the global economic downturn, and declining gold prices. These are combined with challenges from the poor export market demand for South African goods in the 1990s, and the fierce and growing global cost competition and import competition, worsening the potential for demand-led industry change. Despite these circumstances, and the recognition of the need to focus on domestic demand, the policies at firm and industry level have remained biased towards supply, with renewed strength drawn from the GVC approach and its recommendations of upgrading, access to markets, governance and increasing value added.

Trade liberalisation has undoubtedly contributed to the decline in T&C. However, the debate has been narrowly confined to an ideological one. Arguments that there has been insufficient liberalisation or incorrect policy support for the market mechanisms are juxtaposed with those maintaining there has been too much reliance on market forces and that the allocation and efficiency-boosting mechanisms are not sufficient or appropriate support for remedying market weaknesses. These have led to temporary protection to enable development of skills, technology, economies of scale, or other sources of comparative advantage. Important though these contributions are, they do not consider the cumulative and multi-layered nature of the decline.

Global liberalisation of T&C trade undeniably changed the structure of global T&C. The pressure to liberalise trade arising from trade agreements and trade policy have also shaped views on the industry trends and poor performance. These debates remain inconclusive because they tend to narrowly frame the discussion to focus on questions of trade alone and because the debate remains rooted in a misleading and polarised form where the actions and influence of the state are separated and set against those of market and price-led mechanisms and forces.

5.5 Summary of findings

This chapter has sought to provide a detailed insight into the complexities arising from the interlinking and layering of multiple and continually evolving factors, forces and features of the SA T&C industry. The influence of these factors varies across the different segments of the industry over time, and across the geographical locations of production. In addition, these influences interact with each other, occasionally contradicting the effects across influences, but more commonly combining to exacerbate the negative impact of individual influences. The mutually reinforcing effect has been downward and to the detriment of industry development in part because of the failure to capture factors that are important but cannot be explained through prices or competitiveness as such. Four themes that reappear across the different influences are:

- the importance of re-conceptualising the role of labour away from one of an input with a cost and towards something more constructive enabling variation in the nature, role and labour dynamics at multiple levels of the industry;
- understanding the tensions and relationships and how these constrain production, policy and changes to the distribution of power within the industry;
- a shift away from short-term competitiveness towards longer-term regeneration; and
- the importance of multiple forms and levels of context for specific influences within the sub-sectors and pipelines, as well as for the industry within the national and global policy and economic setting for T&C.

The framing of the debate has contributed to two developments that have hindered the analysis of the industry. One is the focus on prices/costs resulting in explorations of competitiveness within the context of a vertically defined set of activities – value chain, pipeline or other production networks. The other has misleadingly categorised key actors as either associated with the state or with markets. These have had the adverse effect of narrowing the focus of industry strategies to ones promoting greater productivity, competitiveness, upgrading through the value chain by developing or capturing greater value added, and associated firm strategies (such as market access and agglomeration). Not only do they reinforce the false juxtaposition of good or bad policy, whichever way this is defined according to ideological leanings, but they neglect the role of forces and industry players that are important but not directly involved in production (or cost generation), exports or imports, or somehow not measurable through prices, value or cost.

Among the findings of this chapter are the notions that T&C challenges arise:

- from the sphere of production,
- the changes in and tensions associated with the labour relations and processes, and
- the damaging effect of trade liberalisation and ideologically-driven export optimism disconnected from the challenges that both predate and go beyond trade trends, such as the failure to export, rise in import competition and the limited ability of the industry to take advantage of attempts to improve access to markets.

All of the three themes explored exhibit a tendency to conceive narrowly of the problems as ones constraining competition and value adding. First, production challenges focus on the need to upgrade processes, technology, and skills to be compliant with World Class Manufacturing. Yet, these influences are not seen jointly and debates struggle to look beyond direct price influences at, for example the role of industry tensions. Debates also struggle to understand industry trends and characteristics beyond competition other than a race to the bottom or attempt to upgrade or access markets in a global value chain. Second, labour is seen as a homogenous input and primary source of cost but also flexibility. This has led to restructuring through the increased use of casual, informal and other precarious forms of employment, increasing firms' bargaining power further. Again the short-term profit-maximisation perspective of firms suggests the need to look for more constructive conceptualisations of labour and the role of the industry as a source of employment. Third, trade agreements and policy focus on access to market, with the implicit assumption that market forces will remedy production problems and tensions as long as their operations are facilitated and unimpeded. This has resulted in an extensive liberalisation through the removal of import protection and through export incentives. It is important to stress that though trade liberalisation has contributed to the decline, this decline is rooted in the historical and economy/industry-specific production challenges and relations. The form and extent of trade liberalisation for T&C has made this worse, but has also highlighted how alternative industrial strategies and policies, such as those pursued by China and Chinese manufacturers, enable growth, employment, and industry development.

The chapter concludes that T&C decline has been the consequence of broad set of different and evolving influences with further complexity arising from challenges and variety in the forms of interlinking of different segments of the industry. This complexity has also contributed to a fragmentation of views on what are priority issues to resolve, these often exacerbate production tensions with policy and lobbying disagreements that have aggravated

the demise of the industry. Despite awareness of this complexity, the literature has sought to look at factors or influences in a compartmentalised fashion. The production challenges have been framed in competitiveness or value chain approach and whilst industry tensions are acknowledged and seen as problematic, they cannot be incorporated in a meaningful way in these analytical frameworks. Labour restructuring has contributed to the on-going marginalisation of labour and has reinforced the price focus. Though it has brought greater flexibility and space for employers to manage costs in the short term, the on-going and new forms of tensions have countered firm-level gains by contributing to an environment of distrust and fragmentation, making holistic and long-term sectoral sector redevelopment difficult, if not impossible, to achieve. These limitations in understanding the complexity and cumulative build-up, moving beyond compartmentalisation, and incorporating a varied and meaningful role for context, are reflected in various policy measures. Policy remedies have focused either on narrowly defined specific challenges, such as skills or Chinese clothing imports, or have been developed within the price-market-competitiveness framework, such as the various export incentives that rely on assumptions about the market providing the right information, conditions, incentives, tools and knowledge for upgrading, and access and ability to compete on (input and output) markets.

As was stated up front, these points suggest there is need for more comprehensive sector and industry analysis, methodological tools and techniques, and explore alternative analytical approaches to capture the wide ranging, evolving influences and their complex interlinking. It also suggests the need to look at theoretical and conceptual advances in other fields to understand the dynamics between different stakeholders and influences, but also to delve beyond the symptoms or the outcomes of these dynamics, that is to look at the role of the setting and how this shapes the dynamics as well as the outcomes. Awareness of the importance of setting and the particular dynamics of accumulation or deterioration, as described in this chapter, represents the first step to advances in analytical frameworks and methodological approaches.

Part III: Context and implications for textiles and clothing

“(W)hilst it has now become fashionable to emphasise diversity, complexity, and context in considering industrial policy, these are often endowed with a shallow content, no more than is necessary to move beyond the one model fits all point of departure, and one that tends to be removed from broader economic and social goals and the transitions associated with, and as a component part of, development and industrialisation themselves.” Fine (2008, p.1)

Part II provided support for the contention that the challenges of the SA T&C industry are the consequence of a broad collection of factors that contribute to the trends, and that these factors evolve and interact with each other over time, and in complex ways. This interaction and evolution does not take place in isolation, but is shaped by the unique South African political and economic environment that sets the scene for the industry, sub-sectors, firms, workers and a host of other relevant parties specifically involved in T&C production, trade, and other industry operations. Part III interrogates the T&C industry evolution from the perspective of economic structure, underlying and conflicting interests, and the nature of South African accumulation focusing on select aspects of industrial policy evolution. The decline of T&C is seen to be shaped by the position in the economy, especially in terms of both the disconnection and influence from other industries, in particular the core capital-intensive drivers of the economy. These drivers concentrate around the mining, minerals extraction, process and support industries that constitute the MEC (Fine & Rustomjee 1996). Going beyond descriptions of the pattern or structural composition of the South African economy, the MEC activities and associated connections/disconnections to other sectors are understood as the basis of the unique system of accumulation.

Features of the T&C industry decline, such as the fragmentation and tensions between different industry interests, the marginalisation and commodification of labour, and the narrowing of sector policy and strategy through the focus on cost-competition and export development within value-chain and supply-focused approaches, are a reflection of the tensions, developments and industrial/policy framing present in the South African economy more broadly. At a superficial level, non-selective or non-targeted industrial policy can be seen to have influenced T&C directly. However, more important would be to explore the forces and factors that shape industrial policy - in parallel to the way the underlying economic structure and dynamics affect different sectors. Likewise it would be important to explore how industry

evolution is shaped by the historical and structural characteristics of accumulation, and how industrial policy evolution can also be seen as an outcome of a particular setting.

This is not a comprehensive overview of the theoretical industrial policy debates, of the evolution of SA industrial or macroeconomic policy, or of the specific mechanisms by which different macroeconomic policies overlap or affect each other. Instead, the focus is on how industrial policy is debated, how industrial policy affects different industries (especially T&C and other labour-intensive activities), and how industrial policy itself reflects the underlying dynamics between different interests. Drawing on select aspects of industrial/macroeconomic policy in SA helps show how tensions and the dynamics between different interests (the characteristics of accumulation) are reinforced or changed over time and raises questions about the range of direct and indirect channels that continue to influence industrial development. What follows in this introduction to Part III is a brief overview of the general theoretical debates about industrial policy and accumulation relevant to South Africa. Chapter 6 then investigates the specific evolution and nature of SA industrial policy, drawing out the implications for T&C and connecting these to a discussion on the nature and evolution of accumulation in South Africa. Chapter 7 summarises the main findings of the research, returns to subsidiary debates about appropriate theoretical and methodological approaches, and concludes on questions for further research.

The nature of accumulation in South Africa

At a general level, the discussion here is about the role and relations of the state in industrial transformation. For the case of T&C, the sectors' evolution reveals how the state-society structures and relations are played out, through industrial policy and through the continuities in the structural composition. Evans (1995, p.10-11) rightly points out that debates about the separation of state and society are sterile, and that arguments around the "variations in state involvement have to be built on the historical examination of particular states...(and) situated in specific arenas", in what he terms embedded autonomy. Evans (1995, p.17) continues by discussing different formulations of embedded state-society relations through examples of "dense links not with society in general but specifically with industrial capital" and "links with social groups like labor".¹⁵⁶ The limitations of the dichotomy between the state and the market, assumptions about state (and market) homogeneity and uniformity, misplaced perceptions about the supremacy of the market in generating developmental outcomes, and the

¹⁵⁶ Evans (1995) focuses on the IT sector to understand the different roles the state can play, how this informs theorising on state-society structures and relations, and how these in turn shape industrial transformation.

importance of the state in governing market forces, have been previously discussed in the political economy literature (Amsden 1989, Wade 1990, Chang 2003, Evans 2008, Fine 2011).

Tensions between different interests, how these are played out through the state apparatus, different markets, and the interaction between the two, lie at the core of the debates about development. These are reflected through the notion of accumulation as based on the capital-labour balance. Drawing on Burnham 1996, and Holloway 1996 (from Bramble & Barchiesi 2003, p.16)), “(s)tates are integral to a system whose logic forces both them and individual capitals to continually adopt new methods of achieving profits and accumulation,... (m)oreover, this terrain involves not just conflicts between and within capitals and states but also conflict arising out of the class contradictions of capitalism, based on the contradictory relationship between labour and capital – a mutual but exploitative relationship.” As Kotz (2007) notes, the notion of capital-labour relations has been understood somewhat differently, depending on whether the approach is aligned with Marxist political economy, neoclassical theory, or other frameworks of accumulation such as the regulation school, social structure of accumulation, or MEC accumulation. The approach adopted here, as described in chapter 2, is one where the tension between capital and labour is rooted in a particular form of class struggle over the value produced by labour and appropriated by capital, as determined by the empirical realities of both SA policy and industry evolution highlighted through the case of T&C. Paraphrasing Evans (1990, p.565) quoting Colander (1984, p.2) ‘the biases or vested interests in society are reflected in policy’. Neoclassical economists take the position that a minimal state reduces the rent-seeking or capture of gains through policy, assuming that these are evenly distributed in the form of utility and wages to labour and profits and costs to capital, as the outcome of equilibrium via the price mechanism. In contrast, Terreblanche (2012, p.37) notes that democratic capitalism presents contradictory elements in that “capitalism is based on self-seeking inequality and conflicting individual and group interests” in contrast to the “joint interests, equality and common loyalties” associated with democracy. It is within these constructs and tensions that the analysis of SA industrial policy and accumulation proceeds here.

Moving away from the general towards the more specific, two contextual aspects of the political history and economic structure provide background to understanding the SA state-society relation and relevance to industrial accumulation. First, the historical context situates T&C trends in a particular period from around 1970 through the end of apartheid to the early

2000s, characterised by key policy and political changes and challenges, but also continuities in the tensions and distributions of interests and power in South Africa. This period saw a heightened decline in manufacturing output, a rise and legalisation of labour movements, alongside growing political activism to press for the end of the racial segregation with the onerous political, economic and personal implications that accompanied the apartheid system. A number of excellent summaries on different aspects of the transition from apartheid to democratic rule are provided by Fine & Rustomjee (1996), Marais (1998, 2011), Bond (1999, 2000), Freund (1998, 2006), and Terreblanche (2012).

Second, the structural context draws out how the collection, concentration and connections of sectors within the SA economy both reflect and reinforce the distribution of power and the skewed balance between capital and labour at the macro-level. The MEC as a concentration of capital consists of a number of different connected core sectors.¹⁵⁷ In contrast, several manufacturing sectors, in particular labour-intensive ones, remain unconnected, for example, forestry, textiles and clothing, but also the auto industry or agro-processing. Ashman et al. (2012, p.8) revisit the sectoral composition of the SA economy and find that the MEC sectors continue to display a high interdependence in terms of the input-output linkages, with poor or non-existent linkages to non-MEC manufacturing. They note that non-MEC manufacturing requires 23% of MEC inputs and provides only 6% of inputs required by MEC-manufacturing. Similar continuity is visible in the contributions to export revenue and GDP.

How is economic structure and the notion of the MEC relevant to T&C? First, there are few investment or production linkages between MEC and T&C industries. The MEC does not directly affect T&C. However, the limited cross-industry investment or linkages are problematic if we employ the structuralist approach to understanding industrialisation, where it is precisely the various consumption, skills, production, fiscal and other linkages, across multiple sectors, that enable a broad-based cumulative and sustainable multi-industry development to take place. Second, the influence that the interests of MEC conglomerates have on policy, are reflected in, for example, the exchange rate and capital account liberalisation. Policy that favours the interests of MEC capital, such as capital deregulation or trade liberalisation, selective state disinvestment, or an exchange rate policy favourable to the

¹⁵⁷ The original set of MEC sectors detailed by Fine and Rustomjee (1996, p.79) included: coal, gold, diamond and other mining activities; electricity; non-metallic mineral products; iron and steel basic industries; non-ferrous metals basic industries; and fertilisers, pesticides, synthetic resins, plastics, other chemicals, basic chemicals and petroleum.

imports and exports required by capital-intensive industries, may be the outcome of the state pursuing the interests of capital or policy pressure from capitalists. The processes, negotiations and fora within which policies are selected, formulated and implemented are poorly understood. However, irrespective of the driver, the outcomes, especially in terms of the marginalisation of labour and labour-intensive economic activities, are equally detrimental as seen in the case of T&C. Third, as documented by Ashman et al. (2012), the MEC industries have not generated substantial increases in employment, yet labour-intensive industries (such as clothing) are not supported for the purpose of employment creation. Fourth, a general approach to industry disinvestment by MEC conglomerates as the apartheid sanctions were lifted was not countered but worsened by the decline in state procurement and investment. The withdrawal of (state or private) investment was not implemented in a uniform manner, nor was the impact uniform across different industries. For T&C, vulnerable to global competition and subject to low-cost competition, this strategy was damaging and in contrast to mining performance where resource scarcity and commodity price booms enabled sustained market access and revenue growth. Fifth, this implies that the policy requirements of the exporting, capital-intensive, concentrated and commodity-led MEC industries are different to those faced by a range of different, mostly non-exporting, dispersed and fragmented T&C production activities with varying degrees of labour- or technology-intensity, and vulnerable to global competition. What is relevant is the notion that different interests, needs and challenges present very different policy requirements. A misplaced belief in a one-size fits all approach or the failure to address the particular needs or drivers presented by labour-intensive T&C are at the core of how the industrial policy has damaged the industry.

The needs of the capital-intensity of the MEC in contrast with those of labour-intensive T&C result in different policy pressures. Given the limited linkages, and the absence of pressure to create or even explore potential synergies between the MEC and T&C at the time of the transition from apartheid, the need for policy support to counter the damaging effects of neoliberal policies and market forces was heightened. Not only was there disinterest in T&C from the perspective of MEC industries, the pressure from T&C on the policy or at the level of a general public discourse also failed to highlight the importance of, let alone pursue, developing such connections. This reflects the presence of a disconnection between the fragmented labour intensive industries and the concentrated capital-intensive industries. This division and prioritisation of interests is also reflected in the macroeconomic and industrial policy choices. The role of this disconnection has not been considered in the literature on T&C,

industrial policy or in the debates around the role, costs, marginalisation and representation of labour in South Africa.

Delving further, the historical and structural setting provides the space to see how capital and labour relations specific to SA are central to the particular nature of accumulation. The rise of the labour movement and the privatisation and deregulation of capital associated with the mining and minerals extraction shows that the positions of both collective capital and labour have evolved in South Africa. The restrictions on black labour and labour organisation under apartheid rule began to shift in the 1980s. The formation of the Council of South African Trade Unions in 1985, culminating in the tripartite alliance between the ANC, COSATU and the SACP, was at the heart of changing the political power structure. As explained in chapter 5, the introduction of the Labour Relations Act 1988, 1991 and 1996 (with various amendments) helped formalise collective and individual labour rights, organisation, bargaining, dispute resolution and the form of labour relations, and was an important component in transforming the space for capital-labour relations.¹⁵⁸ As the space and power for labour to voice and exercise influence was improving, the power associated with capital was also changing and strengthening. A combination of the privatisation of mining operations, disinvestment from non-core (MEC) activities, liberalisation of capital flows, growing domestic and global financialisation, and the global commodity boom in the 2000s, have, amongst other factors, contributed to the concentration and consolidation of the economic power associated with the MEC. The consolidation and reproduction of power within the financialised MEC and the relationship between MEC capital and the way in which it has been embedded within political and policy processes has been detailed by Fine (2008a, 2008b, 2010, 2013), Ashman et al. (2010, 2011, 2012), but also by Clark (1994), Freund (2006), Southall (2007), and Terreblanche (2011). The purpose is not to engage with descriptions or debates on the MEC, its financialisation, or capture of the policy apparatus and neoclassical policy trends, merely to acknowledge that the continuity in the concentration of economic and political power associated with the (transformed) MEC continues to shape the structure, accumulation and policy debates and decisions of the SA economy.¹⁵⁹

¹⁵⁸ On the evolution of labour structure, rights, movement in SA for example, Wolpe (1972), Webster (1985), Bramble & Barchiesi (2003), a special issue in *Transformation* (2006) edited by Altman & Valodia, Southall et al. (2010), Venter et al. (2011) and the work of the Society, Work, and Development Institute. A historical perspective of global labour developments is found in Silver (2003) or Munck (2010).

¹⁵⁹ Insights on embedded accumulation structures of other countries are provided by Evans (1995) on Korea, India, and Brazil and Amsden (1989) on South Korea.

The consolidation and transformation of the MEC, or the parallel rising power and position of collective labour, are interesting and important processes in their own right. For the purposes of this research, the focus is on the notable continuity in the balance between the two groups of interest. Despite extensive changes associated with both groupings of interests, the overall balance between capital and labour in SA remains skewed in favour of capital, in particular the concentration of capital within the MEC. Though labour interests are officially represented in government by COSATU and reflected in the rhetoric on employment creation, these interests are not incorporated or embedded into the accumulation and industrial transformation that takes place around the MEC or the policy agenda that supports this accumulation. In part this is due to the concentration of capital, interests and ownership associated with the MEC, and the fragmentation of interests of labour across multiple functions, sectors, and firms, creating practical differences in their ability to lobby or represent. The different characteristics of capital vis-à-vis labour may also contribute to the skewed balance of power, though again it is important to note these differences are also shaped by policy, the political setting, and the structure of the economy.¹⁶⁰

Understanding industrial policy

Turning to industrial policy, this section introduces select areas of debate and begins to look at the influence of these discussions in the South African context. There is a broad literature on different aspects of industrial policy, with divisions across theoretical lines around the appropriate role of the state, the nature and extent of market forces and their dynamics. This has implications for how industrial policy is defined, constructed, implemented and assessed for impact. These debates and divisions were briefly touched upon in conjunction with the theoretical overview in chapter 2, and are discussed extensively in the literature.¹⁶¹ Instead, the focus is on the aspects of industrial policy that draw out or reflect the underlying accumulation structure and processes, as part of a distinct political and economic setting.

For the case of South Africa, a discussion of the evolution of industrial policy helps reflect on how dominant interests interact and inform the accumulation and economic transformation in general, how they shape the space for, and evolution of, policy at different levels of the

¹⁶⁰ This power imbalance is more pronounced when the limiting neoclassical assumptions about the homogeneity, transferability or mobility and appropriate pricing of labour and capital are relaxed or challenged.

¹⁶¹ Important contributions on varying aspects of the industrial policy debate include, e.g. Fine (1997), Cramer (1999), Chang (2002) Singh (2011), Wade (2012) for views rooted in political economy. Others e.g. Lall (2004), Pack & Saggi (2006), Hausmann & Rodrik (2008), Lin (2012), Warwick (2013) present mainstream perspectives. Thirlwall (2002) and Szirmai (2012) provide an overview of the role and theories behind manufacturing as an engine of industrial development.

economy, and how these interests change or consolidate over time. There are five aspects of industrial policy debates that are useful to consider in exploring the nature of accumulation and interest dynamics in South Africa. Firstly, the way in which industrial policy is defined shapes the debates around formulation, implementation and policy analysis. Secondly, the types of policies are affected by the power relations and distribution between the different policy entities such as departments of government. For example, in South Africa trade policy is formed in the department of trade and industry (with input from other government and non-government stakeholders such as ITAC) and is separate from exchange rate policy that falls under the treasury. Yet both affect the performance of manufacturing (exports). The contradiction arising from a separation or lack of coordination between policy-making units, together with the overlap in the spheres or extent of influence of different policies, contributes to the tensions between interests, thus to the complexity and particularity of the way policy choices are made in each country. Thirdly, the policy process, for sectors or industry in general, is influenced by the theoretical starting point or guiding framework. This can be implicit or explicit and can take the form of an a priori, externally driven, target such as the general reduction of certain types of policy instruments perceived as distortionary. Examples could include tariffs, import duties, or other measures that protect domestic markets and supposedly impede free competition. Sources of external pressure could include trading partners or global institutions such as the WTO. An alternative approach to policy-formulation would be empirically-driven and rooted in responding to the general needs or particular problems of select and targeted economic activity. An example of this would be the bilateral negotiation of the temporary restriction on certain clothing imports from China. Likewise, historical factors such as an inherited balance of payments constraint would inform policy options. Fourthly, debates around policy space and capacity influence the way policy is formed and implemented, as well as perceptions of the impact or outcomes of policy. Fifthly, the depth or scale (e.g. sector, macroeconomy, function, vertical chain) at which policy is debated varies and, in turn, influences the policy choices and outcomes. This is connected to the first and third points in that the definition and theoretical framing will influence whether the target is, for example, a sector, a particular function, a particular challenge such as illegal imports, or focused on forward development as opposed to backward-looking problem solving.

These all highlight the importance of seeing the evolution of policy (alongside industries) as another manifestation of the setting and underlying dynamic arising from the tensions between different interests and influences within an economy. This approach is in stark

contrast to that adopted by the neoclassical school that treats the environment as exogenous, governed by a general tendency towards static equilibrium, allowing only temporary deviations based on imperfections, intervention, expectations or other information (Streck 2011).

Chapter 6: South African industrial policy: debates, evolution, and implications for the textiles and clothing Industry

This chapter examines select aspects of the evolution of industrial policy in SA to show that in addition to being a significant but complex influence on T&C manufacturing (as well as other industries), the policy evolution displays a number of parallels to the evolution of T&C. These include the perpetuation of several misconceptions, such as the view that the policy can be explained through a shift from ISI to EOI or increased diversification, perceptions of limited policy capacity and policy space, and notions around the categorisation of the role of the state as developmental or embracing pro-market neoliberalism across all policy. There have also been misconceptions about the way in which the rich resources affect the economy, such as views about the poor manufacturing being the outcome of a resource-curse, despite evidence of extensive industrial capacity around the MEC. These misconceptions have been accompanied by a narrow framing of the policy debate within a misleading state versus market continuum, instead of one set in the context of a unique form of accumulation, as determined by different types of forces and influences arising from the sector characteristics and the structure and dynamics of the economy.

The evolution of SA industrial policy can be seen to have affected T&C both directly and indirectly. The direct effects can be seen through the policy choices that disfavour labour-intensive, non-exporting sectors, for example the trade liberalisation, financial deregulation, or high interest rate policy. The more substantial indirect effects are argued to arise from continuity in the structure of the SA economy where, despite extensive changes, the balance remains skewed in favour of capital. Presenting evidence of policy evolution as the outcome of the tensions and dynamics between competing interests, within a unique political and economic setting, creates the space to see the decline of T&C as the outcome of not just factors and forces unique to this industry, but as part of a particular economic structure.

This chapter first describes some of the misconceptions in understanding the evolution of apartheid-era industrial policy (section 6.1). This is followed by a discussion of select contradictions in post-apartheid policy choices (section 6.2) and the limitations of supply-side policies (section 6.3). The discussion returns (in section 6.4) to look at how the South African policy evolution reflects the underlying capital-labour balance and the form of accumulation

that is associated with this (im)balance of interests with a discussion of the implications for understanding the decline of T&C. Section 6.5 concludes.

6.1 Evolution of industrial policy and economic structure in late-apartheid South Africa

The discourse around SA industrial policy retains a number of perceptions that mislead and draw the focus away from a systemic understanding of policy and industry evolution. These misconceptions include the notions that:

- industrial policy has shifted from ISI to EOI;
- decentralisation and diversification policies have been widely implemented and have been successful;
- constraints such as balance of payments crisis and lack of foreign investment have been largely driven by historical baggage or the external conditions imposed by the global markets or global policy pressures.

Instead, it is argued that industrial policy is better examined through underlying pressures and interests seeking to enable continuity and concentration of power within state-owned enterprises or former state-owned large corporations that form the core capital-intensive MEC activities. Parallel continuity is observed with on-going (albeit altered forms of) labour market segmentation and internally imposed stringent macroeconomic stabilisation. A shift towards supply-side policies, such as trade and capital market liberalisation, has been adopted partly due to alignment with the neoclassical policy fashions and prevailing theoretical trends, and partly because they also reinforce continuity in the balance of power within the economy.¹⁶²

6.1.1 Limitations of import substitution, decentralisation and diversification policies

During the late apartheid years around the two decades between 1970 and the early 1990s, government support for the manufacturing sector, though widespread in terms of the number of subsidies and tariffs, was disorganised and the restrictions easily circumvented. The main focus of ISI was on the development of basic consumer goods industries in response to increasing consumption from white workers enjoying wage increases as part of apartheid benefits. In addition, the state sought to protect the manufacturing sector against foreign imports in line with policies selected by other industrialising economies such as Chile,

¹⁶² A version of this section was first presented in 2008 (at the SA Trade and Industrial Policy Strategy Conference and in 2009 at the Global Labour University Conference). A more detailed summary along similar lines is provided by Zalk (2012 and 2013).

Argentina, Brazil and the later East Asian newly industrialising countries. However, a key difference was in the degree and type of state involvement. The SA government chose not to intervene in the workings of sectors, but rather to promote the conditions for capitalist growth using tariff and non-tariff protection for the labour-intensive manufacturing and the setting up of parastatals in minerals and related capital-intensive sectors.¹⁶³ Not only did this strategy fail to develop an export-oriented manufacturing sector, the manufacturing that evolved was mostly labour-intensive leaving production exposed to price volatility in the imports of intermediate capital goods. In addition, Fine & Rustomjee (1996, p.188, 221) show that ISI policy was incoherent, tariffs were not widespread or controlled, and trade policy was used to protect the balance of payments, confirming the poor management and increasing difficulty of operating under ISI as evidenced by its limited impact. Soludo et al. (2004) also refer to incoherent and badly managed import substitution and tariff structure and confirm that post-war SA industrial policy was not the case of textbook protectionism and import substitution. Production remained labour intensive, focused on the domestic market, restricted to low-value-added products, with limited access to imported inputs (e.g. capital goods) or development of exports, especially in T&C. Two contrasting views have been debated regarding the manufacturing trends and the role of ISI in SA. The first view held by those within the ISP (Joffe et al. 1995) maintained that that easy industrial activities were exhausted by the early 1970s and that ISI became progressively more difficult to implement. Their conclusions were to proclaim the failure of ISI and focus on competitiveness enhancement through export promotion and other supply-side measures such as skills and productivity development. The alternative view held by Bell (1995) was that ISI was, in fact, not the main cause of the manufacturing decline, that there was space to continue pursuing ISI beyond the easy ISI options that had been exhausted.¹⁶⁴

Other factors prominent in the 1970s and 1980s industrial policy debate included diversification away from the capital-intensive MEC, decentralisation of industrial activities, as well as support for small- and medium-sized enterprises. Despite the debate, little diversification into secondary products was undertaken during the initial post-war phase though this soon changed with increasing interaction between English and Afrikaner capital. The resulting joint ventures and diversification focused primarily on products and sectors

¹⁶³ Marais (1998, p.21)

¹⁶⁴ Bell (1995) also argues against the ISP claims that SA had comparatively low productivity levels, that productivity could be improved through exports, and that poor manufacturing deepening and performance could be explained by low productivity and high inequality.

related to or directly downstream from the MEC. Chabane et al. (2006, p.554) describe the two main phases of diversification: linkages built on mining led to steel, explosives and engineering; divestment of foreign firms and sanctions led to a focus on consumer goods and food products. The first form of diversification was driven by MEC investments (resulting from a constant flow of foreign exchange from booming commodity prices) in a climate where a combination of sanctions and finance outflow restrictions meant exporting funds from SA was difficult. Arthur Norval, the BTI chair in the 1950s “anticipated bright prospects for (...) iron, steel, engineering, metal industries” (Fine & Rustomjee (1996, p.183). A second form of diversification targeted consumer goods and food products and was largely funded by the foreign exchange reserves generated by the MEC, though it was directed and funded through government, unlike the inward investment within the MEC and related activities. As a result, diversification within the MEC was widespread and well-funded whereas other industrial sectors, manufacturing in particular, remained small, labour-intensive, strapped for funding and unconnected to the MEC core.

Limited progress in two other policy areas, decentralisation and support to small and medium-size businesses, mirrored the poor outcomes of diversification and ISI. Decentralisation according to Hirsch (2005) began as part of the labour control programme and served to keep black industrial labour out of urban centres. Fine & Rustomjee (1996, p.191) also agree that though a favourite component in industrial policy, decentralisation and SME support were driven by political and ideological rather than industrial concerns. For example, the programme neglected areas of investment for political rather than industrial or economic reasons. Marais (1998) and Fine & Rustomjee (1996) point to evidence that decentralisation as an industrial policy was not actively pursued except in rhetoric. Though initiated in the 1960s, the programme only really became effective in the 1970s, only to be scaled down by the end of the 1980s due to high cost and poor survival of decentralised operations beyond the subsidised period. Another cause for poor SME and decentralisation policy success draws from the dispersed policy ownership. Though originally managed by the IDC and thus within the core of industrial policy influences (albeit with very limited impact), SME support was subsequently divided between the Board for the Decentralisation of Industry and the Small Business Development Corporation (after setup in 1983), neither within the core of industrial policy-making. This removed the interests of SMEs from the field of active policy debate and influence. Marais (1998) and Fine & Rustomjee (1996) discuss attempts to create a decentralised textile industry in the last decades of apartheid, but costs, lack of sufficient

funding, inability to guarantee a low-wage workforce, union activism and workforce unrest led to disastrous results. In addition, competition from tariff protected, urban, well-connected, privately funded textile companies emphasised the failure of the decentralisation experiment in textiles. A further drain on resources emerged with a high and costly requirement for training within textiles (a requirement not present to the same extent in mining). Subsequent decentralisation efforts by the IDC into phosphorus, coal, oil and gas were more successful, partially due to better cost-control in more capital-intensive production with a history of coercive labour management.

The evidence for little diversification beyond the MEC, limited decentralisation, and low SME support, questions the coherence, impact and importance of import substitution during the 1970s and 1980s. A more successful policy tool emerged in the form of support for the capital-intensive activities up and downstream of the MEC. Diversification and funding focused on activities related to the MEC, and constituted key elements of industrial policy in the post-war period, with significant success in the setup and funding of large state-owned enterprises and public-private conglomerates.

6.1.2 Set-up of state-owned enterprises

Extensive investments and policies targeted the capital-intensive manufacturing emerging around the MEC. In part, the high capital requirements of mineral extraction led to the establishment of a range of large conglomerates involved initially in steel, chemicals, processed minerals and energy.¹⁶⁵ Government support for large conglomerates was tied to two external factors: stable and high gold and mineral prices and the government need to generate, or save on, foreign exchange.¹⁶⁶ This emergence of state corporations, interlocking of state and private capital, as well as diversification within the realm of MEC-related activities, points to a unique path of industrialisation not reflected in discussions about state protectionism or market liberalisation.

¹⁶⁵ As Marais (1998) details the conglomerates included: beginning with The Iron and Steel Corporation (ISCOR) and Electricity Supply Commission (ESKOM) set up under the Smuts and Hertzog governments in the early 1920s, followed by further state investment into coal, oil (SASOL and SOEKOR), phosphates (FOSKOR) by the IDC and various services such as postal delivery, telecommunications, broadcasting, airlines and of course arms (TELCOM, PX, SABC, SAA, ARMSCOR).

¹⁶⁶ See Clark (1987, 1994), and Fine & Rustomjee (1996) for a discussion of the role and emergence of state corporations in detail.

Early stages of the state-owned enterprises were characterised by alternating cooperation and conflict between state and private capital, with the latter seen as competitors. Initially this led to little interlocking with ISCOR's activities, curtailed on purpose to limit the competition, as well as to remain within the primary objective of providing cheap steel. Subsequent investments involved joint funding from private and public sources aligning the interests of Afrikaner and English capital and thus removing the competitive split. These also expanded out of basic mining to develop synthetic fuel, chemicals, steel, energy and armaments manufacturing. Large-scale investments were used in particular to increase capital- and energy-intensity, though this type of policy was also driven by perceived comparative advantage and by issues pertaining to national security. Initial state investments helped crowd in private funds depriving other manufacturing (typically with a higher import propensity) of much needed capital. Greater mechanisation requirements meant funding needs continued to increase, resulting in a concentration of funding and policy into MEC and related activities. As documented by Clark (1987), Fine & Rustomjee (1996) and Carmody (2002), ownership of fixed capital stock remained mostly unchanged since the 1960s, with 25% of the fixed capital stock held by public authorities (central, provincial and local authorities), 18% by public authority business enterprises (such as Transnet and Portnet in transport and telecommunications), and 10% by public corporations, as of 1990.¹⁶⁷

The policy requirements of MEC activities were typically not shared by companies involved in other areas of manufacturing. More advanced production structures and capital intensity, targeting supply to the global rather than domestic markets, implied the need for different economic policies. Though the MEC favoured macroeconomic stability, funding of state-owned enterprises and a focus on capital-intensive investments, it did not preclude other forms and targets of industrial investment and support. Three structural and global factors contributed to the on-going preference for addressing the needs of the MEC industries. First, the marginalisation of other manufacturing can in part be explained by the 1970s increases in gold and mineral prices. Second, the economic and political power of the MEC increased due to the concentration of ownership. Third, the channelling of funds and decision-making power through two key institutions (the IDC and the BTI) limited the possibilities for policies that

¹⁶⁷ It is of interest that even in the post-apartheid period, and following policy debate around privatisation of state assets in the 1990s, there were multiple considerations for new state-led investments into various infrastructure and capital-intensive projects such as nuclear power, Gautrain rail link etc., suggesting this form of investment is still important.

would favour labour-intensive manufacturing, except if these were separate and not in conflict with the interests of capital-intensive manufacturing.¹⁶⁸

The economic dependence on high gold prices and foreign exchange from selling commodities meant that government was reluctant to alter policies beneficial to the mineral extraction industry. Although manufacturing in 1960 contributed more to GDP than mining and agricultural products combined, export growth concentrated almost exclusively on primary products either from agriculture or mining (the latter dominated by gold).¹⁶⁹ Manufacturing growth depended on capital goods funded by the combination of high gold prices and access to foreign exchange through mining exports. Thus, the 1970s collapse of commodities and gold prices, increasing internal and external resistance to apartheid (through strikes and sanctions respectively), exposed the distortions in the economy and led to the poor economic performance of the late 1970s and 1980s. Kaplinsky (1995, p.180-181) notes that the share of manufacturing in GDP remained stable around 23-25% after the mid-1970s, manufacturing value-added between 1980-89 grew at an estimated 1.1%, total factor productivity declined 1.02% (annual rate 1972-1990), but most alarmingly, estimated employment growth in manufacturing during the final apartheid years was low at 0.22% (1980-89).¹⁷⁰ Kaplinsky (1995) continues to comment that these estimates of the role of manufacturing (and poor contribution to employment growth) are even more concerning, if the findings of the Macroeconomic Research Group (1993), and Fine & Rustomjee (1996) to separate mining or MEC-related manufacturing from other manufacturing, are taken into account. With this division, the share of non-MEC manufacturing is stagnant and down at 15-17% (1960-1990 estimates) with MEC-manufacturing rising to 25-27% in the early 1980s (Kaplinsky 1995, p.181).

An increasing concentration of ownership and capital within the MEC exacerbated the already skewed distribution of economic power and increased the influence of the owners of large-scale capital on the policy process, resulting in a stunted manufacturing development beyond the MEC but little or no policy change to counter this. As the table below shows, six large mining houses continued to dominate the mineral markets into the early 1990s. The mainly

¹⁶⁸ Fine & Rustomjee (1996); Marais (1998); Carmody (2002)

¹⁶⁹ Based on Marais (1998, p.30)

¹⁷⁰ Kaplinsky (1995) comments on measurement problems with GDP, employment which covers only formal, and the relevance of the share of manufacturing in GDP as an indicator. These figures were measured in US\$ and subject to exchange rate fluctuations of the Rand, the contribution of the informal sector is likely to be underestimated as is the estimation of population (1991 census set population at 30 million whereas the elections in 1994 produced a figure of 43million).

family-owned conglomerates together owned over 80% of share ownership on the Johannesburg Stock Exchange. Capital and mining ownership, thus concentrated, were in a strong position to lobby government and access further state funds.¹⁷¹

Table 10 Minerals-Energy Complex concentration of ownership

Conglomerate - top 80% of JSE in 1988 (% share ownership)	Main Mining House (parent, subsidiary or part owned by conglomerate on the left)
Anglo American Corporation (49.5%)	Johannesburg Consolidated Investment (JCI), Gencor, GFSA
Sanlam (10.8%)	Gencor, Anglovaal
SA Mutual (9.9%)	Rand Mines, Gencor, JCI, Anglovaal
Rembrandt (7.6%)	GFSA
Anglovaal (2.2%)	JCI
Liberty Life (2%)	

Source: Fine & Rustomjee (1996, p.98, 103, 111)

Though unbundling occurred later in the 1990s and 2000s, the dominant role of the MEC as an investor and target to government investment remained (see Isaacs 2014 for an update). This suggests that the high concentration of ownership played an important role in consolidating the economic and political power of the MEC whilst drawing policy attention, investment, and support capacity away from other manufacturing. It is also important to note that this financial domination took place at a time when foreign investment was limited by trade and finance sanctions. This was also a period when the MEC competed with other industrial sectors for government funding, in light of the need to promote self-sufficiency in basic consumer goods. The high commodity prices and ability to generate foreign exchange through a trade surplus weighed in favour of the capital-intensive exporting MEC. A fragmented and uncompetitive non-MEC manufacturing would be disadvantaged in accessing government funds and in their comparative lobbying power.

¹⁷¹ See Isaacs (2014) for an update to the ownership structure. In 1988 six main mining houses dominated production: AAC, GMC, Anglovaal, Rand Mines, Genmin, Sanlam, GFSA, JCI. Six main capital axes as SA Mutual, Sanlam, AAC, Liberty, Rembrandt, Anglovaal. Fine & Rustomjee (1996, p.98, 108)

The highly concentrated funding structure contributed to the lack of equivalent support for manufacturing. Two state organisations, the IDC and the BTI dominated funding decisions. Other agencies and institutions were involved with industrial policy and state funding but with very little interaction or coherence with the two dominant ones. Limited funds and lack of discourse or coordination across the various agencies further disadvantaged the development of manufacturing and industrialisation beyond the MEC.

The capital-intensive sector that had emerged around the MEC was not able to incorporate the labour surplus. At the same time, apartheid labour policies were exacerbating the effects of high unemployment and limited labour mobility. All this contributed to the rise of resistance in the 1970s. The failure to develop exports beyond raw minerals and energy also reflects the underlying objective of industrial policy. For non-MEC manufacturing in the 1980s, other than specific trade instruments, much of the state intervention was based on creating the right environment for industrial growth, a precursor to the pro-market policies of the 1990s. One of the ensuing problems for manufacturing was the difficulty in maintaining access to imported inputs. Though specific import duty drawbacks were set in place (as discussed in chapter 4 and 5 for T&C), the ability to take this up (due to production and process weaknesses), rising exchange rates, and sanctions meant the uptake was low in practice. Non-MEC manufacturing was not able to develop exports that could rival the foreign exchange generating power of raw materials and energy. Nevertheless, the exposure of raw materials and energy to price fluctuations left this source of foreign exchange vulnerable to external events.¹⁷² The inability to create an industrial structure able to sustain growth when mineral prices plummeted highlights the short-sightedness of industrial policy. The economic decline started with falling gold and mineral prices in the mid-late 1970s but was worsened by limited diversification and decentralisation, poorly managed manufacturing development through import substitution, and the underlying MEC dominance, leaving policy and investment strategies unchanged despite economic decline. At the same time global oil shocks, declining capital inflows, capital

¹⁷² Though at first sight this mimics symptoms of a resource curse or Dutch disease with poor economic growth tied to dependence on volatile revenue from commodities, high exchange rate affecting competitiveness of non-mining sectors, and failure to channel revenue from resources into a diversified and self-sustaining industrial structure. However, other features of the SA economic development do not reflect a resource curse. Features such as the lack of appropriate state institutions or capacity, limited other industrial development, and fluctuating exchange rates can be questioned in the case of SA. Jenkins (1991, p.200) notes that comparing select East Asian and Latin American countries, the relative autonomy of the state from dominant interests or class fractions is a more important factor in explaining differences in industrial growth and development. Zalk (2012, p.347), drawing on Amsden (2003) highlights that industrialisation depends on the ability to allocate rents through reciprocal control mechanisms, rewarding industrial learning and punishing failure (to learn, export, and develop competitive products).

flight, and continued sanctions exacerbated the economic decline and further paralysed the dysfunctional apartheid government.

6.1.3 Macroeconomic stability

Chronic macroeconomic problems, such as maintaining the exchange rate and balance of payments, were complemented by a decline in foreign exchange reserves (as mineral export revenues fell), stagnation and rising inflation. This jeopardised the imports of manufacturing inputs, and thus employment, whilst the rising price level fuelled labour unrest. The apartheid system of labour segregation added to the economic problems. Skilled labour was becoming increasingly difficult to find as black workers were denied full training and promotion opportunities and sanctions restricted suppliers of manufactured goods to the small domestic market. These increased the importance of MEC manufacturing and the pressure to align macroeconomic policy to the needs of the MEC. Key requirements for the MEC sector included access to inputs, global markets and capital to maintain production. As a result, extensive government resources were devoted to ensuring macroeconomic stability to promote export competitiveness, a stable and favourable exchange rate, and to entice inward investment, in return for the foreign exchange it generated. Carmody (2002, p.257) summarises this relationship as follows: “the context for conglomerate strategies is framed largely by state policies, and the context in which they, in turn are embedded.” With the increasing domestic and global pressures on the economy, sustaining a suitable exchange rate for commodities exports, continued funding for state-owned corporations, maintaining labour market restrictions to provide a supply of low-cost labour to the MEC, continuing trade restrictions, and managing the balance of payments all became increasingly difficult. These contributed to the tight fiscal and monetary policies of the 1990s.

Poor non-MEC manufacturing development and inability of the MEC industries to sustain economic growth when faced with falling minerals prices are features sometimes explained away by poor government policy capabilities and overall skill shortages within the economy. The extensive policy influence in macroeconomic management, as well as policies targeting or serving the capital-intensive sectors, suggest a narrow policy focus rather than limited policy capability underpin the poor economic performance. The skills and technology requirements of the MEC suggest that at least parts of the economy were able to attract and develop labour skills, thus creating pockets of high-skill industrial capacity. Evidence of government resources

devoted to managing the MEC needs suggests that government policy formulation and implementation capabilities were far from poor.

The existence of government policy capacity is also supported by a flow of policy studies as shown below, many raising the need to support manufacturing beyond the commodity-based minerals. Their conclusions show a progressive shift from import protection to export promotion but many were not implemented for political reasons. The reports collectively fail to delve into the structural pressures which disadvantaged non-MEC manufacturing. The same critique can be applied to the ensuing policy recommendations, institutional structures, and funding decisions continuing the bias in favour of the interests of capital-intensive industries. Privatisation of state-owned enterprises was justified with lack of government funds for expansion, low efficiency and costly losses of these enterprises as well as to generate government revenue.¹⁷³ What they achieved was a shifting away of capital-ownership from the reach of the state and organised labour. In a similar fashion, export orientation and tariff liberalisation arguably set out to weed out uncompetitive industries and to improve performance. In reality, the removal of protection, according to Fine & Rustomjee (1996, p.201), may have achieved the opposite by eliminating successful enterprises with little new entry from domestic producers. Funding from the IDC also reflected the increasing importance of capital-intensive industries with a shift away from small-scale manufacturing to large-scale and corporate MEC activity. There was also a shift away from the influences exerted by organised labour and other interests on the state. As an example, the textiles sector (a primary focus of post-war decentralisation plans by the IDC) faced declining support. It was perceived to embody high costs, competition from private capital, and performance fluctuations linked to labour activism. Increasing competition from foreign companies left it further exposed and in need of more funding, whilst government plans for tighter labour regulation were perceived to ultimately result in further costs and restrictions with parallel perceptions of negative performance. The needs of the capital-intensive sector can be seen to strategically and systematically seek to influence policy outcomes rather than being governed or influenced by them.

The following table lists a selection of official inquiries, their findings and propositions. This selection includes research commissioned by the government rather than independent entities and thus arguably the outcomes should have had a more favourable reception within policy

¹⁷³ Watkins (accessed 13 July 2008)

circles. Nevertheless, policy outcomes were driven not by the debates or the recommendations from research, but by the political and economic imperatives. The dominance of capital-intensive industries seemed set in stone by the early 1990s with the formalising of government plans under the pro-market GEAR. This, despite the space and scope for new political and economic debate created by the end of apartheid.

Table 11 Official inquiries

Official Inquiry	Key Findings/Proposition	Outcome
Viljoen Commission (1958)	Intensifying secondary sector economic activity at a constant rate using a program of Import Replacement/Import Substitution complemented by encouraging exports as well as inducing foreign capital inflows.	Protect domestic industry using import tariffs and an economic quota system; supporting policy of export promotion never taken fully into account; manufacturers undertook high-cost, import intensive production processes.
Reynders Commission (1972)	Second wave of liberalisation. Decentralisation to promote exports. Government to provide additional incentives to potential exporters in border areas..	No restrictions on direct government export-promotion measures so debate suggested that instead, all exporters to be subsidised equally. ¹⁷⁴
Van Huyssteen Committee (1978)	Continued concern over the high dependence on commodity exports (mainly gold) and unsustainable levels of capital and intermediate imports. Direct cash subsidies, tax and rail freight concessions, cash rebates on inputs and import duties.	Reinforced Reynders Commission findings. Increased relaxation of quotas from 1972 succumbed in 1976 to industrial lobbying for protection.
Riekert Report (1979)	Urbanisation reform proposing increased division between urban and rural Africans.	Meeting demands from capital for more semi-skilled and skilled labour meant extending privileges to 'qualified' urban black.
Wiehahn Commission (1979)	Industrial relations reform resulting in freedom of association for all persons.	Reinforced capital-labour division by using small group of urban blacks as a buffer for political struggle. Increased productivity for capital as urban black accede more skilled jobs.
Kleu Report (1982)	Import Substitution program development using natural growth and development of domestic industry, not increased import tariffs and trade quotas. Switch from Import Substitution to Export Promotion.	"Seek to stimulate domestic industry by advancing exports and finding new international markets for domestically produced goods." ¹⁷⁵
BTI Report 2614 (1988)	SA should focus on industrial restructuring by targeting industrial sectors according to suitable measures of existing and potential comparative advantage, and aid those sectors with specially designed programmes. ¹⁷⁶	The proposed programmes were rather complex for government to manage effectively, and vulnerable to special interests. Government never adopted the report.
IDC (1990)	Support for export incentives through trade (especially tariff) liberalisation to induce structural change. Assessment of existing tariff efficiency.	The IDC challenged the BTI interventionist approach claiming that poor industrial performance could be attributed to BTI tariff policies and import replacement. Inefficient industries need to experience competition to boost performance. ¹⁷⁷
NEM by CEAS (1993)	Central Economic Advisory Service, a government agency under the Reconstruction and Development Programme (RDP), proposed the Normative Economic Model based on a "conservative and static set of assumptions, particularly regarding the balance of payments". ¹⁷⁸	The NEM "failed to recognise the potential for capital inflows. The new document was irrelevant in a rapidly changing society. It was never published, and the CEAS was dissolved within a year of this failure." ¹⁷⁹

Source: Author compilation from Fine & Rustomjee (1996); Bell (1998), Marais (1998), Hentz (2000), Cassim et al. (2002), RSA (2003), Hirsch (2005), Aron & Muellbauer (2007)

¹⁷⁴ Bell (1973) in Bell (1997)

¹⁷⁵ RSA from Everything2.com (2003)

¹⁷⁶ BTI (1988) in Hirsch (2005)

¹⁷⁷ Fine & Rustomjee (1996, pp.200-201)

¹⁷⁸ Hirsch (2005), ch.3

¹⁷⁹ Hirsch (2005), ch.3

6.1.4 Labour in apartheid capitalism

This section explores relevant apartheid-era policies and looks at labour market restrictions and their use to ensure a supply of low-cost labour to the MEC. Labour movement was controlled with pass laws dating back to the 1910s, restricting the movement of black South Africans. In addition, restrictions on where blacks could reside, rules on the ownership of private property, and restrictions on business activities ensured that their options for wealth creation were limited largely to employment. Though the influx control officially ended in 1986, regulation continued through other means such as housing and urbanisation strategies (Marais 1998, p.47). Wolpe (1972 in Hirsch 2005, ch.1) suggests that the prohibition of private property contributed to the emergence of a large landless class. Agricultural labour and mining remained the main options and land ownership laws prevented the urbanisation of the workforce. Low wages and poor education provision for black workers contributed to the continuity of this system and, in doing so, to rising poverty.

Research on SA economic history has benefited from an extensive debate on the relation between apartheid and capitalism.¹⁸⁰ Originally associated with left intelligentsia (Hirsch 2005), apartheid policies of land control, creation of reserves or homelands where the blacks were allowed to reside, poor infrastructure and education for blacks in homelands, and policies severely restricting economic activity are shown to benefit the interests of white labour and capital owners, in particular mine-owners and white farms. Legassick (1974) and Innes (1984) go as far as to argue that capitalism and apartheid were 'essentially intertwined' and that other segments of capitalism, such as manufacturing, also benefited from the cheap labour and associated labour controls. As summarised by Hirsch (2005), in the 1970s views on the capital-apartheid relationship were split, with the liberals maintaining that capitalism and apartheid were inherently contradictory, and that economic growth would bring about the disintegration of the political system.¹⁸¹ The radical position was that apartheid and capitalism are part of the same problem and both need to be eliminated. By the 1980s the debate became more nuanced, with some acceptance that apartheid was served by the SA form of capitalism, but that it was holding back further economic development along capitalist lines.

¹⁸⁰ See Wolpe (1972), Lipton (1989), Natrass (1991), Fine & Rustomjee (1996), Bond (2000), Marais (2001), Hart (2002), Fine (2008 "The MEC is Dead", and 2010), and special issue in Transformation (2010, vol. 71)

¹⁸¹ See Dowd (1964) in Hirsch (2005) for more details.

Low labour costs were largely due to structural factors. The SA economy was heavily dependent on gold exports and gold prices were fixed until the end of the gold standard in 1971. Improving profit margins depended on input costs such as labour, but changes in the global markets left the SA economy exposed. The end of the gold standard brought about a wildly fluctuating gold price that affected the exchange rate and balance of payments. The government had not taken adequate measures to protect the economy from exchange rate and gold price fluctuations, and increasing competition from new gold fields and better mining technology helping access to gold elsewhere, contributed to the SA economy experienced declining gold production. Gold also ceased to be the store of value and declining gold prices in the 1980s sealed the fate of the already declining economy. The SA economy was poorly protected from external events. This, together with the failure to create a buffer for the economy through diversification and with low non-mining exports and exchange rate controls, exacerbated the exposure to global events. As Kahn (1991, p.62 in Hirsch 2005, p.28) points out, “the effects of the gold price masked the underlying decline of the country's competitiveness”.

What emerges from the preceding discussion is that there is evidence of policy capacity, space and the willingness to intervene in industrialisation, but these were harnessed by and targeted towards the needs of the capital-intensive MEC. Different economic pressures led to a segregated labour market and divisions in industrial structure. These were paralleled in policy divisions as evidenced by compartmentalisation of policy entities, implementation, and outcomes. The dominant MEC and associated sectors generated much-needed foreign exchange, but exercised pressure for favourable economic policy, or were favoured given their dominant status and lack of other (diversified) sources of revenue. These were separate from pressures to develop a consumer goods sector, driven in part by the needs to counter the effects of sanctions, as well as by desire to develop other areas of internationally competitive products through manufacturing diversification. Policies to support these different aims were formulated and implemented separately, without consideration for their overlap or interaction.

Though other sectors and economic goals saw a range of interventions, the policy space was taken up by the MEC need for a stable and favourable exchange rate, access to finance, and available and low-cost inputs (e.g. electricity, labour), drawing in the core government entities of the Treasury, BTI, SARB, and Departments of Labour and Mining to cater for these needs. The combination of conflicting domestic policy pressures, complex and separate policy-making

structures, finite government resources, and international sanctions are key factors behind the limited manufacturing development beyond the MEC. As Zalk (2012, p.351) summarises, “apartheid-era industrialization proceeded largely on the basis of processing mineral and other natural-resource-base products without sufficient political impetus to develop more labour-intensive and value-adding downstream manufacturing sectors”.

Towards the end of apartheid it became apparent that the incentives, different forms of policy support, and interventions into developing the MEC industries had limited outcomes in developing competitive downstream products or significant export growth. Much of the MEC manufacturing development was upstream and capital-intensifying, not employment-creating. Limited downstream development took place in metal fabrication, capital equipment, automotives and agro-processing primarily through ISCOR and SASOL, the steel and petrochemical arms of the MEC, but their privatisation in 1970 and 1989 compromised the ability to develop policy coherence especially in creating employment or increasing the value-added of the final products. The post-apartheid period saw a consolidation of this policy concentration and compartmentalisation. This took place through the adoption of neoliberal Washington consensus-type policies that served the needs of capital-intensive industries, with continuity in the poor policy outcomes, as evidenced by limited diversification or growth of non-MEC industries, and a continued reliance on the MEC strengthened by the commodity price increases of the 2000s.

6.2 Contradictions in post-apartheid policies

The post-apartheid period has seen an abundance of analyses on the evolution of industrial and other macroeconomic policy.¹⁸² Though there is debate about the varying political motivations behind policy choices, as well as about the role or outcome of these policies, there is agreement that the performance of the economy has not matched expectations. The focus now turns onto the rapid liberalisation and supply-side strategies that dominated policy in the post-apartheid period. A number of contradictions emerge from this branch of the literature. At a superficial level, it appears that the adoption of policies such as trade and financial liberalisation, inflation targeting, high interest rates, and fiscal restraint, amongst others, were guided by a collection of global policy and financial pressures. These were complemented by

¹⁸² Carmody (2002), Gelb (2005, 2006), Padayachee (2006), Cassim (2006), Rustomjee (2008), Black & Roberts (2008), Fine (2008 various), Black (2010) Morris (2010), Zalk (2012, 2013), and by a comprehensive overview in Isaacs (2014) amongst many others.

the need to distance the post-1994 government's policy from apartheid government choices, perceived to be associated with in-depth involvement by the state in the coordination of production, such as ISI. In addition, the policy shift was justified by the balance of payments constraint and the need to increase foreign investment and exports. The popular view, or at least widespread pressure to implement policies akin to those of the Washington consensus, and in alignment with the underlying neoclassical and theoretical framework, was also associated with the adoption of a pro-market / anti-state approach. A closer investigation reveals that other forces and factors formed the core drivers of the post-apartheid policy approach.

First, despite the political and economic transformation, there is evidence for the continued influence of the MEC in selection and implementation of a range of macroeconomic and industrial policies. Second, the implementation of a pro-market stance was in contrast with the strong state involvement in the tightening of labour policies, selective support such as tax allowances, expansion funding from the IDC and limited price monitoring or enforcement of competition policies for sectors such as steel, carbon, chemicals, paper, pulp and aluminium (i.e. downstream MEC). Third, policy-making was compartmentalised with little regard for overlap. For example, the inflation targeting, exchange rate policy and interest rate policy of the National Treasury rose to a dominant position in terms of industry impact, but remained separate from other industry-affecting policy such as those under the Department of Trade and Industry. Fourth, drawing from the above, and contrary to popular misconception, the policy space and capacity to implement in-depth interventions remained substantial. Though affected by developments in the global markets and policy, theoretical fashions as well as the domestic policy constraints (balance of payments, need to distance from the apartheid-era policies, and need for FDI), these constraints did not affect all policy uniformly. Evidence of multiple types of interventions alongside the market liberalisation serve as a reflection of the continued space and capacity to implement policy, driven by the needs and interests of the dominant industries within the MEC, above and separated from other manufacturing. The ability to ensure the implementation of policies favourable to the MEC reveal a process of reproduction of the economic structure, and a continuity in the dominance of interests and power associated with the capital-intensive MEC industries at the core of the economy.

6.2.1 From RDP to GEAR

The attention turns to the policy transition and contradictions from 1990s onwards, with a gradual trade and financial liberalisation approach paralleled by strict fiscal and monetary policy and continued support for select sectors. The Government of National Unity inherited a declining economy facing balance of payments problems, high interest rates slowing economic growth, a dual Rand to protect from exchange rate fluctuations, and low exports other than from the mining industry. At the same time, as Hirsch (2005, ch.1) details, the financial sector and capital markets were well developed and regulated, inflation was declining, and parts of the country, such as business and white residential areas, had good transport and communications infrastructure. As well as correcting for the concentration of power under apartheid, the government also had to contend with rebuilding the ailing economy. It attempted to do so by reducing expensive protectionism, rebuilding relations with hastily privatised state-owned enterprise in mining and energy, maintaining relations with trade unions, and trying to encourage foreign investment. These were in parallel with social objectives of reducing poverty and income inequality and addressing the injustices and human rights violations committed. The list of social, economic and political objectives was long and complicated with high expectations from both domestic and foreign elements. Prior to taking over power, and without a ready-made economic agenda, the ANC drew on the Freedom Charter (1955) based on the ambiguous notions of returning power, wealth and rights to the people. Initial discussions and statements left open the option of nationalisation but also understood the need to support the private sector. This period (1990-1994) saw the emergence of a range of policy conferences, seminars and research groups, focused on debating and developing policy. This was a way for the ANC to exert pressure on the still ruling National Party. It was also a method for engaging leading researchers from home and abroad to help formulate the ANC policy position.¹⁸³ Many of these research initiatives operated in parallel, sometimes in conflict with each other and mostly under unclear guidelines as to their exact influence on final policy. The newly established Department of Economic Policy was meant to coordinate and manage the policy research, as well as obtain inputs from local business communities to produce a final economic and social policy for the ANC to use as part of the elections. Though the DEP did circulate various economic policy documents, the final influence of the various research groups on policy was limited. This was partly due to

¹⁸³ E.g. Economic Research on Southern Africa, Economic Trends Group, ISP, the Macroeconomic Research Group, and for World Bank research (see Fallon & Pereira 1994). See ch.1 in Hirsch (2005) for details.

contradictions and unresolved conflicts within and across the various research groups, to contradictions between the research propositions and the ANC position as detailed in their early policy proposal 'Ready to Govern', and in part due to a slow shifting of ANC's political and economic views towards the more orthodox position.¹⁸⁴ The ANC was also showing a desire to distance itself from Keynesian connotations of domestic demand management as well as elements of the East Asian solution that would require using the existing state bureaucracy perceived as untrustworthy and incompetent.

Much of the literature on SA associates the end of apartheid and the takeover by the ANC government in 1994 with a distinct phase of new economic policy. This period is characterised by growing prominence of pro-market policies and a focus on sector export and productivity growth to improve competitiveness. The RDP coordinated research from multiple government departments into the summary paper: 'draft National Growth and Development Strategy'. Though multiple interests were represented, the outcome attempted to incorporate many conflicting views into one document and doing so resulted in compromising representation, direction and quality. This centralised approach failed to represent the various views accurately and eventually the draft was downplayed by government.¹⁸⁵ By the time the RDP White Paper was released in 1994, the economic policy debate had been reduced to the following general strategies:¹⁸⁶

- financial and monetary discipline
- establishment of economic industry conducive to growth
- trade and industry policies to foster greater outward orientation and sustain high employment levels¹⁸⁷
- modernisation of human resources programmes to meet the challenges of changing production processes
- reform of labour market institutions.

The needs of the capital-intensive sector were reflected in the RDP White Paper (1994, p.30-31) where support was pledged to sectors that could “show potential to emerge from existing protection”, but also to develop “forward linkages and minerals beneficiation”. Though there was talk of employment creation, the focus was firmly on capital-intensive and higher value-

¹⁸⁴ See Terreblanche (2012)

¹⁸⁵ Hirsch (2005)

¹⁸⁶ Republic of South Africa (1994, p.26)

¹⁸⁷ One of these was the GEIS introduced in April 1990 encouraging the production of value added exports.

added manufacturing, with the exception of agro-manufacturing. Despite an emerging bias towards a pro-market policy, the RDP also attempted to incorporate strong elements of Keynesian domestic demand management, with growth through redistribution. According to this approach, wealth and income redistribution would lead to rising domestic demand in direct response to the demand-deficiencies that were seen as the characteristic, and one of the causes, of the economic and manufacturing decline of the 1980s. Quoting Hirsch (2005, p. 61), “the RDP was clearly an attempt to set out an Asian-type heterodox policy that combined investment driven hard by the public sector with institutional reform and orthodox macroeconomic stability.”

By 1996, the more progressive RDP was abandoned in favour of the neoliberal GEAR. The winding down of the RDP office and reinforced policies for macroeconomic stability alongside financial and trade liberalisation were evidence of a clear shift away from the options for state involvement other than in the event of specific market failures. RDP (1994, p.30-31) proposed to alter “market structures that underpin high prices...and that constitute major entry barriers to small and medium-scale enterprise” and where market forces are insufficient, human resources and technological capacity policies will complement. Drawing on a summary by the Department of Finance (1996, p.2 in Zalk 2013, p.353), the main elements of GEAR included:

- renewed focus on budget reform to strengthen the redistributive thrust of expenditure;
- faster fiscal deficit reduction program to contain debt service obligations, counter inflation, and free resources for investment;
- exchange rate policy to keep the real effective rate stable at a competitive level;
- consistent monetary policy to prevent a resurgence of inflation;
- further steps in the gradual relaxation of exchange controls;
- reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation, as well as for the subsidy and tariff reduction;
- tax incentives to stimulate new investment in competitive and labor-absorbing projects;
- speeding up the restructuring of state assets to optimize investment resources;
- expansionary infrastructure program to address service deficiencies and backlogs;
- appropriately structured flexibility within the collective bargaining system;
- strengthened levy system to fund training on a scale commensurate with needs;
- expansion of trade and investment flows in Southern Africa;
- commitment to the implementation of stable and coordinated policies.

The reasons for the RDP-GEAR shift have been widely debated.¹⁸⁸ According to Carmody (2002, p.257), critics link this shift to the history of the liberalisation struggle, where economic stagnation was associated with strong government. Carmody (2002) and Bond (2000) suggest that the ANC liberation struggle was based on the notion that linked the detrimental effects of strong government and skewed policy interventions to apartheid and was to be rejected, at least in rhetoric. The nature of the liberation struggle meant the ANC could not be seen to continue subscribing to policies similar to the apartheid government. Various political factors, such as elite pacting or the petit-bourgeois nature of ANC leadership, were also associated with the policy shift. Terreblanche (2012, p.63) discusses the closed-door negotiations between the ANC elite and key MEC industry heads in the 1990-1996 period. Terreblanche (2012, p.64) documents how the foundations of GEAR were laid down as part of a commitment to “the ideologies of neoliberalism and market fundamentalism” in the US\$850m IMF loan agreement, requested by the transitional executive council to address the balance of payments. Gelb (2005) and Hirsch (2005) discuss the differences of opinion within the ANC and the marginalisation of progressive voices. Other explanations refer to the decline in the Rand and an attempt to use GEAR to attract and reassure foreign investors. For example, the post-apartheid government secured the independence of the South African Reserve Bank and monetary policy from politics to reassure investors. This enabled the SARB to maintain high interest rates to counter inflation. It is interesting to note that with low savings and investment, the government continued to be dependent on capital from minerals extraction and beneficiation.

Some have argued that GEAR was not significantly different from RDP and merely represented the 'governmentalising' of the RDP (Carmody 2002, Gelb 2006). Similarly, Gelb (2006) also argues that many of the neoliberal policies associated with GEAR were adopted under RDP – some even before the 1994 change of government. Gelb (2006) also argues that alternative choices were not feasible. This seems misleading, given the evidence from East Asian industrialisation and the emerging post-Washington consensus challenging the market supremacy inherent in Washington consensus policies.¹⁸⁹ Evidence from East Asian Tigers

¹⁸⁸ See Carmody (2002), Gelb (2005, 2006), Hirsch (2005) for a historical overview.

¹⁸⁹ As discussed by Soludo et al. (2004), the East Asian Tigers (Hong Kong, Singapore, South Korea, Taiwan) present an interesting comparison to SA and show how specific local conditions and policy choices as well as the global policy environment affect outcomes. Though the context and constraints faced by these countries is not identical to the situation faced by SA, there are parallels in the starting positions and the difficulties caused by rising wages and

suggests that a combination of specific industry support, domestic technology development, state-owned enterprises, as well as general finance, infrastructure and institutional support have been key to industrial development in East Asia. Product upgrading without government intervention, in order to achieve structural deepening, merely led to higher costs and declining manufacturing production and exports. In contrast to the neoclassical model, incentive regimes, finance/investment (domestic or foreign), technology skill and capability development, ownership structure (foreign, domestic, state-owned) and institutional and policy support (R&D, infrastructure, SME support, export promotion) were characteristics common to all of the above cases. However, the form and shape varied depending on the political economy constraints, government capabilities and the country-specific conditions (location, skills, capital, market and institutional structure).

A closer investigation, mindful of the inherited economic and policy structure described in the previous section, suggests that explanations around external and domestic market pressures, or a shift from pro-state to pro-market, does not accurately represent post-apartheid policy. Whilst macroeconomic stability and liberalisation do characterise much of the post-apartheid policy, strong elements of direct government support remained for specific MEC sectors and in different forms for textiles, clothing and motor vehicles, suggesting that liberalisation as well as state support has been selective, carefully designed and implemented, with clear policy capacity and space and mindful of different policy forms. This is visible in the contrast between pro-market financial and trade liberalisation and the state-driven labour market regulation and fiscal restraint (Carmody 2002, Zalk 2012). Though much of the post-apartheid policy development resembles the recommendations of Washington-based institutions and neoclassical policy fashions, there is evidence that the policy choices also reflect continuity in the dominant role of the capital-intensive minerals and energy sector. The prevailing economic views seem to be a tool employed to serve the dominant interests rather than being the driver of the policy agenda.

In presenting a 'there is no alternative' view, it also seems peculiar that employment creation and redistribution remained key elements of the policy rhetoric. The amendments to the LRA

declining manufacturing. Hong Kong led with low technology exports in garments, toys, textiles and footwear. Though quality improvement and a shift to more complex products helped change the export structure, the pro-market policies led to little structural deepening. This, together with rising wages, led to stagnation of industrial and export growth, and resulted in relatively low technology levels. These cases suggest that a combination of specific industry support, domestic technology development, state-owned enterprises, as well as general finance, infrastructure and institutional support have been key to industrial development in East Asia.

and BEE were presented as progressive and pro-labour concessions but left other detrimental macroeconomic policy outcomes unaddressed. The latter (e.g. rapid trade liberalisation) nevertheless damaged labour-intensive sectors, failed to increase employment within the MEC industries (through downstream value-added development involving labour) or through attempts to channel corporate revenue to non-MEC manufacturing, ensured low corporate taxation, and reduced state procurement and investment, especially towards labour-intensive sectors, with justification drawn from avoiding crowding-out or driving away private investors.

Gelb (2005, p.368) in his contribution to the “State of the Nation 2004-2005” draws attention to a key factor in the post-apartheid political and economic transition: “the transition was not a tabula rasa in which any policy option could be chosen”. Domestic and external economic constraints influenced the focus of policy whilst the negotiated nature of the transition and the continuity in economic structure meant the underlying economic and political power distribution influenced the parameters of the policy debate. Ultimately this meant compromising across policy autonomy, ensuring social objectives were included, reassuring investors through liberalisation, but losing the space to discipline capital and the space to correct some of the detrimental power structures. This led to choices that favoured continuity in the economic structure and the adoption of a pro-firm and private sector policy approach at the expense of the interests of labour, redistribution, poverty reduction or broader industrial diversification and development. As Carmody (2002, p.261) put it: “the South African government is attempting a compromise between globalisation and social democracy. ...As the state globalises, the success of the governments development strategy increasingly depends on private sector actions and investment.” Whilst this was undoubtedly one aspect of the policy shift, the elephant in the room, the MEC, was not widely acknowledged or its potential developmental role actively formulated or enforced through policy.

The economy had experienced on-going decline since the 1970s with manufacturing suffering from low profitability and productivity, capital inflows and trade stunted by sanctions, high production costs leaving much of the manufacturing industry uncompetitive, and trade and balance of payments problems exacerbated by global commodity price volatility. This increased pressure to open the economy to foreign capital and trade. This aside, the economic decline had not affected the large conglomerates in the capital-intensive MEC sectors that not only continued to dominate the economy, but could have been a greater target for reform given their association with the apartheid class and race divide. The ANC government

dependence on foreign exchange from white big business, combined with the need to de-racialise ownership and access to goods and services, whilst also addressing the skewed allocation of public resources, arguably constrained the policy options and led to a bias towards neoliberal macroeconomic policies. In what Gelb (2005) calls an implicit bargain, big businesses agreed to accommodate the government needs to rebalance ownership to undo racial discrimination. This explains in part some of the redistribution policies such as BEE and tightening labour regulation. In return, the government agreed to a financial and trade liberalisation whilst also pursuing macroeconomic stabilisation policies, with hopes that this would encourage domestic and foreign investment. This suggests that whilst the end of apartheid was associated with policy shifts, the underlying interest structure of the economy and the dominance of the capital-intensive sector remained unaffected.

A key element of justifying the adoption of pro-market policy has been to explain them as attempts to signal stability and market opportunities to encourage potential foreign investors. The need for foreign investment was heightened by the dearth of financial inflows during the period under apartheid and sanctions. The balance of payments constraint faced by the government, together with global market and policy trends favouring a pro-market stance, also appear to form the core drivers of post-apartheid industrial policy. These, it is argued, were premised on neoclassical theoretical pressures or views based on the alleged supremacy of market forces in delivering growth. On closer inspection, it becomes apparent that global economic/policy pressures and theoretical trends played only a partial role in the actual formulation and implementation of industrial policy.

The main policy elements of trade and financial liberalisation, fiscal austerity and labour market reform have been implemented with notable government control and speed, and to a greater extent than can be explained by simple adherence to mainstream economic theory. Furthermore, during the late-1990s when the Washington-consensus policies were under scrutiny, not just from critical political economy voices, but also within the World Bank (as per the emergence of the post-Washington Consensus), SA continued to press on with the Washington Consensus-lookalike policies to include further market liberalisation, deregulation, and selective support for MEC industries. The imperfect markets/information debate of the post-Washington Consensus appeared to only surface in policy debates around the time of the Harvard economists' contributions in 2007.

It is argued, in the discussion that follows, that the neoliberal economic policies were adopted and tailored to the SA context in a selective and careful manner to address the needs of the dominant capital-intensive industries. These reveal significant state capacity to build a varied policy platform and a substantial policy space to implement unfashionable policies, where needed or desired. They also reveal the ability and space to use policy as 'window dressing' for the purposes of signalling to investors, trade partners, and financial markets.

6.2.2 Trade liberalisation

Trade liberalisation has been one of the most prominent and debated elements of post-apartheid economic reform.¹⁹⁰ Though initiated in the 1980s to improve access to global markets, the full force coincided with the transition away from apartheid and the subsequent negotiations with the World Trade Organisation. This suggests the categorisation associating the apartheid era exclusively with state protection, through extensive tariffs, quotas and subsidies, and the post-apartheid era with trade liberalisation, export promotion, and end of import substitution policies, is misplaced. Instead, the transition can be seen as a gradual shift with pro-market reforms beginning before the democratic elections and intensifying after 1994. This polarised and artificially demarcated categorisation is also challenged by evidence of on-going protection and extensive policy and other government support for select sectors, in parallel to a broad commitment to liberalisation as per the objectives of GEAR.

As introduced in chapter 5, trade reform in SA took the form of three loosely defined phases. The period from 1972-1977 termed the first liberalisation episode by Cassim et al. (2002) was marked by the Reynders Report (1972) and characterised by export promotion and diversification using a variety of incentives (cash grants, tax concessions, transport concessions, rebates on import duties). The second liberalisation episode from 1983-1990 focused on the revision of export incentives following the findings of the Van Huyssteen Committee (1977). Characterised by declining exports, increasing foreign debt and the collapse of the gold price with associated political instability, the measures undertaken to boost the economy included custom duty drawbacks and exemptions, export subsidies, reduction in quantitative restrictions (or replacement by tariffs) with the general aim to boost or generate local industry competitive advantage (Black 1993). Alongside these developments was the increasing conflict between the DTI and the BTT, criticisms of poor implementation of trade liberalisation

¹⁹⁰ See for example Bell (1993), Jenkins (1995), Carmody (2002), Cassim et al. (2002), Soludo et al.(2004), Edwards & Van de Winkel (2005), Edwards (2005), Aghion et al. (2008) for details.

measures, and arguments of increasing opportunity for fraud due to poor policy design and insufficient monitoring. This draws attention to the complexity of coordinating industrial policy with multiple government agencies and institutions, and supports the earlier contention that industrial policy did not neatly change from protection and ISI into liberalisation when the political regime change took place. The third episode is connected with the political changes from the early 1990s onwards. This period continued the liberalisation and export promotion with GEIS. This used a selective system of tax-free grants to help SA producers compete internationally, favouring the high value-added industries. This period also marked the end of the attempts at import substituting industrialisation, with the IDC Report (1990) arguing (with some exceptions) for lower protection and claiming resource misallocation and high costs of protection. The IDC Report promoted structural adjustment towards export-oriented industrialisation together with macroeconomic measures (higher domestic savings, realistic exchange rate policies, and improved supply of skilled labour). In comparison to the earlier developments, the third period was associated with the most aggressive liberalisation manifested by an extension of the already austere reforms proposed by Washington Consensus policies. This attempt at structural adjustment, despite no loan conditionality, raises questions about the underlying motives. Of particular interest is that businesses, trade unions and government came together to prepare the GATT proposal, resulting in a joint call for accelerated tariff reductions.

The aggressive pursuit of trade liberalisation is often explained by the political history of the ANC, limited capacity or space to implement more developmental or broad-based industrialisation policies, and to some extent by the prevailing economic ideology. Views explaining the extensive liberalisation range from a belief in the economic and political merits of a market driven approach to a belief in the ability and willingness of the state to both shift focus away from select (protected) sectors and into more diverse manufacturing whilst countering any adverse effects. This was backed by the World Bank logic for trade liberalisation as a path to boost the development of labour-intensive sectors as well as to support small-and-medium-sized enterprise through access to inputs and markets.¹⁹¹ Political pressure biased policy towards the pro-market stance. This was supported by drawing

¹⁹¹ The World Bank view, see Fallon (1992) and World Bank (1993), maintained that high capital intensity explained the poor employment performance. This was attributed to price distortion where wages (especially rising black wages) were perceived too high rather than capital costs too low. This is in alignment with the fallacious factor price equalisation assumptions and views about growth through comparative advantage as per the Heckscher-Ohlin trade theory. A discussion on SA is found in Kaplinsky (1995) and on trade theory in Subasat (2003)

attention to the association of the ANC with political liberalisation, and the importance of links to global markets. These were placed in contrast with the apartheid government protectionism, thus presenting a false, and barely veiled, state is bad against free markets is good, ideological divide. As Hirsch and Hanival (1998) quoted in Carmody (2002, p.259) suggest: “cutting tariffs more deeply than required gave the government more flexibility should they need to be raised again in the future”.¹⁹² As mentioned earlier, the SA government justified liberalisation by the need to attract FDI and provide industry an incentive to reform in the face of global competition. FDI was seen as the key mechanism for increasing employment and improving global competitiveness through diversification and technology upgrading. Equally important, if not more significant, drivers of liberalisation included the underlying pressure from MEC conglomerates to access imported inputs vital for production, the need to sell to global markets, the desire to discipline labour, and pressures to manage the balance of payments constraint.

Though the business community was concerned with likely adverse effects, such as short-term employment losses, or the inability to compete with large-scale global multinationals or low-cost producers, the unions initially promoted liberalisation on grounds that tariffs were a “state largesse”.¹⁹³ The protection, they argued, was directed at a small strata of business, mainly within processed mineral or agricultural products. Adverse effects would be compensated by the government through various supply-side or productivity enhancing measures. Trade unions collaborated closely with the IDC to ensure industry needs were accurately represented within the supply-side strategy. Union support also helped consolidate justification for the trade liberalisation, with an expectation that this would raise the real wage through the reduction in consumer goods prices.¹⁹⁴

This ‘holier than GATT’ approach may have gained political credibility with trade partners, given the alignment with the prevailing neoliberal economic ideology, but it exposed the reforming industries sooner than was necessary in terms of achieving international competitiveness. Though the complex, lobby-driven and poorly managed system of trade barriers was in need of rationalisation, Reed et al. (2004) point to the emergence of very different views on the actual outcome of the GATT proposal. Depending on the perspective,

¹⁹² Zalk (2013, p.9) uses ITAC data to document the decline in average industrial tariffs. In 1994, the tariff was 28%, in 1994 it was 23%, by 2006 the tariff had been brought down to 8.2%

¹⁹³ Lewis et al.(2004, p.161) in Soludo et al. (2004)

¹⁹⁴ Carmody (2002)

the GATT offer to the Uruguay Round was either passively or actively supported, or pushed through, with an uncharacteristic degree of internal consensus. One camp claimed radical changes were necessary for economic development, another maintained the actual reduction of protection was not that significant, whilst others pointed to the detrimental effects of the liberalisation.¹⁹⁵ Those concerned with the adverse effects of the liberalisation did recognise that the extent of the trade liberalisation helped gain more policy space for the more interventionist labour and supply-side policies, and that these could reduce or phase the market competition for vulnerable (labour-intensive) sectors and redress the imbalances in ownership through BEE. Developments during the course of the 1990s converted the unions from supporters to increasingly sceptical. The growing dissent arose, in part from difficulties associated with targeting and timing supply-side compensating measures, as well as their ineffectiveness in countering the decline in employment and loss of competitiveness in the short term. The limitations of the regional and bilateral trade negotiations, and the poor investment performance in response to these market signals, also contributed to the overall stagnation and growing dissatisfaction in a number of other circles e.g. industrialists, farmers, environmentalists, human rights activists etc. (Reed et al. 2004).¹⁹⁶

The implementation of aggressive trade liberalisation reveals how the political and economic transition allowed the balance of interests to remain unchallenged within the economy. The alignment with prevailing economic trends served to raise confidence with foreign investors by helping upgrade the investment rating and in the process also reduce borrowing costs for the government. This was beneficial to established mining, minerals processing and financial industries in need of market access, capital inputs from abroad, and an external channel for profits. This was facilitated by support in the form of tax relief, investment and financial deregulation for select capital-intensive industries. However, this did not increase investment

¹⁹⁵ Preparation began prior to the 1994 election and was based on negotiations in the National Economic Forum which together with the National Manpower Commission was merged in 1994 to form the National Economic Development and Labour Council (NEDLAC) mandated to achieve a consensus of macroeconomic policy (effectively trade and industrial policy). The method of achieving consensus involved less transparent technical manipulations such as limits to the speed and extent of liberalisation in the two most protected sectors (auto assembly and clothing) for example.

¹⁹⁶ A key point of the trade agreements was market access. Greater market access would require further tariff reductions but SA's market opening was not reciprocated by the industrialised world (especially EU and US). As an interesting side comment, the path of extensive liberalisation has enabled the SA government to become a prominent voice in developing the international policy rules and environment. In effect, by maintaining the pro-market liberalisation policy course, the government has increased credibility to influence the unfair global trade practices and to confront the 'legal' protectionism (i.e. strengthen anti-dumping legislation, customs and excise activity, regulation, institutions etc.) employed by industrial nations.

or the development of a coordinated industrial policy going beyond the core capital-intensive MEC.

The internal consensus, with the ANC government seeking to distance themselves from the apartheid government, and trade unions agreeing to managed liberalisation in the hope of government support and real wage rises as compensation, failed to produce the desired redistribution, employment or investment growth, or even GDP growth. It is important to recall that trade liberalisation was seen to be a politically and economically acceptable and implementable compromise at the time and under the particular domestic and global conditions. It is also important to note that these were choices that the SA government made with a relatively high degree of knowledge, policy independence and implementation capacity. In line with the findings on T&C in chapters 4 and 5, it is also important to note that though trade liberalisation was a significant element within the policy platform, it does not constitute the only industrial policy, or the only source of economic stagnation and manufacturing decline.¹⁹⁷ Trade liberalisation was complemented by financial liberalisation with equally damaging implications for non-MEC manufacturing and an equally distorted theoretical and political set of justifications bound by the time and place in which they were made.

Going back to the theoretical discussion in chapter 2, the notions of trade and financial liberalisation are rooted in thinking along the lines of neoclassical growth and trade theory, with the view that market forces will generate the appropriate supply response with corresponding revenue, employment, investment and market access responses. This neglects demand-side measures, the different needs of various industrial sectors, fails to incorporate an understanding of the particular form of economic challenges in SA, for example unemployment and historical labour oppression, and highlights the short-term and selective industry development-approach biased towards the development historically important capital-intensive industries and their interests over others. In sum, employing a set of universally applicable supply-side instruments reveals an unwillingness or inability to focus on industrialisation across a broad set of interests and sectors.

¹⁹⁷ Jones (2002), Davis (1994), Richardson (1990) describe the mainstream discourse that relies on a misguided definition where trade policy is synonymous to industrial policy. This generalisation has become widespread in neoclassical analyses of SA economic development.

6.2.3 Capital market reform, monetary policy and fiscal austerity

Financial market liberalisation, similar to trade liberalisation, was begun in the late stages of apartheid and has been extended beyond expectations, with the financial sector covering approximately one fifth of GDP.¹⁹⁸ This ‘hyper-liberal’ approach has been seen as intricately tied to the objectives of attracting FDI and allowing SA conglomerates access to global financial markets.¹⁹⁹ The separation of monetary policy from what Carmody (2002, p.258) terms “democratic politics” very clearly marked the consolidation of neoclassical economic policy, but also the continued dominance of the needs of MEC conglomerates in policy.²⁰⁰

Financial liberalisation has its roots in the SA economic decline of the 1980s. With a decline in the gold price, fall in profits and diversification to manufacturing and services already well in place, by the mid-1990s the SA conglomerates were in need of new investment opportunities.²⁰¹ Under apartheid, geographical constraints, sanctions and exchange controls meant overseas investments were restricted and illegal capital flight only a limited solution. At the same time, the international trend was for large corporations to shift activities overseas, often becoming multinational. The end of apartheid, the negotiated settlement and international pressures to liberalise, contributed to the pressures to allow capital outflows. As mentioned earlier, given the low private savings rate, this was argued to enable the economy to attract much needed foreign investment. Financial liberalisation was implemented in a widespread and accelerated manner alongside tight monetary and exchange-rate policy. Initially, the government sought to open capital markets to access external finance and ease the balance of payments constraints. A corollary stabilisation of the exchange rate benefited international trade and the appreciation of the Rand enabled imports of intermediate inputs needed by capital-intensive industries. Monetary policy contained inflation with high interest rates ensuring price stability, though at the cost of stifling manufacturing growth and diverting investment from production to portfolios. These three policy courses were not mutually sustainable and 1998 marked the end of South Africa’s ‘trilemma’ with an end to exchange

¹⁹⁸ See Fine (2008) Response to the “Final Recommendations of the International Panel on Growth”

¹⁹⁹ Cox (1987) in Carmody (2002, p.258), Mohamed (2009), Ashman et al. (2011)

²⁰⁰ Note that it is not just MEC industries influencing policy through lobbying and other forms of pressure, but also government desire to actively promote the needs of MEC industries as a reflection of their continued importance as a source of national revenue, foreign exchange, and as part of the need to ensure rebuilding or maintenance of good relations in the wake of the numerous political, social and racial tensions at the core of the pressure to end apartheid and to transition to a more equal and democratic economic and social structure.

²⁰¹ Carmody (2002, p.262) notes the conglomerates to have over 100 domestic subsidiaries with approximately 30% of revenue originating from manufacturing.

rate policy/targeting and a shift to focus on capital liberalisation and inflation targeting.²⁰² There is a debate about the extent to which this shift in policy was due to the failure of neoliberal macroeconomic management and to what extent it was driven by the Asian crisis. However, the choices forward were not subject to debate, with the capital market liberalisation perceived irreversible and necessary, and inflation targeting a domestic priority, leaving the exchange rate to be floated. Trevor Manuel, then Finance Minister, even argued that a flexible exchange rate would “help cushion the economy from external trade and capital shocks and mitigate the impact of economic contraction, especially for the poor” Gelb (2004), p.10-11. Little was said about the adverse effects that the capital liberalisation brought about. Swilling (2005) argues that it is unclear whether the interests of exporters were served by liberalisation of investment to the JSE and the rapid inflow of speculative and short-term portfolio capital that this invited. Similarly, the liberalisation of liquid assets rather than fixed assets has adversely affected job creation and labour absorption and now represents a mode of liberalisation that is held responsible (even by the IMF) for the 1998 Asian crisis. Finally, increased volatility since the floating of the exchange rate has, according to Gelb (2004), increased uncertainty and delayed investments in export-dependent sectors. Not only did the foreign investment not manifest in expected quantities, the type of investments that were incoming were predominantly speculative, and not in the form of productive investments (see Roberts 2004 for a detailed overview of the decline and distribution of investment).

Financial and monetary policies also resulted in an increase in outward regional investments by SA MEC conglomerates followed by shifting of stock market listings and headquarters out of SA in explicit capital flight.²⁰³ The justification was that this would increase shareholder value and improve global competitiveness, and that these corporations could then reinvest back into SA. In reality, this meant capital was exiting SA when inward investment was much needed and the large conglomerates were 'delinking' from the volatile and unpredictable SA market and currency. Global pressures to diversify were an element in this capital flight and de-linking, but perceptions of high domestic production costs and challenges due to crime, HIV/AIDS, high unionisation and rising labour costs were equally significant. Domestic diversification opportunities had already been channelled into key/linked MEC sectors. Unrelated industries

²⁰² 1998 was the second of the foreign exchange crises with capital flow reversal and exchange rate collapse. 1996 and 2001 saw the first and third crises. According to Gelb (2004) SA attempted to simultaneously manage capital mobility to secure FDI, exchange rates to promote export competitiveness and interest rates to control domestic growth and debt.

²⁰³ See Ashman et al. (2010, 2011, 2012) for more details on the nature and implications of capital flight.

such as labour-intensive T&C were, as per the disinvestment from activities that were not vertically integrated, not considered profitable or interesting as investment targets, and thus did not attract funds from the MEC conglomerates.

In conjunction with the shift away from domestic investment, the large MEC conglomerates were also unbundling or selling off non-core assets. This was partially a follow-up to the post-apartheid negotiations whereby big business agreed to a redistribution ownership under the BEE development. Avoiding the impact of new competition regulation and the freedom to invest profits overseas also contributed to the unbundling. Subsequently, there has been buying back of unprofitable or indebted BEE assets (at heavily discounted prices). Re-bundling has also taken the form of investments into, and mergers with, overseas companies in response to global financial market pressures. This is what Carmody (2002, p.266), quoting the Economist, terms “more tightly focused investment vehicles”. Capital-rich conglomerates, initially searching for profitable investment opportunities, swiftly adopted characteristics of global financialisation, where investments were disconnected from production decisions and capital left SA for offshore listings. The outcome of these developments was a decline in domestic investment and consumption, a slowdown in the growth and diversification of exports (made worse by the currency appreciation), and a deepening of portfolio capital. None of these served to address the problems of poor manufacturing or employment growth.

The impoverished state finances and extensive government spending that the GNU inherited prompted a commitment to fiscal deficit reduction. Despite pressure, the government was not keen to increase borrowing. This was, in part to avoid exposure to IMF and World Bank involvement, in part to contain interest payments, and in part due to lack of confidence in the ability to invest wisely. Tax increases were perceived to discourage private sector growth and investment, and could risk damage to the relationship between government and the large SA conglomerates. Over the course of 1996-2000, the National Treasury succeeded in reforming the budget and expenditure process and research generally agrees that fiscal policy post-apartheid has been a success in terms of achieving desired goals. As documented by Carmody (2002) “(t)ight fiscal policy enables the continuing reduction of corporate taxes on FDI profits.”²⁰⁴ As discussed earlier, reduction of government spending was erroneously perceived to reduce the crowding out of private investments by government investment, whilst also limiting exposure to debt and thus volatility in financial markets. Reducing the fiscal deficit

²⁰⁴ Schoeman et al. (2000) in Carmody (2002, p.259)

would also open the possibility of lower corporate taxes and thus offset firm costs such as those arising from HIV/AIDS.

Despite the success in implementing fiscal prudence, the desired outcome was delayed and the impact detrimental. The reduction in government spending may have reduced risks of crowding out investments, but the arguably greater benefits of crowding in investments thanks to government expenditure were also removed.²⁰⁵ Though pursued aggressively from the mid-1990s, government debt only began to fall after 1999. And, despite improved revenue collection and increased company tax revenues, expansion in expenditure did not begin until 2000. Eventual expenditure increases were small and not uniform, and whilst social services (health, education and welfare) payments have increased, housing expenditure has declined. Tight fiscal control enabled a reform of the public service and, though government fixed capital formation remained low between 1998-2001, thereafter expenditure rose steadily focusing primarily on infrastructure as well as social services, increasingly through provinces and municipalities. It is interesting that, despite claims to boost investments through corporate tax cuts, surplus revenue has been used to offer tax cuts to labour. Personal income taxes have declined whilst revenue from corporate income tax has risen. However, with a rising unemployment rate, these cuts do not benefit those most in need of support, nor do they promote job creation.²⁰⁶ Research agrees on the success of implementing fiscal control (again reflecting policy capacity) and also on the poor impact on growth and employment through investment. Though this outcome needs to be considered in conjunction with other macroeconomic policies, possible mis-targeted government expenditure and delayed impact, the general policy discourse from 2007 onwards began to gradually shift in favour of government investment and the benefits of crowding in with the New Industrial Policy Framework and Industrial Policy Action Plan introduced after 2008.²⁰⁷ One of the important

²⁰⁵ See Reinikka and Svensson (2002), Hirsch (2005), Gelb (2005) and Gelb (2006) for further details of the impact of fiscal prudence.

²⁰⁶ Official unemployment rates peaking at 25.1% with 15-34yr range unemployment at 36.1% and youth unemployment 15-24 at a high of 51.8% in July 2014 (data from Engineering News 2014)

²⁰⁷ Kaplinsky (1995) and Zalk (2012) discuss the (general / non-targeting) underinvestment in SA and the need for further research in understanding the role of government channeling in investment. Kaplan (2004) talks about the need for subsidy or investment support for T&C and automotive industries. Within the neoclassical theoretical literature, underinvestment has resurfaced as part of the market imperfection argument for temporary and limited state involvement to facilitate eventual perfect market operations. See for example, Hausmann and Rodrik (2003), Pack & Saggi (2006) in general, Ravallion (2008) talks of underinvestment into public goods, Easterly (2009) talks of underinvestment into infrastructure and maintenance, Lin (2012) mentions underinvestment into learning albeit within the confines of the macro space for specific functions, targets, horizontal themes (skills, innovation, R&D, education) or even sectors that provide scope for capability development, upgrading, or other competitive assets requiring 'facilitation' support from the state. This is very much within the confines of the narrow general equilibrium approach of microeconomics where industrial policy is defined and justified in a targeted and short-

features of IPAP is to recognise the need for state procurement and direct investment, in the absence of FDI and market-driven investment into socially or politically important sectors, as well as part of a longer-term multi-sector industrialisation strategy. Whether this will translate into an altered balance of power between core structural interests of capital and labour remains to be seen. Other recent policy developments such as the BBBEE, ASGISA, the New Growth Plan and the National Development Plan are worth mentioning. They remain outside the scope of this research, for now, given that they are recent and their medium-to long-term impact is not yet clearly visible. Thus far, they manifest a limited or no discernible transformative change to the problems around the balance of power, labour marginalisation, or to the detrimental effects of the neoliberal policy discourse within SA.²⁰⁸

6.3 Shortcomings of supply-side policies: implications for labour

The post-apartheid supply-led policy has focused on boosting supply through the operations of firms, prices and markets. Accompanying macroeconomic policies of liberalising financial flows, trade liberalisation, inflation targeting and maintaining high interest rates alongside fiscal restraint, have sought to enable a competitive environment where market forces can stimulate the production of appropriate market-worthy products, productivity improvements, and enable value added to be the source of development. This approach presents a number of shortcomings that are in direct contrast to the broad-based industrialisation guided by structuralist theories. As discussed in chapter 5, it relegates the conceptualisation of labour to one of homogeneity, cost, and input, and focuses attention on value-added, profit or trade realisation, as opposed to rooting industry development within the production process where the role and relations of labour are central. These collective policy and underlying theoretical limitations are a key to explaining the contradictions within the SA policy discourse, and the constraints that the different constituents of macroeconomic and industrial policy have presented for T&C.

term context and fails to consider the chronic and systemic failure of capitalism to generate investment especially into labour-intensive industries. Similarly narrow neoclassical arguments are made by UNCTAD (2006), UNIDO (2013), Salazar et al. /ILO (2014).

²⁰⁸ See Isaacs PERSA (2014) paper for a comprehensive overview.

The various limitations with the supply-side policies adopted by the post-apartheid government include:

- neglect of demand shortages despite these being identified as one of the main causes of poor performance of the apartheid economy as well as more recently (Kaplan 2004, UNCTAD 2005);
- over-reliance on trade liberalisation and corresponding export promotion as a mechanisms to generate demand without consideration for the various obstacles at multiple levels:
 - production weaknesses resulting in uncompetitive, low quality/volume/value-added or no products to export (e.g. input shortages, tensions between producers or with retailers, outdated technology/skills/processes etc.);
 - difficulties accessing export markets due to competition or restricted access (either as a failure or non-reciprocation of trade agreements requiring market opening);
 - failure to consider the learning and time required for producers to adjust from a captive domestic market and state support to fierce domestic and global competition with little or no state support;
- a narrow focus on production chains and vertical production linkages (upstream/downstream), with no reflection of other forms of linkages (e.g. fiscal, consumption, employment) or how they are formed;
- undue focus on competitiveness as measured through prices, value-added, and profits;
- failure to consider the tensions within industries and how these affect policy through lobbying, fragmentation of interests and views, or mistrust influencing production relations;
- neglect of the differences between industries, in their ability to access finance, produce competitive products, access markets, attract investment, lobby or organise;
- compartmentalisation of policies by target, department responsible, and assumptions about their influences being separable as opposed to overlapping;
- underlying assumptions about the existence of a clear state-market division, resulting in policy being positioned either as pro-state or pro-market, without consideration for the particular forms of interaction between these economic influences;
- ignorance of the importance of positioning a sector and seeing its challenges vis-à-vis the broader economy.

At the heart of these policies are an implicit belief in the supremacy of the market forces, the division between state and market where the former is justified primarily on grounds of temporary failings of the latter.

The pro-market policies of market stability and liberalisation indicate government policy capacity as well as policy independence from external policy debates and theoretical trends. Despite these policies, the desired exports, foreign investment, productivity improvements, product or process upgrading, profits and ensuing growth or employment creation has not been manifested. According to neoclassical theory, market shortcomings should have been countered by relevant supply-side policies. By the end of the 1990s, the on-going poor performance of the economy suggested foreign investment was not responding to the supply side policies and that export-led growth had not materialised as predicted.²⁰⁹ Though this highlights the weaknesses of the underlying neoclassical consensus and is in itself interesting, it is important to return to the original research question on the decline of T&C.

Amongst the main findings of this research has been the misconception around the high cost and inflexibility of labour alongside the marginalisation of labour through increasing cost-competition, and neglect in employment creation or development. As has been shown through the discussions in chapter 5 and 6, these arise in part from the narrow conceptualisation of labour within neoclassical theory, but also from the short-term and supply-led focus adopted by producers and policy in T&C. Though the details of tightening labour legislation were discussed in chapter 5, the topic is revisited in light of the negative impact that industrial and macroeconomic policy have had on the space and position of labour in South Africa. The implications of inflation targeting, high interest rates, low investment, trade liberalisation, capital flight resulting from financial liberalisation and fiscal austerity, and other policies can be seen to contribute to the challenges faced by labour and labour-intensive sectors.

For example, the implicit agreement within GEAR was that in return for policy-induced downward wage pressure (resulting from increased import competition as per trade liberalisation, uncompetitive exchange rates or attempts to increase productivity and through that competitiveness via labour costs), capital-owners would invest into production, arguably creating employment, training and other skills/technology upgrading opportunities. Instead, capital flight and on-going unemployment attest to the low importance of upholding or

²⁰⁹ See Fine (2004) and Swilling (2005) for discussion

enforcing this agreement. This arises from the failure to incorporate any binding forms of reciprocity behind these 'agreements'. Similarly, higher interest rates had the side-effect of drawing investment away from production or employment creation, and contributed to the overheating of the economy, where GDP growth became increasingly based on consumption and borrowing, and not matched by or grounded in growth in production or productive capacity. The persistence of high interest rates was argued on the basis of crude inflation-controlling, when instead they served to counter the capital flight from the MEC conglomerates. This inflation targeting also hindered the implementation of expansionary or progressive labour legislation, further damaging the position of labour (Aron & Muellbauer 2007 in Isaacs 2014).

As was argued in chapter 5, instead of being hampered by inflexibility, labour contracts and wages present evidence of a high degree of labour flexibility. The rise of informal labour arrangements, and the difficulties and limited representation of informal labour by unions, contributed to the limited bargaining power of labour within firms and collectively within SA. Macro-level deregulation also contributed to both fears of and realised relocation of firms to other countries, further disadvantaging the bargaining position of labour. Continued exposure to global competition did not foster increased investment or a reorganisation of production to generate competitive products and processes, as predicted by pro-market theorists.

Other evidence also points to the indirect effects of liberalisation and seeking FDI. For example, Seguino (2007) documents the negative relationship between FDI and wages. She notes that the policies that facilitate FDI in- and outflows, such as deregulation of capital flows, tax concessions, and foreign infrastructure to attract foreign capital, have had limited impact on the potential benefits of FDI through spillovers in learning and skills, or technology transfer. Instead, a number of studies link promoting FDI increases with an increased threat of, or potential for, firm mobility. In the face of relative labour immobility this exerts a downward pressure on workers wages. Brofenbrenner (1997) in Seguino (2007, p.30) notes "the threat effect was found to be significantly higher in "mobile" industries such as communications and labour-intensive manufacturing with easy entry and exit (e.g. garments, food processing)." In an earlier study Seguino (2000) provides evidence that the increased threat of firm mobility, following liberalisation and growth of FDI inflows, acted as a barrier on wage growth in Taiwan's female-dominated manufacturing industries in the 1980s and 1990s. Seguino (2000) finds further proof in South Korea where female wages rose alongside FDI restrictions.

The tightening of labour legislation, whilst prima facie a source of restrictions for firms (in requiring various social contractual obligations), has not hampered the use of other flexibilisation strategies. Labour has been removed from the core interests of dominant capital in that policies targeting labour are largely not influential for low-employment MEC industries. As a result, labour policies such as the LRA and BCEA, whilst in theory applying to all industries, have a limited effect on the capital-intensive industries. Furthermore, focusing on labour costs and short-term implications for employers is misleading, in that it places costs at the heart of competitiveness and sector development, and neglects the role of demand in determining employment through growth in output.

6.4 Reproduction of the capital-labour balance: implications for policy

Instead of using the poor performance and on-going social pressures to create employment, to revisit policy or the underlying theoretical framework, and to challenge the bias in the capital-labour balance, the debates around industrial policy in SA continue to focus on aspects that neglect the role of dominant capital converging around the MEC. Two recent debates continue to implicitly reinforce the neoclassical assumptions, mechanisms and policy guidance. These are the developmental state debate and the resurgence of a focus on resource (minerals) beneficiation.²¹⁰

It is not the aim here to enter into a discussion about whether the SA government was/is/can be a developmental state. Nor is it relevant for this research to explore the details of how industrialisation could be driven by minerals beneficiation. Instead, it is useful to look at how these two aspects continue to be detrimental to an understanding of the systemic challenges arising from the imbalance of interests driving accumulation. More specifically, as has been shown by Fine (2010), the developmental state approach reinforces the separation between state and market. Though loosely based on the creation of an elite and control over key economic indicators, the SA debate has proceeded to focus on BEE as a potentially influential economic elite without consideration for the existence of one around the financialised MEC industries and interests.

²¹⁰ See Swilling et al. (2005), Freund (2006), Fine (2010), Fine et al. (2010) for an introduction into the SA developmental state discussion. See Morris et al. (2012) MMCP book, UNECA (2013), Jourdan (no date), and Newman & Takala-Greenish (2014) for insights into the industrialisation through value adding or resource beneficiation.

Resource-led industrialisation is underpinned by the implicit neoclassical assumptions about the supremacy of market forces, path dependency in comparative advantage, and a focus on the firm (profit, upgrading, governance) as the unit of analysis. These features are not addressed by the GVC approach, as was posited in the selective theory summary in chapter 2, and in chapters 4 and 5. With a selective focus on the development of vertically-connected sectors, in this case those around the capital-intensive MEC, it is difficult to see how this would foster a broad range of developmental linkages into other manufacturing, how this would alter the marginal position and prospects for labour, or generate sufficient growth to counter for the low development in unsupported industries.

These debates fail to explicitly acknowledge or address the embedded role of the core capital interests in influencing policy. These debates also neglect to incorporate the heterogeneity and centrality of labour in production and industry development, with a parallel ignorance of the longer term industrialisation involving multiple and complex linkages set in a particular structure and set of interests. Though in general useful in creating discussion about industrial policy, they are unlikely to lead to any significant shifts in the balance of interests. One consequence is the continued adoption of a supply-led policy agenda and to allow the interests of capital to remain dominant. These debates reflect what Bramble and Barchiesi (2003, p.16) refer to as “the tensions and contradictions intrinsic to capital-labour relations that account for the changes in the various modes of state regulation. ... However, there are strict limits to which the state can prioritise the demands of labour over business”. In the presence of a set of interests, able to channel policy and employ prevailing policy and theoretical fashions to their advantage, the trigger and pressure for changes to the aforementioned ‘modes of state regulation’ are restricted. Cramer (1999), commenting on resource-based industrialisation within a discussion of Mozambican cashew-nut processing, concludes that the obstacles are structural and internal to Mozambique, with outcomes primarily affected by the political constraints as opposed to economic, technical or other constraints arising from the sector processes in question. Industry development is determined by the tensions and balance of power between the sections of the capitalist class in relation to the state. Weak states or dominant sections of capital can offset the intended effects of a number of specific policy initiatives. The notion of dialogue between policy choices and the prevailing complex set of interests has been highlighted in studies on other economies.²¹¹

²¹¹ See for example Nwajiaku-Dahou (2012) on Nigeria, Saad-Filho (2010) on Brazil, and Castel-Branco (2002) on Mozambique.

Sectors such as T&C, representing a different set of business interests (to that of core capital), and in direct contact and conflict with the forefront of the interests of labour, cannot under the current circumstances alter the policy platform and thus their long-term prospects remain limited – even if their internal fragmentation, production and other problems could be overcome.

Industrial policy is set and defined by a heterogeneous group with shifting objectives.²¹² Policy-makers need to adapt to changing circumstances and interests that affect performance. Attempts to assess industrial policy are constrained by underlying factors that determine industrial performance and the scope of policy. Though difficulties abound, understanding industrial policy as a process of the underlying tensions continues to be of paramount importance especially to economies such as SA with struggling manufacturing sectors, stagnant output growth and high unemployment. This points to a gap in the understanding of how policy is formed and implemented, how the different interests lobby, influence and inform policy, what are the spaces and places for this dialogue, and what is the disjuncture between chosen and intended actions and outcomes.²¹³ There have been some attempts to interrogate the policy process beyond the narrow neoliberal confines of externally determined policy space and restrictions in policy capacity resulting from weak institutional capacity, rent-seeking, or other imperfections/inefficiencies. For example, the work of Pons-Vignon and Segatti (2013) show how the neoliberal deepening of SA requires a strong state. Freund (2013) unpacks the making and unmaking of policy choices around the proposals of the Macroeconomic Research Group (MERG). Similarly, Terreblanche (2012) explores the elite pact around the shift and policy compromise from RDP to GEAR as part of the politics of policy-making. A better understanding of historical interest dynamics, the possibility of an emerging juncture in policy trends and space, present not only some interesting insights for investigating policy processes, but also some cautious grounds for optimism that a rebalancing of the underlying capital-labour relation may be debatable and possible.

By way of a summarising thought, within the urban planning literature, Sorensen (2015, p.22) helps explain the non-random or path-dependent policy choices as the outcome of incremental change shaped by complex “political compromises, power struggles, or impositions”, using the “persistence of different institutional configurations of modern

²¹² This section draws on the views of Fine in (eds) Elbadawi and Hartzenberg (2000)

²¹³ Credit for this point goes to Nimrod Zalk.

capitalism in different countries” as an example. Bringing in the notion of positive feedback and critical junctures, Sorensen (2015, p.24) challenges the permanence on grounds that “institutional complexity may make path dependence less likely...with ambiguities and contradictions (providing) considerable scope...to act in ways that have transformative effects on politics”. The presence of a number of contradictions in the South African policy process and outcomes, as well as in the structure of the economy, the tensions between capital and labour, and the unevenness in economic performance and distribution, may become the foundation for a moment of change. The focus on tackling high unemployment through the IPAP (2008 and subsequent iterations) may also provide the space for a transformative moment. If this is to be borne, a shift of the discourse away from the supremacy of the market, away from primarily serving the needs of dominant capital, and away from calls for labour flexibility and cost-reduction is required.

6.5 Summary and implications for textiles and clothing

The discussion presented in this chapter suggests that the post-war industrial policies have not succeeded in achieving sustained industrialisation beyond the MEC. The structure of funding and ownership was biased towards the development and needs of the capital-intensive industries within this complex, at the expense and neglect of labour and labour-intensive interests not connected to the core MEC activities.

This chapter has sought to highlight some of the contradictions in the way SA industrial policy has evolved. Instead of the misplaced perception of seeing late apartheid-era industrial policy focused on diversification, decentralisation, and import substitution, evidence supports the proposition that post-war industrial policy was characterised by alternative descriptions. The latter include:

- disorganised protection through tariffs and subsidies,
- creation and funding of state corporations within the MEC activities,
- highly concentrated ownership exacerbating the skewed power relations between industry and government, and
- the implementation of macroeconomic policy such as macroeconomic stability and labour market segmentation catering (significantly though not exclusively) to the needs of the MEC alongside a disjointed collection of policies for non-MEC sectors.

These choices not only supported core MEC activities and associated sectors, but also limited the space and impact of policy and sector development for the non-MEC manufacturing. The

MEC as a generator of foreign exchange had historically enjoyed a strong position within the SA economy and policy setting. Given this on-going position of power, policy evolution and the growth of the MEC continue to be seen as interlinked, and industrial developments outside the MEC need to be viewed in the context of the constraints this environment imposes on other manufacturing sectors and the policy process.

This helps explain the post-1994 policy evolution as the outcome of a renewed dominant role for the MEC, and explains choices such as the liberalisation of monetary and trade policy. It also helps explain the withdrawal of the state from active sector investment and support (with exceptions proving the rule), and towards a policy approach that has been compartmentalised and constrained by the macroeconomic and policy environment, and by the divergent underlying needs and interests that characterise the South African economy. The compartmentalisation of industrial policy into segments by sectors, by government departments, and by specific themes or areas of focus, has made it difficult to consider the overlaps between policy spheres both in practice and for policy analysis, or to see the various influences as part of a larger system of interests and structures. Further misconceptions, about the role of external constraints on policy space and choices (especially in the adoption of a Washington-consensus-type policy agenda), perceptions of limited policy capacity, and views about the alleged benefits and applicability of the pro-market neoliberal framework, continue to act as a smokescreen and hinder a much needed debate about the actual constraints and real drivers of accumulation and policy. The combination of policy complexity, compartmentalisation, and persistent misconceptions about these can be seen in parallel with the myths about how and why T&C has declined. Likewise, exploring how and why policy has evolved in this particular manner, what drives the mischaracterisations or persistent views about cause and effect, can help shed light on the nature and explanations for the persistent decline in T&C.

At a superficial level, the decline of T&C can be attributed to the withdrawal of state (or state-directed MEC) investment, the poor production and process development under apartheid sanctions, the insufficient domestic demand, and the challenges in accessing inputs, skills, technology, and markets. It is argued that the decline has been exacerbated by the introduction of supply-led policies, and neglect of the importance of demand, through an overstating of the potential for market forces to stimulate sector transformation, investment, exports, or the ability to provide general incentives. Likewise, the impact of mitigating policies,

such as the DCCS allowing exporters to recover some input costs, BEE or LRA, draw the focus away from the underlying problems and influence of the interest dynamics. Though it is undisputed that trade liberalisation in T&C was detrimental, pushing the domestic industry into a race-to-the bottom, it was not a unique contributor to the decline and needs to be seen in conjunction with other important influences. Macroeconomic policy, in particular interest rates, investment, and capital deregulation, have presented additional challenges, to those arising from intra-industry production problems, labour tensions and restructuring, and the intra-industry fragmentation and mistrust in textiles and clothing.

Drawing attention to the parallels between the evolution of T&C in the context of manufacturing and the evolution of industrial policy in the context of macroeconomic policy and global policy trends sheds greater light on the marginal position that T&C occupies in the SA economy, and in particular how this industry positioning reflects and enables the reproduction of a particular balance or bias between capital and labour, taking specific forms at different levels of the economy.

Chapter 7: Summary of findings and conclusions on the research contributions

“Research under a paradigm must be a particularly effective way of inducing paradigm change”
Thomas Kuhn (1962, p.52-54).

Kuhn, in his famous work on paradigm shifts, focused on the notion of an observed anomaly within a set of theory-induced expectations. Exploring the source of the deviation from expected outcomes produces what Kuhn (1962) denotes as a period of disorientation and even crisis during which the prevailing set of explanations is reviewed, refined, and possibly rejected in favour of a new theoretical paradigm. It is important to state up front that this research does not claim to present, or to initiate, any kind of paradigm shift of Kuhnian proportions. Instead, the above reference highlights how the focus of this research has been informed by the need to interrogate empirical evidence to identify or further explore discrepancies between theory and evidence. By concentrating on what is missing and what remains unexplained in T&C, this research highlights a number of key areas of such discrepancy between theory and evidence. A next step would be to use these observations to consider alternative or revised directions for debates around processes of industrial development and industrialisation.

In sum, drawing on observed phenomena around the poor performance of T&C in SA allows for a selective synthesis of existing and new insights about the evolution of industry and policy. These open the space for reflection regarding the contributions and limitations of the prevailing and often implicit neoclassical explanatory framework in the case of T&C. In particular, the research draws attention to the limitations of explanations and policy and production solutions couched within a market versus state framework or more narrowly within approaches that focus on short-term, cost-based competitiveness such as the value chain or market liberalisation frameworks.

7.1 Summary of the research focus and findings

Both the textiles and clothing sectors have been marked by a steady decline in employment, investment and a slow decline or stagnation in real value added and real output. Exports have not grown despite export promotion and imported products have been slowly conquering the domestic market. The global shift of T&C production to lower-cost countries, the gradual withdrawal of state subsidies, the failure of export promotion, and limitations of supply-side policies, have resulted in a notable contraction and transformation of the sector. The

contraction is seen in factory closures, rising unemployment and increased competition from imported products. Production processes and structures have changed to reflect the speed, quality, and price pressures of global markets. These have included an increase in outsourcing, a casualisation of the workforce, shifts to smaller batches and quicker turnaround times, and increasing transfer of production to countries where labour and other costs are lower. This relocation of production is neither a new phenomena, nor is the T&C industry the only casualty. The decline in T&C mirrors a domestic pattern of declining manufacturing, visible, in particular, in sectors where production is not associated with the core revenue-generating capital-intensive activities of the MEC. With greater global connectedness through trade and improved transportation, all manufacturing has experienced increasing cost-pressures and structural change. Specific trade agreements, changes in government support and incentives, as well as a shift of power to buyers, have also contributed to the transformation of manufacturing. The marginalisation of labour and labour-intensive manufacturing, though taking a particular form in SA, is also paralleled in other countries and sectors other than T&C.

This investigation sought to develop an understanding of industry developments, mindful of the historical importance of T&C as a path towards industrial diversification and deepening, and of particular characteristics such as the absorption of low-skilled and female labour. The research set out with several overlapping objectives. These included: compiling an extensive synthesis of the complex array of conditions and influences affecting SA T&C; investigating a number of incongruities in explanations for the sector trends; as well as exploring the way in which T&C decline had been approached from theoretical and methodological perspectives. This lent the research the particular character best described as one seeking to probe a range of existing explanations to reveal connections and missing pieces of information in a way that has not been previously attempted.

Given the exploratory and inductive nature of the research, the original questions around the industry decline evolved to concentrate on a number of contradictions and explanatory gaps behind both industry trends and debates. For example, the on-going industry support through selective policy and rhetoric, focused on the employment aspect, was at odds with the magnitude and manifestation of the decline through loss of employment. The simplistic association of apartheid industrial policy with ISI created the need for policy change. This was accentuated with external pressures to align post-apartheid policy with recommendations of the prevailing pro-market Washington Consensus-agenda. A closer investigation did not

confirm such a policy shift or the absence of alternative approaches. Instead, it was argued that this arises from a misbelief regarding the presence of limited policy space or capacity. This contention was supported by evidence of in-depth policy support to capital-intensive industries within the MEC. Further misconceptions about the singularity or dominance of select influences on T&C were highlighted through evidence of range of different factors perceived as equally important, depending on which stakeholder or study was under examination. A challenge to this compartmentalisation discussed the perception of high labour prices and rigidity, in contrast to evidence of cost-reduction and increased flexibility thanks to the casualisation and use of other informal employment arrangements. These contradictions led the investigation to seek other explanations for the decline of T&C, and also pointed to the limitations of theoretical and policy debates on industrial development with important implications for both policy and further research.

The overarching conclusion from this exercise is the presence of several interlinked and co-constituting factors, with no single influence or stakeholder identified as a dominant trigger or causal factor for the industry decline. Looking beyond the apparent explanations of rising import competition, weaknesses of specific policies, skills shortages or other production challenges, or perceptions about high labour costs and inflexibility, suggests that explanations for the decline needed to be grounded in the economic and policy environment prevalent during the transition from apartheid. Exploring debates about sector, industry and macroeconomic policy evolution also point to the need to consider how they reflect and reinforce the underlying economic structures and interests.

Chapter 2 summarised key contributions and limitations of four theoretical approaches: neoclassical theory with subthemes on market imperfections, growth, and trade theory; structuralist perspectives to industrialisation highlighting the importance of industry-linkages; the GVC approach as a tool for exploring production networks across the domestic and global spheres; and a labour process focus highlighting the role and centrality of production relations in the development or decline of a sector. These contribute to explaining why the decline has been so persistent, why policy approaches have been narrowly formulated and short-sighted, why there has been substantial restructuring of labour arrangements, why there is a misguided perception of the relative rigidity and cost of labour, and why production and value-added upgrading or access to global markets has been limited.

The neoclassical approach remains pervasive in the analysis of T&C industry and policy trends. The underlying and implicit theoretical framing helps explain why the industry has experienced a persistent downward spiral. The prevailing theoretical views explain the decline through a failure to compete, improve productivity, or access new markets. This treats the domestic conditions, challenges, or context as unimportant or assumes they are embedded in information about prices. The outcome of this framing is to focus on removing coordination/information/institutional deficiencies to enable a more fluid operation of market forces. Though the literature details the on-going decline, the downward trends do not translate to an interrogation of these market-facilitating neoclassical policies, or question what theoretical framing would enable a different debate or set of policies focused on a longer time frame and broader conceptualisation of industrial development. This reflects a failure to consider the peculiarities of the SA T&C industry vis-a-vis global T&C, other domestic industries, or as part of a particular accumulation structure.

In contrast to neoclassical theories, this study argues that focusing on the labour process is useful in that it presents sector trends as outcomes of heterogeneous and evolving capital-labour tensions at different levels of the economy. This, together with the structuralist perspective on industrialisation highlights the need to investigate the existence of, the form and the potential for, new linkages within and across sectors. These approaches, though helping explain the specific industry challenges within an economic setting, do not translate into simple and persuasive policy strategies. Instead they require a detailed understanding of the unique forms and scope for linkages, resulting in increased methodological complexity, at least in contrast to the generic approaches and prescriptions of neoclassical studies. The research approach, together with presenting and to an extent addressing various methodological challenges and obstacles, constituted the main focus of chapter 3.

Chapter 4 provided a detailed overview into the characteristics of, and misconceptions about, the nature of the T&C decline, concluding that it could be seen as emerging in the late 1970s. These misconceptions highlighted the long-term nature of the decline and pointed to the limited explanatory power of individual factors, such as high labour costs, trade liberalisation, or fault associated with particular stakeholders. It also drew attention to the limitations of the dominant competition-led explanatory framework. Instead, it suggested that explanations for the industry decline would need to look beyond the post-apartheid period, take account of domestic structures, macroeconomic policy, look at the combination of multiple influences

and the tensions between a range of stakeholders. Chapter 5 concluded that, in addition to complexity and stacking of the relevant factors and features, much of the literature has neglected to address the underlying causes, focusing instead on separate outcomes such as skills, investment, or technology shortages, challenges in accessing export markets, or increased competition. Chapter 6 looked at the evolution of industrial policy, in parallel and as a further explanation for the decline of T&C, and suggests that policy evolution also reflects underlying economic tensions and interests peculiar to the SA system of accumulation. Though the specific insights are too numerous to be summarised comprehensively here, it is useful to highlight the different layers of analysis together with key contributions and implications. These are presented in the table below.

Table 12 Linking industry and policy questions

Textiles & Clothing questions	Policy questions	Focus/implications
Production challenges as reflected by poor competitiveness, low production volumes quality, slow turnaround times, input deficiencies, factory shutdowns, rising unemployment, poor output performance.	Debates focus narrowly on issues such as: skills, investment, technology access, out-dated processes, increasing coordination and trust within industry (textiles-clothing-retail)	Issues around separation of textiles and clothing from other industries (in terms of investment, supply-demand, employment, skills, or other linkages). Focus on individual challenges prevents seeing the underlying drivers arising from economic structures and tensions.
Labour restructuring and misconceptions such as the narrow conceptualisation of labour as a homogenous and costly input.	Tensions between employers and employees, cost pressures leading to increased use of casual, informal and outsourced labour, perceptions about high labour costs and rigidity contribute to short-term focus.	Similar tensions and trends between labour and capital found in other labour-intensive industries. Bias in favour of capital also present at the macroeconomic level with the continued dominance of the MEC industries.
Trade liberalisation focuses sector efforts on cost competition and export growth. Neglect of (the role of) domestic demand.	Misplaced focus on market access, import competition, export promotion. Pace, sequencing and nature of trade agreements and liberalisation worsen rather than counter industry challenges.	Driven by neoclassical views on the logic of the competitive market mechanism is viewed as a ideologically more appropriate explanatory and policy framework.
Broader issues of global market trends in T&C e.g. race to the bottom.	Important damaging impact of macroeconomic policies e.g. exchange, inflation policy, financial deregulation, and investment policy. Global policy pressure favours market liberalisation.	Global influences are understood in terms of comparative advantage, access or upgrading within global value chains. False perceptions about limited policy space or capacity.
Labour policy separate from trade policy or other sector policies.	Compartmentalisation of policies result in failure to consider overlap or negative effects and cross-influences.	Prevalence of state versus market division confines policy debates.
Complexity arising from multiple factors, stakeholders, needs and interests. Compounding of influences, fragmentation of industry, tensions between stakeholders.	Context matters in terms of how policies evolve, are perceived/categorised, and how they are implemented or assessed. Categorising policy evolution as a shift from ISI to EOI makes it difficult to explore factors outside the realm of trade such as other policies or the drivers of policy choices at different levels.	Alternative approach arising from the dialogue between policy-industry findings and explanatory framework suggest the need to situate the trends within an understanding of the nature of accumulation – as shaped by the capital-labour conflict in South Africa.

The findings conclude that T&C evolution is a complex, multi-faceted process, with several involved and interested parties, within a changing space arising from the evolving domestic and global markets and policy environments. The alternative approach presented here focuses on tensions, context and combination of influences, and brings together inputs from literature on T&C production, labour, and trade, together with policy debates, in a way that has not previously been attempted in the literature. Broader conclusions of the research are as follows.

1. The decline experienced by the SA T&C during the period from the 1970s-late 2000s, is not a recent short-term trend, and cannot be explained by few dominant factors or actions of dominant stakeholders, but instead showcases the tensions between multiple, interacting and evolving interests.
2. Though several specific trade-, labour-, and production-related challenges contribute to the decline, isolating specific sub-sector challenges leads to a narrowing of understanding and of proposed solutions (with examples drawing on debates over skills or technology shortages, perceptions of labour and wages, and on the impact of trade liberalisation and market access).
3. The evolution of the South African industrial policy provides a parallel insight into the tensions that influence the nature and structure of the SA economy at multiple levels, across multiple industries, and through policy. Policy evolution has been misleadingly characterised as a shift from state-driven ISI to market-driven EOI when instead it could be characterised as an approach of failed diversification, support for MEC (primarily as state-owned and gradually more privatised enterprises), and labour marginalisation (shifting from apartheid to a cost-competitiveness as dominant features).
4. To understand the developments in SA requires a closer look at the interests and tensions within these at multiple levels (sub-sector, industry, macro-economy) and in different segments of the economic debate (e.g. policy), situated within a particular time and setting in terms of the history and structure of the economy.
5. The predominant methodological approach within the literature favours the case study with a focus on a particular factor e.g. export promotion policy, skills shortages, wage cost reduction, or import competition. Despite this seeming coherence, there are divisions in the conclusions or remedies proposed that reflect the use of implicit theoretical frameworks favouring the free operations of the market and the value chain approach. These contribute to the narrowing of the theoretical and policy debate. An alternative approach combining multiple methods and sources allows for a wider capture of influences and of the underlying complexity.
6. No single theoretical framework can be employed to capture the range and evolution of different factors that contribute to and explain the decline of T&C. Insights from various approaches help highlight the persistence of an implicit neoclassical bias favouring competitive market mechanisms over other forms of coordination. These highlight the misleading state versus market ideology, which contributes to the failure to situate the industry and policy evolution within the context of SA capitalist accumulation.

7.2 T&C in a broader theoretical context

T&C in SA has been declining since the 1970s. As concluded, this decline cannot be explained by any single factor, entity or stakeholder actions, by internal or external policy choices alone, or by some path dependency and intrinsic limitation that the exposure to competitive market forces has brought about or brought to the fore. The decline is puzzling because of the policy support, capacity, space, established nature of production, and awareness of the importance and challenges of the sector. The decline of T&C could be termed a ‘wicked problem’, defined aptly by Batie (2008, p.1176) as “dynamically complex, ill-structured, public problems...(whose) causes and effects...are extremely difficult to identify and model”. Comparing the abstract characteristics of ‘wicked’ problems with the issues that have emerged through this investigation highlights the “intractable and elusive” nature of this case study and by implication of this research (Batie 2008, p.1176):

Table 13 Textiles and clothing decline as a wicked problem

Characteristics of ‘wicked’ problems	Corresponding T&C examples
Connected to or symptoms of other problems	Direct policy influence, policy process, underlying economic structure and tensions, the dominant MEC
No consensus on what the problem is	Multiple T&C stakeholders with different needs and interests
Problem definition tends to change over time (reacting to formulation of potential solutions)	Shift from focus on consumption goods for domestic market to niches, clusters, entering global value chains.
Complex interdependencies, high uncertainty with outcomes and potential causes and effects	Tensions between textiles – clothing- retail, employers and employees, labour flexibilisation, growth of import competition, changes in global T&C structures
Occur in social context (influenced by dynamic social and political factors but also biophysical complexities)	Implications for labour, redistribution are set in context of economic history but also in context of dominant MEC
Radically different views and understanding of problem, trade-offs, desirability of alternative outcomes, by multiple different stakeholders	Within subsectors, across T&C industry, within SA economy.

Source: Batie (2008) and research findings.

The decline is perceived to be a systemic development that draws on the particularities of accumulation in South Africa. Much of the literature on accumulation has focused on the narrowly defined tension between the state and market forces, treating them as distinct and opposite. The neoclassical industrial policy recommendations focus on facilitating market forces or correcting specific institutional, information, coordination or other (temporary) market failures, within an overall bias and goal of enabling competitive markets to allocate resources, returns and activities. Some of the approaches investigating the state as a coordination mechanism have narrowly perceived the state on a continuum between

predatory or developmental, with corresponding policy for implications industrial policy debates.²¹⁴ Evans (1989) summarises these within neo-utilitarian notions of standardised states, states as impediments to development, or states as the nexus of market exchange where a restricted set of activities are subordinated to the structural requirements of capital accumulation, and separate or autonomous from specific private elites. Though marginally useful in providing at least some space for a state role, the ideological position is one where “less is good”, and that states are inherently inefficient sites of perverse rent-seeking.²¹⁵ As Evans (1989, p.566) argues, this narrow approach restricts any fruitful debate on the organisation of different types of states or in how it reflects vested interests in society. These help explain the restricted space within which the SA industry/policy debates have been conducted. Whether the introduction of the NIPF and IPAP from 2008 onwards alters this remains to be seen.

A broader understanding is rooted within Marx’s notions of the on-going transformation of the capital-labour balance, and draw on important sociological debates about the labour process as in, for example Jessop (2001) and Silver (2003). These consider the characteristics and role of the state, but also the reproduction and “changing articulation of the economic, political and ideological relations within capitalist ...(and non-capitalist)... relations of production” (partially paraphrasing Jessop 2001, p.43-44). Corollary debates explore the nature of the capital-labour conflict. Examples include, the Polanyian notions of pendular transformation, where pressures towards the “commodification of labour...provoke...counter-movements demanding protection”, as well as Marx’s views on the “long-term strengthening of the possessors of labour power” where, though “the advance of industry may weaken the marketplace bargaining power of labour, it can also increase both the workplace bargaining power and associational power” (paraphrasing Silver 2003, p.18-19).²¹⁶ These confirm the importance of raising questions about how we understand the state, state-society relations, and how specific processes, and relations of, production shed light on more general economic and political tensions. According to Poulantzas (1978), this “rules out any general theory of economics or the state and indicates for the need for particular theoretical analyses of specific types of economy or state”. It also presents the state as something beyond an intrinsic

²¹⁴ Evans (1989) provides a useful historical summary on the state-market juxtaposition and the implications for industrialisation.

²¹⁵ Drawing on Hirschman (1989 in Evans 1989, p.566) neo-utilitarians see states as an obstacle to the desired economic transformation.

²¹⁶ Silver (2003) goes on to document the labour unrest in different industries including textiles. Hart (2003) has done important work on labour unrest in SA T&C.

instrument or entity, and instead as a “relationship of forces or a material condensation of such a relationship among classes and class fractions” (Jessop 2001, p.46, 51). This opens the space to consider how T&C and industrial policy in SA have evolved as part of a unique and transforming system of accumulation. This research has focused on the specifics of T&C decline, generating questions for further research on this industry, with relevance for an improved understanding of the challenges for SA industrialisation. It is in this light that further research areas are introduced.

7.3 Going forward

The findings point to a number of new areas of research on T&C, industrialisation and industrial policy in South Africa, and more generally. In addition to those already listed in section 3.3, and the conclusions of chapter 5 addressing issues of multiple factor combination, complexity of interaction and joint effects, and policy compartmentalisation, among the main gaps in the literature is the need to develop understanding the nature of the T&C labour market across the various formal-informal modes of employment. A second area of further research that would enhance understanding of SA’s industry and industrial trends turns to the scope for and growth of regional industrial linkages in production, trade, as well as movement of labour and skills/technology transfer. These could focus on developing regional demand and fostering regional production (as opposed to trade) linkages. A third area of further research would investigate the particular characteristics of the different intra- and inter-industry tensions and their influence of policy. Fourth, chapter 6 highlighted the need to understand how policies are formulated and implemented and move away from conceptualisations of state role and policy concerned with creating a developmental state. These point to the need for approaches that incorporate an understanding of existing elites, interest distributions and power imbalances in order address the policy shortsightedness, narrowness and biases. These would enable the investigation of long-term industrialisation processes associated with multiple and multi-level, cumulative, and self-sustaining linkages. These areas of further research are relevant to T&C, in SA, but also to other labour-intensive sectors in SA and elsewhere.

The findings also present a number of policy implications. This research has consciously stayed away from making policy recommendations during the process of analysis. Greater emphasis has been given to reflecting on past patterns and not future developments. The backward focus also reflects the research aim to explain and understand the complex evolutionary

processes of the South African textiles and clothing, within equally evolving policy and economic conditions of the South African and global economy. The policy implications summarised here reflect the challenges particular to textiles and clothing production as identified in chapter 5, and challenges at the level of the national macroeconomic and industrial policy debate as identified in chapter 6. These are both affected by the underlying theoretical framework, pointing to the need for greater awareness of the limitations of the neoclassical influences, as driven by the theoretical assumptions, mechanisms and conclusions.

Policy recommendations regarding the textiles and clothing sector follow the themes set by chapter 5: production challenges, labour and employment issues, and trade liberalisation and agreements. The specific industry challenges and possible remedies already identified were set out in table 3. Though important as individual industry problems, one of the main criticisms of prior research and industry strategies has been the focus on individual problems at the expense of joint or overlapping effects. Another critique has been around the undue focus given to improving short-term competitiveness and heavy reliance on cost and productivity measurements at the expense of more constructive approaches seeking to build long-term productive capacity and relations.

Specific policy suggestions include the continued need to address short-term obstacles such as illegal imports, under-invoicing, the detrimental effects of low-cost import competition especially from China, production challenges around sourcing appropriately priced inputs, and improving the linking between producers within input-output pipelines more effectively. In the medium term, this raises questions about how to support the domestic textile industry to ensure domestic clothing producers are able and willing to source locally and that appropriate investment is channelled to update the equipment and processes. There is also the need to incorporate the needs of the clothing industry to achieve the desired input price and quality, as well as the appropriate quantity and reliability of delivery from textiles and other input providers. This in turn requires the cooperation of the domestic retail industry to prioritise and support local production. Improved collaboration could be supported by government policy but also direct procurement, as well as by policies and interventions that guarantee or coordinate some of the investment, delivery prices or volumes, delivery times, or product quality between textile and clothing. It is also imperative that the dialogue and conceptualisation of labour and its role in production, productivity and competitiveness, innovation and consumption be considered from a more long-term and positive perspective,

moving beyond the short-term cost-conceptualisation. Employment creation, skills development, technology adoption and eventual innovation require capital, co-commitment by producers and labour, cooperation in the short- to medium-term from buyers and retail, and may also reopen the question around increased protection against import competition to allow learning, production development and more constructive employment relations to emerge.

There is no simple policy remedy to address the combination of the short- to long-term challenges. Whether the focus is on changing the employment incentives, re-introducing apprenticeship schemes, training programmes, and developing long-term employment structures and incentives, improving dialogue and dynamics between employers and labour in the formal and informal spheres is likely to be central to any forms of support. In light of the company relocations from South Africa to neighbouring countries, a regional dimension seeking to build linked and mutually beneficial regional production capacity, as well as regional demand benefiting all involved countries, and not just South Africa, are also important features for the development of progressive and labour-friendly policy. Though no simple policy remedy is available to capture these, one of the key messages of this research is the need to improve dialogue and seek a shared industry vision that represents the various views and needs of textiles, clothing, retail, but also incorporates various labour and government representation.

The implications for macroeconomic and industrial policy are equally broad and complicated. Full justice to these would require a separate investigation and only key features are noted here. These include the need to consider the cross-policy effects raising the issue of increased collaboration and coordination across relevant government departments. Examples include the overlap and often contradictory effects of trade policy with sector-specific production support, the overlap between training and skills development policy and labour policy, and the overlap between government procurement and other sector investment policy. The macro and industrial policy debate also needs to consider the detrimental and long-term effects of policies and management of exchange rates, inflation and capital flows inward and outward. Finally, the national policy agenda can benefit from considering a shift to discourses that focus on employment creation as the foundation for skills, innovation, direct intra- and inter-industry linkage formation, with implications for other linkages such as those based on

consumption, fiscal redistribution, or employment (and skills) transfer across unrelated industries.

The research concludes with reference to the title “The Emperors New Clothes”. The original allusion to the well-known fairy tale emerged from the findings of chapter 4, exposing some of the misconceptions around how the textiles and clothing decline has been explained. Moving beyond attempts to expose myths and misconceptions of T&C evolution in SA, the research presented here has also highlighted the limitations of the neoclassical theorising on industrial development. Noting the parallel with the work of Keen (2011, p.35), it is time for “radically revising or even abandoning the starting point...and for economics to become less of a religion...(which) requires the foundations to be torn down and replaced”.

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Appendix 1: Fieldwork objectives, original contact email, questionnaires, summary of interviews and initial findings

The following provides background information to the fieldwork that was carried out between September – December 2008. The main purpose of the fieldwork was to clarify and supplement the information and findings from the statistical and literature reviews. The fieldwork initially targeted questions of policy with regard to South African textiles and clothing manufacturing but quickly broadened to include all factors relevant to explaining the trends and developments in the industry.

The items detailed here include:

- Original fieldwork objectives
- Contact email
- Questionnaires
- Questionnaire 1: South African Textiles and Clothing `1990-2008 –Unstructured Interview Guidelines / Questions
- Questionnaire 2: South African Industrial Policy / Space – Unstructured Interview Guidelines / Questions
- Summary of interviews
- List of all organisations or individuals interviewed
- Summary of factors and circumstances affecting South African textiles and clothing identified by interviews

Original fieldwork objectives

The original hypothesis, objective and target groups for different perspectives were as follows:

Objective: Assess the main areas of policy focus and evolution, textiles and clothing sector constraints, influences, outcomes. Assess what factors have contributed to the decline of textiles and clothing manufacturing in South Africa during the period 1970-2010. What has been the change and continuity in the sector and industrial policy landscape pre and post-apartheid and how has this contributed specifically and generally to the textiles and clothing decline.

Target: Government, Trade Unions, Industry Associations and Organisations, Industry/Policy Research, (T&C Manufacturing)

Type of respondent: manufacturer, government, labour representation, association, research (sector, policy, economic environment), 3rd party to sector, trade union, designer.

These evolved to interview representatives with views on the:

- 1) policy formulation, implementation, impact and analysis
- 2) factors and forces behind the trends (decline) in textiles and clothing

This research proposes for fieldwork to be conducted during September-December 2008. The objective of the fieldwork is to draw out the range of factors underpinning textiles and clothing decline and to highlight the complexities arising from overlapping influences over time and across the various sector components.

Type of insights: policy impact, influence, analysis

- policy design (entities such as organisations and associations directly involved in policy formulation)
 - policy influence (entities communicating and lobbying views on policy with no direct input)
 - policy impact (textile and clothing manufacturers, designers, labour, retail, consumer)
 - policy analysis (research, academic institutions, governmental and non-governmental bodies, consultants)
-

Contact email

Subject: Meeting to discuss research on industrial policy/textiles & clothing decline

Dear

I am a visiting researcher at the Corporate Strategy and Industrial Development research group (Wits University) as part of my PhD at the School of Oriental and African Studies (University of London). My research concerns the decline in the textiles and clothing sector as part of an overall manufacturing decline in South Africa, and focuses specifically on the evolution and role of industrial policy. As part of this research I am conducting informal interviews to gauge the views of those involved and interested in matters concerning industrial policy and/or textiles and clothing. I would be interested in meeting with you to discuss your views and knowledge.

Would you be available over the next two weeks for a 30min discussion on the subject?

Kind regards,

Lotta Takala-Greenish
PhD Candidate SOAS, Visiting Researcher CSID

Questionnaires

Two similar questionnaires were used. One focused on those directly involved with textiles and clothing either through policy, manufacturing or another organisation directly associated with the industry. The other targeted those involved with industrial policy (including but not exclusive to textiles and clothing policy) with the view to exploring broader industrial decline, policy evolution, the policy process and issues of policy space.

The interview questions serve as guidelines and not all interviews covered all questions. The interviews always began with a general question which in some cases led to the material being covered at the initiative and direction of the interviewee, in some cases, the set questions were followed.

All the interviewees were asked if they would allow voice recording, whether they would allow their name or organisation to be cited or mentioned, and whether they could be contacted for further comments at a later stage. All respondents refused voice recording and given the majority did not wish to be cited by name or even organisation name the quotes are anonymous or attributed to the groupings by function or policy association (see below).

The interviews were piloted with a university researcher familiar with the subject. The interviews were carried out by one interviewer with some modifications to the questions during the interview period to improve clarity and ensure questions pertained to one topic at a time. Though this altered the specific questions used over time and meant that the results would not be comparable or relevant to a quantitative study, the improvements to clarity and understanding was prioritised given the qualitative and interpretive aims of the study.

Questionnaire 1: South African Textiles and Clothing `1990-2008 –Unstructured Interview Guidelines / Questions

Sector decline

- The Textiles and clothing decline has been blamed on a range of factors (policy, sector-specific, historical and economic-structure). Please comment on how you feel the following factors have contributed to the decline, to what extent they are important or marginal, and how they have interacted with each other?
 - exchange rate fluctuations
 - investment decline / equipment and skills upgrading shortcomings (especially with regard to high interest rates drawing investment away from production and into financial portfolios)
 - tightening of fiscal policy, focus of government spending on capital-intensive mining/minerals extraction and downstream rather than more labour-intensive textiles and clothing
 - trade liberalisation (phasing, speed)
 - industrial policy focus on exports, supply-side support
 - sector fragmentation (between T and C, between labour and employers)
 - high labour costs tied to inflation rather than productivity
 - informalisation of labour force contributing to shift away from niche/quality
- Some have argued that the industry has shifted focus away from niche and quality markets and into cost (lowest price) based competition. To what extent do you feel this has been the case? Which factors have biased production towards this type of focus? (Please comment especially with regard to the rise in labour costs, import competition and increasing fragmentation between T&C).
- What other factors have perpetuated the failure to compete in niche/quality-based markets?

Policy issues

- What have been the industrial policy weaknesses? (Content, policy development process, policy implementation). Have the policy constraints changed over time? To what extent is CSP (customised sector policy) facing difficulties similar to T&C and broader industrial policies in the 1990's?
- What alternative industrial policies would have been available/desirable given government constraints (WTO, tight fiscal and monetary control, limited foreign investment despite market liberalisation)?
- What are the main reasons (political, practical) that have led to the choice of specific industrial policy stances?
- To what extent has trade policy drive industrial policy positions?
- What industry (as opposed to government) based/led assessment of policy impact is in place?

Sector issues

- What is behind the sector fragmentation?
- Why has there been little agreement and action on common policy areas? (e.g. illegal imports, others?)
- What has been the impact of the following initiatives on sector structure and performance?
 - cluster initiatives
 - value chain / pipeline connections between T&C
 - China quota 2007
 - illegal import curbing
 - deregulation (cooperatives and small and medium sized enterprises)

Other / External Factors

- To what extent is regional development considered a solution?
 - To what extent is the perceived increase in retail power connected to T&C decline?
 - What is the scope for productivity improvements?
 - To what extent do existing economic structures based around upstream/downstream natural resource extraction bias against labour-intensive manufacturing?
 - Any other areas you feel are important in connection to the causes of textiles and clothing decline?
-

Questionnaire 2: South African Industrial Policy / Space – Unstructured Interview Guidelines / Questions

Industrial decline

- What is your view on the current status of industrial development (manufacturing, labour-intensive, capital-intensive, mining/energy)
- What factors contributed most to the overall economic/manufacturing decline?
- What is your view on the nature and causes of textile and clothing sector decline?
- What policies are under discussion with regard to industrial development?
- Which sectors are in your view responding to policy stimulus? What type of policy support has been successful?

Policy involvement/formulation

- How would you describe the current economic policy stance? What are the main priorities?
- What is the current position on industrial policy?
- Description of interviewee involvement in policy formulation (policy type, sector, resources)?
- How would you define the industrial policy evolution?
- Why were these policies selected? What other policies were available at the time?
- What were the key factors in identifying policy objectives?

Policy process/implementation

- Issues associated with the policy process – main constraints (domestic, external, policy, resources etc.)
- Does the outcome reflect the initial plan?
- What methods of assessing policy outcome are employed?
- What difficulties were experienced in the implementation of policy?

Policy scope/autonomy

- Has the scope for policy changed over time? What are the key influences?
- Has the autonomy for policy decisions changed over time? What are the key influences?
- Has the policy process changed over time?
- Which interest groups are involved with/contribute to policy?
- What are the main limitations on policy design?
- To what extent is policy directed by external factors (e.g. global agreements)?
- To what extent is policy influenced by theoretical considerations?

Summary of interviews

The following summary statistics gives an overview of the distribution of functions amongst the respondents. Given the small sample size and proximity of views they have been grouped.

Respondent grouping by function	Total contacted	Coding
Perspective of government, policy, regulatory and other entity connected to local or national governance	5	GOV
Production perspective including design and manufacturing	5	PROD
Interests groups , associations, other organisations connected with textiles and clothing	8	IG
Independent external commentators, researchers, media, academia	9	EXT
Providers of further contact, access, and other general information	14	INFO
Contacts identified/preliminary contact but not interviewed (e.g. duplicates, beyond scope of study, not available)	45	OTHER

The initial focus on policy led to the grouping by insight into the policy process. The replies are summarised as follows.

Respondent grouping by policy perspective	Total contacted	Coding
Policy design (respondents involved in or closely connected to the formulation of policy)	5	POLDES
Policy influence (respondents able to comment or influence policy choices)	7	POLINF
Policy impact (respondents with insights into the how policies are experienced)	6	POLIMP
Policy analysis (respondents with in depth understanding of policy through research or analysis)	9	POLANA

The final summary grouped some of the different perspectives or voices that began emerging from the interviews. Several respondents commented on a number of perspectives. This was either due to their multiple roles or wider understanding of the positions held with regard to textiles and clothing issues. The category ‘academic and other research’ was included as a separate perspective to highlight the extent of research and draw attention to the removed nature of this perspective. The category ‘industrial policy’ was included to draw attention to the initial policy focus of the fieldwork.

Perspectives or key subjects commented on in interviews (note that the categories overlap and are not exclusive)	Respondents commenting on select perspective (note some respondents insights on multiple perspectives)	Number of insights
Manufacturing (including t&c) voice and insights	3,4,8,15,19,20,21,22,23,25,26	11
Labour and labour organisations (incl t&c) perspective	2,9,13,16,18,19,25,27	8
Views of textiles and clothing-related associations,	7, 8,10,15,23	5

organisations operating within or close to sectors		
External commentators consultants and other voices on textiles and clothing issues (external to sector)	6,7,10,13,15,16,20,22,24,27	10
Academic and other research (covering issues of both policy and manufacturing)	1,5,6,11,12,13,14,17, 19,24,25,27	12
Industrial policy commentators	6,10,14,15,16,17,18,19,20, 21,22,23,24,25	14

List of all organisations or individuals interviewed

Organisation or Affiliation	Location	Title or role
Institute of Development and Labour Law (University of Cape Town)	Cape Town	Senior Researcher
South African Clothing and Textile Workers Union SACTWU	Cape Town	Senior Researcher
Elzet Clothing	Cape Town	Managing Director
Sans Fibre	Cape Town	Managing Director
University of Cape Town	Cape Town	Professor
BM Analysts	Durban	Executive Director
Clothing, textiles and fashion committee chairman	Durban	Independent consultant
Cut Make and Trim CMT Association and Clothing Manufacturer	Durban	Managing Director
Designer	Durban	Independent designer
National Bargaining Council	Durban	National compliance manager
University of Durban-Westville / Kwa-Zulu Natal	Durban	Professor
University of Durban-Westville / Kwa-Zulu Natal	Durban	Professor
University of Durban-Westville / Kwa-Zulu Natal	Durban	Research Fellow
University of Durban-Westville / Kwa-Zulu Natal	Durban	Research Fellow
Clotrade formerly Cloted CLOTHING FEDERATION OF SOUTH AFRICA, Clothing Export Council	Johannesburg	President of Clotrade and Chairman of the Export Council for Clothing in South Africa
Council of South African Trade Unions COSATU	Johannesburg	Coordinator Industrial Policy unit
The Presidency	Pretoria	Chief Economist
Council of South African Trade Unions COSATU/NALEDI	Johannesburg	Coordinator Labour Market Policy
ex-DTI	Johannesburg	Former Deputy DG DTI
ex-DTI	Johannesburg	Former Textiles and clothing director DTI
ex-DTI	Cape Town	Former Minister of Trade and Industry
Independent	Johannesburg	Lawyer
Texfed	Johannesburg	Economist
Independent	Maputo	Independent consultant
DTI	Pretoria	Chief Director Industrial Policy DTI
University of Witwatersrand	Johannesburg	Researcher/Lecturer on Industrial Policy and Textiles and Clothing
TGFA Foschini	Cape Town	Managing Director (retail)

Summary of factors and circumstances affecting South African textiles and clothing identified by interviews

Issues related to the textiles and clothing sectors	Industrial and macroeconomic policy and state related issues	National and global economic environment / influences
Illegal imports / underinvoicing	Export promotion	Import substitution
DCCS	Import substitution	Apartheid labour regulation
Trade liberalisation	Trade liberalisation	Post-apartheid labour regulation
Quotas 2007+	Government commitment	market size (domestic)
China	Role of treasury	
Labour costs rise	Monetary policy / interest rates	Policy bias of MEC
T&C relationship	Access to credit	WTO compliance
Trust in government	Financial liberalisation	Policy space restrictions (theory)
Rise of retailer – domestic	Fiscal policy	MEC conglomerate investment abroad / offshoring
Rise of retailer – global	Overvalued exchange rate	Linkages with MEC sectors
Foreign investment	Foreign investment	Global policy alongside globalisation
Domestic investment	Supply-side measures	Trade agreements
CSP	Capital outflows	
Cluster	Govt focus on other sectors	
Cooperatives		
Value chain		
Regional development		
Race to the bottom (price bias)		
Decline precedes independence		
Rise of informal sector		
Casualisation of labour		
Labour regulation		
Fragmentation between T&C		
Relationship between retail and clothing		
Import competition		
Export competition		
Domestic demand		
Skills and product quality issues		
Access to finance		
Process upgrading (tech and skills inv)		
Labour restructuring (various casual or informal labour, outsourcing)		
Rise and concentration of retail (domestic and global)		
Supply issues (quality, volume, accessibility, cost)		

Appendix 2: Textiles and clothing background

This appendix includes the following tables and figures:

Table 1 Harmonised System Two-Digit Level Textiles and Clothing

Table 2 Employment in textiles and clothing 1970-2010

Table 3 List of Manufactured Products Sold in 2008

Figure 1 The cotton-to-clothing supply (value) chain

Figure 2 Textile sector structural connections

Figure 3 Textile sector value chain

Table 4 Number of firms operating in textiles and clothing

Table 5 A comparison of the Western Cape and KwaZulu-Natal clothing sectors

Table 6 Number of clothing firms by province

Table 7 Multiple approaches in the literature on South African textiles and clothing

Table 8 List of key textiles and clothing institutions

Figure 4 Quota restrictions on Chinese clothing imports to South Africa

Table 9 Tariff changes in textiles and clothing

Table 10 Grouping of Manufactures Used by DTI

Table 14 Harmonised System Two-Digit Level Textiles and Clothing

HS Code	Textiles and Clothing Category
HS50	Silks
HS51	Woollens
HS52	Cottons
HS53	Other vegetable textile fibres, paper yarn and woven fabrics of paper yarn
HS54	Synthetic filaments
HS55	Synthetic fibres
HS56	Wadding, felt, ropes and cables
HS57	Carpets and other textiles floor coverings
HS58	Special woven fabrics
HS59	Industrial textiles
HS60	Knitted or crocheted fabrics
HS61	Knitted or crocheted apparel
HS62	Apparel, not knitted or crocheted
HS63	Other made up textile articles, including worn clothing and worn textile articles

Source: Roberts & Thoburn (2002, p.24)

Table 15 Employment in textiles and clothing 1970-2010

Year	Textiles and Clothing Total Employment	Textiles Formal & Informal Employment	Clothing Formal & Informal Employment
1970	183,574	94,485	89,089
1971	190,472	97,593	92,879
1972	197,923	101,007	96,916
1973	209,360	106,541	102,819
1974	216,485	109,823	106,662
1975	222,962	112,055	110,907
1976	228,126	114,438	113,688
1977	223,897	111,990	111,907
1978	223,313	111,205	112,108
1979	228,748	113,244	115,504
1980	239,621	116,971	122,650
1981	251,242	120,597	130,645
1982	252,012	118,455	133,557
1983	240,599	110,816	129,783
1984	235,358	107,137	128,221
1985	231,739	105,515	126,224
1986	237,417	108,505	128,912
1987	248,431	113,026	135,405
1988	254,277	115,812	138,465
1989	249,997	115,867	134,130
1990	240,939	112,727	128,212
1991	229,649	106,456	123,193
1992	217,775	97,245	120,530
1993	213,666	84,052	129,614
1994	219,283	85,080	134,203
1995	231,883	87,219	144,664
1996	255,648	98,336	157,312
1997	248,692	97,773	150,919
1998	222,872	79,761	143,111
1999	222,205	74,235	147,970
2000	222,600	75,988	146,612
2001	229,464	77,316	152,148
2002	235,359	80,259	155,100
2003	230,734	79,136	151,598
2004	222,727	73,771	148,956
2005	196,596	65,646	130,950
2006	192,562	63,996	128,566
2007	190,740	66,173	124,567
2008	170,103	62,411	107,692
2009	151,937	57,674	94,263
2010	146,075	53,563	92,512

Source: Quantec Data 2012, Textiles = SIC 311-312, Clothing = SIC 313-315

Highlighted areas are periods of peak employment.

Table 16 List of Manufactured Products Sold in 2008

Statistics South Africa

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Table 2 – Manufactured products sold in 2008: Textiles, clothing and leather products and footwear

Textiles	Unit	Quantity	R'000
Natural animal fibres (scoured, carbonised and carded), tops and noils, yarns of wool and mohair and woven fabric of woolen spun yarns, excluding blanketing	kilogram	12 601 283	703 151
Vegetable textile fibres (e.g. cotton, flax, jute, sisal) and mixtures thereof, yarn or thread, single, multiple (folded) or cabled including cotton sewing thread	kilogram	20 134 486	326 941
Man-made and artificial (acrylic) filaments and synthetic staple fibres, yarns, single, multiple (folded), cabled including sewing thread	kilogram	29 811 209	783 178
Woven fabrics of cotton, unbleached, bleached, plain dyed, colour woven, printed and other including woven cotton industrial fabrics	square metres	98 721 675	1 307 291
Woven fabrics of man-made continuous filament yarns, plain dyed, colour woven, printed and other including woven industrial fabrics	square metres	48 504 529	831 913
Woven fabrics of discontinuous (worsted) spun yarns of synthetic staple fibres, plain dyed, colour woven, printed and other including woven industrial fabrics	square metres	53 184 281	971 723
Woven pile and chenille fabrics including terry towelling and blanketing but excluding narrow fabrics	square metres	2 900 693	18 098
Woven fabrics of glass fibres, including narrow fabrics of glass fibres	square metres	2 527 967	48 839
Blankets and travelling rugs, excluding electric blankets			475 938
Bedspreads, knitted and woven	number	421 881	67 294
Bedspreads, quilted and other	number	217 843	35 578
Sheets (bed linen)	number	2 313 446	126 987
Duvet, eiderdown and similar covers	number	1 285 700	48 302
Pillow cases	number	8 742 029	154 557
Night frills	number	1 041 756	54 982
Mattress and pillow protectors	number	650 640	10 400
Other bed linen			6 606
Table linen e.g. table cloths and mats, napkins / serviettes			1 917
Bathroom and toilet linen e.g. face cloths, bath mats, toilet sets			123 141
Towels	number	12 396 666	505 784
Curtains, including drapes and valances			212 960
Other interior blinds			112 489
Woven textile window (interior) blinds			121 630
Net curtains (e.g. voiles, flounce)			5 698
Spring roller (interior) blinds			12 411

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Table 2 – Manufactured products sold in 2008: Textiles, clothing and leather products and footwear (continued)

Textiles	Unit	Quantity	R'000
Venetian blinds			83 988
Other textile household furnishing articles			51 868
Cotton / rayon bags, of a kind for packaging goods	number	1 213 506	6 748
Other bags (e.g. haversacks, postbags) of imitation leather, canvas or similar material	number	118 541	13 780
Grip bags (travel, shopping) used for packaging of goods, of imitation leather, canvas or similar material, excluding ordinary plastic bags	number	9 805	964
Sport bags, used for packaging of goods, of imitation leather, canvas or similar material	number	353 609	33 506
Kitbags, togbags and knapsacks, used for packaging of goods, of imitation leather, canvas or similar material	number	402 424	28 107
Rucksacks (e.g. frame type)	number	199 262	11 956
Laundry bags of imitation leather, canvas or similar material	number	153 435	12 295
Golf club bags	number	6 115	4 474
Textile tarpaulins, vehicle and other covers excluding synthetic material (plastic) tarpaulins and covers	square metres	5 119 329	160 644
Sails for boats			39 908
Textile awnings and sunblinds			128 574
Other tents, including frame and play tents and tent accessories	number	38 536	186 741
Tents, marquee	number	3 997	20 423
Tents, cottage	number	21 108	36 874
Sleeping bags and the like	number	12 530	5 647
Quilts, eiderdowns, comforter and duvet inners	number	968 473	159 906
Cushions and pillows, natural and synthetic filling	number	4 429 682	71 006
Kitchen linen including floor cloths, dish cloths, glass cloths, dusters and similar cleaning cloths			51 643
Textile door panels for vehicles	number	389 914	164 417
Loose car seat covers (whether sold as such or fitted) of textile fabrics, including leather	number	2 165 803	630 417
Other made-up textile articles including textile baby nappies			207 383
Textile flags and banners	number	364 126	122 040
Carpets and other textile floor-coverings, woven, not tufted or flopped	square metres	3 224 721	331 991
Carpets and other textile floor-coverings, tufted or flopped	square metres	15 189 963	987 895
Other carpets and textile floor-coverings, including carpet tiles, needleloom floor coverings and car carpets and mats, whether tailored or not	number	35 405 201	987 978
Twine, cordage, rope or cables, of jute or other textile bast or other natural fibres and netting thereof			169 404
Twine, cordage, rope and cables, of man-made fibres			202 415
Netting of twine, cordage or rope; cables, and articles thereof, of man-made fibres			102 601

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Table 2 – Manufactured products sold in 2008: Textiles, clothing and leather products and footwear (continued)

Textiles	Unit	Quantity	R'000
Narrow woven fabrics - bias binding	metres	114 818 934	21 142
Narrow woven fabrics - ribbons	metres	210 127 759	121 578
Narrow woven fabrics, containing elastomeric yarn	metres	2 019 932	8 080
Narrow woven fabrics - webbing	metres	13 406 529	13 399
Other narrow woven fabrics (e.g. shoe laces)	metres	237 327 758	124 425
Narrow woven made-up labels, badges and similar articles of textile materials, not embroidered			184 990
Narrow woven braids and ornamental trimmings in the piece, without embroidery; tassels, pompons and similar articles			268 987
Felt and articles of felt, except carpets			24 281
Non-woven fabrics, bonded	kilogram	16 211 145	467 598
Non-woven fabrics, needle punched	kilogram	2 261 588	63 234
Other non-woven fabrics and geotextiles, including flock, wadding and padding textile materials	kilogram	3 638 105	152 462
Rubber impregnated thread and cord (e.g. tyre cord, conveyor and belting yarn) and other textile fabrics, impregnated, coated or laminated other than with preparations of cellulose derivatives or with plastic materials			215 189
Textile fabrics, impregnated, coated, covered or laminated with plastic materials e.g. polyvinyl chloride, polyurethane	square metres	15 842 243	423 700
Textile fabrics, impregnated, coated, covered or laminated with preparations of cellulose derivatives or of other plastic materials	square metres	1 813 749	69 331
Woven textile products and articles for technical uses, including wicks, gas mantles, geotechnical products, hose, piping, transmission or conveyor belts, bolting cloth and straining cloths			72 294
Industrial filtration cloths and bags			191 145
Quilted textile products in the piece			56 230
Narrow knitted fabrics, not containing elastomeric yarn nor rubberised			272 962
Narrow knitted fabrics, containing elastomeric yarn or rubberised	metres	222 105 258	97 886
Knitted or crocheted tulle or lace	kilogram	1 848 550	36 971
Tricot and raschel warp knitted knit fabrics and piece goods (colour knitted or plain dyed) of natural and man-made yarns	kilogram	5 502 066	288 058
Single jersey weft knitted knit fabrics and piece goods (colour knitted or plain dyed) of natural and man-made yarns	kilogram	7 045 240	273 153
Double jersey weft knitted knit fabrics and piece goods (colour knitted or plain dyed) of natural and man-made yarns	kilogram	16 634 430	627 102
Circular knitted knit fabrics and piece goods (colour knitted and plain dyed) of natural and man-made yarns	kilogram	8 966 475	400 406
Clothing			
Men's and boys' knitted or crocheted socks, three quarter hose and other hosiery of synthetic yarns	pair	26 161 661	171 880
Men's and boys' knitted or crocheted socks, three quarter hose and other hosiery, of cotton yarn mixtures	pair	13 886 345	144 489
Women's and girls' knitted or crocheted pantyhose and tights	number	17 109 606	131 215
Women's and girls' knitted or crocheted stockings (full length or knee-length) and socks	number	15 749 715	142 194

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Table 2 – Manufactured products sold in 2008: Textiles, clothing and leather products and footwear (continued)

Clothing	Unit	Quantity	R'000
Other men's and boys' clothing (garments) of natural fibre yarn or knitted fabrics			94 025
Men's and boys' casual and sportswear shirts of knitted fabric, excluding T-shirts	number	2 386 601	104 125
Men's and boys' underwear, pyjamas, dressing gowns and bathrobes of knitted textile fabrics	number	8 463 367	188 911
Other women's and girls' clothing (garments), knitted or crocheted of natural or man-made yarns or knitted textile fabric			132 916
Women's and girls' casual and sportswear shirts of knitted fabrics, excluding T-shirts	number	2 745 537	122 786
Women's and girls' bathrobes and dressing gowns of knitted textile fabrics	number	251 948	27 746
Women's and girls' other underwear of knitted textile fabrics	number	11 236 488	234 756
Women's and girls' slips and half slips of knitted textile fabrics	number	231 127	8 089
Women's and girls' panties and briefs of knitted textile fabrics	number	15 580 992	196 357
Women's and girls' night dresses and pyjamas of knitted textile fabrics	number	736 755	47 714
Men's and boys' t-shirts, of knitted cotton, cotton yarn mixtures and man-made fabric	number	12 577 017	156 625
Women's and girls' t-shirts, of knitted cotton, cotton yarn mixture and man-made fabrics	number	6 515 530	164 392
Women's and girls' vests and spencers of knitted textile fabrics	number	1 124 064	36 621
Babies' knitted underwear	number	9 349 584	87 968
Men's and boys' vests, including sportswear, of knitted cotton and cotton yarn mixtures	number	142 843	5 922
Men's and boys' vests, including sportswear, of knitted other yarn mixtures	number	7 226 712	124 344
Women's and girls' knitted or crocheted jerseys, pullovers, cardigans, waistcoats of natural fibre and synthetic yarns	number	4 852 459	359 393
Men's and boys' knitted or crocheted jerseys, pullovers, cardigans and similar articles of natural fibre and synthetic yarns	number	8 213 806	256 994
Babies' outer garments (knitted or crocheted) of natural fibres, including booties			261 025
Men's and boys' tracksuits and ski wear of knitted textile fabrics	number	1 248 096	165 565
Women's and girls' tracksuits and ski wear of knitted textile fabrics	number	878 625	91 450
Men's and boys' swimwear of knitted textile fabrics			6 755
Women's and girls' swimwear of knitted textile fabrics	number	207 913	14 944
Other men's and boys' clothing (garments) of man-made fibres yarn or knitted fabrics			5 524
Men's and boys' neckwear, scarves, ties and cravats of knitted textile fabrics	number	376 429	15 883
Other women's and girls' made-up clothing accessories, knitted or crocheted			63 802
Other men's and boys' made-up clothing accessories, knitted or of knitted textile fabric			135 810
Men's and boys' structured lounge suits and jackets, including blazers, of synthetic woven fabrics	number	604 233	170 190
Men's and boys' jackets, including blazers, of woven wool and wool yarn mixture fabrics	number	597 159	349 129
Men's and boys' jeans, of woven cotton and cotton yarn mixture fabrics	number	10 772 121	1 013 543
Men's and boys' coats of woven fabric	number	20 251	1 740

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Table 2 – Manufactured products sold in 2008: Textiles, clothing and leather products and footwear (continued)

Clothing	Unit	Quantity	R'000
Men's and boys' jackets, including blazers, of woven cotton and cotton yarn mixture fabrics	number	84 586	39 851
Men's and boys' trousers, of woven synthetic materials	number	3 959 083	210 360
Men's and boys' trousers of woven cotton and cotton yarn mixture fabrics	number	2 254 355	171 233
Men's and boys' jeans, of woven wool and wool yarn mixture fabrics	number	225 456	23 991
Men's and boys' shorts, of woven synthetic materials	number	707 898	35 903
Men's and boys' shorts, of woven cotton and cotton mixture fabrics	number	726 110	25 222
Men's and boys' uniforms, including military type	number	714 716	164 080
Men's and boys' protective and safety overalls and dust coats	number	4 304 192	440 208
Men's and boys' boiler suits	number	1 011 992	126 221
Men's and boys' raincoats	number	47 170	6 506
Men's and boys' lounge shirts, of woven cotton, cotton mixtures and other woven textile fabrics	number	5 717 377	407 231
Men's and boys' sports, casual wear and other shirts, excluding T-shirts, of woven cotton, cotton mixtures and synthetic textile fabrics	number	3 415 292	133 085
Men's and boys' underwear, underpants (shorts and longs), briefs and pyjamas of woven textile fabrics	number	834 063	109 631
Women's and girls' uniforms of military type	number	8 095	1 215
Women's and girls' coats, capes, cloaks, anoraks and the like of woven textile fabrics	number	8 101	1 294
Women's and girls' nurses' uniforms	number	334 083	49 849
Women's and girls' suits, of woven natural fibres (wool, cotton) and synthetic fabrics	number	1 729 604	254 675
Women's and girls' slack suits of woven textile fabrics	number	16 208	3 403
Women's and girls' slacks and jeans, of woven cotton and cotton yarn mixtures	number	5 492 943	420 507
Women's and girls' jackets, including blazers, of woven synthetic fabrics	number	4 850	1 327
Women's and girls' jackets, including blazers, of woven cotton and cotton yarn mixture fabrics	number	80 319	12 366
Women's and girls' jackets, including blazers, of woven wool and wool yarn mixture fabrics	number	824 373	108 508
Women's and girls' dresses, school dresses and gyms of woven cotton and cotton yarn mixture fabrics	number	2 595 261	298 123
Women's and girls' dresses, of woven synthetic fabrics	number	710 743	102 334
Women's and girls' skirts and divided skirts, of woven synthetic fabrics	number	233 970	15 987
Women's and girls' skirts and divided skirts, of cotton and woven cotton yarn mixtures	number	3 496 484	249 946
Women's and girls' trousers, of woven synthetic fabrics	number	96 151	7 586
Women's and girls' trousers, of woven cotton and cotton yarn mixture fabrics	number	219 772	30 084
Women's and girls' trousers, of woven wool and wool yarn mixture fabrics	number	70 828	7 733
Women's and girls' shorts, of woven cotton and cotton mixtures	number	456 169	13 374
Women's and girls' dresses, of woven wool and wool mixture fabrics	number	105 487	8 149

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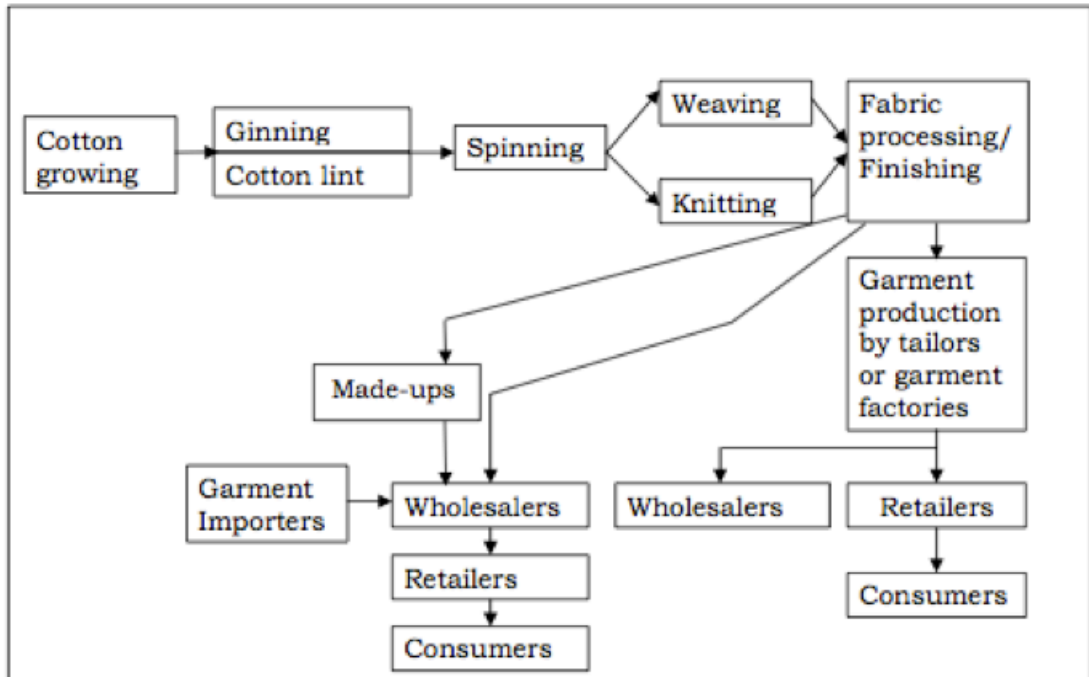
Table 2 – Manufactured products sold in 2008: Textiles, clothing, leather products and footwear (continued)

Clothing	Unit	Quantity	R'000
Other women's and girls' uniforms	number	56 285	14 145
Women's and girls' overalls and dust coats	number	1 993 884	238 309
Women's and girls' blouses and shirts of woven cotton and cotton yarn mixtures, excluding T-shirts	number	7 059 008	315 718
Women's and girls' blouses and shirts of woven synthetic fabrics, excluding T-shirts	number	335 960	22 072
Women's and girls' panties of woven textile fabrics	number	4 405 543	41 956
Women's and girls' nightwear, night dresses of woven textile fabrics	number	847 076	37 117
Women's and girls' nightwear, pyjamas of woven textile fabrics	number	3 319 379	148 462
Women's and girls' nightwear, bathrobes and dressing gowns of woven textile fabrics	number	242 966	12 921
Other infants' clothing of woven fabric, except infants' pitchers and bibs			172 938
Women's and girls' made-up clothing accessories of woven textile fabrics			26 410
Women's and girls' swimwear of woven textile fabrics	number	138 526	9 697
Other men's and boys' clothing (garments) of woven textile fabric			432 056
Women's and girls' clothing (garments) of woven textile fabrics			1 398 550
Men's and boys' track suits and ski suits of woven fabrics	number	84 274	15 062
Men's and boys' swimwear of woven fabrics	number	81 756	3 270
Specialised sportswear, of textile fabrics			64 180
Women's and girls' knitted or woven brassières	number	7 970 214	334 061
Women's and girls' knitted or woven corsets	number	86 353	4 317
Women's and girls' knitted or woven other foundation garments			9 712
Other men's and boys' made-up clothing accessories of woven textile fabric			58 409
Men's and boys' neckwear, scarves of woven fabrics	number	7 987	319
Ties, bow-ties and cravats	number	850 478	42 362
Gloves and mittens, excluding those of leather or plastic	pair	32 912	476
Textile aprons (e.g. domestic or industrial), excluding those of leather or plastic	number	123 102	9 361
Leather products and footwear			
Leather or composition leather jackets, waistcoats and coats	number	326 898	66 567
Specialised sportswear of leather			1 759
Leather or composition leather body belts and bandoliers	number	3 110 239	117 907
Men's and boys', women's and girls' waterproof clothing and raincoats of plastic	number	396 313	35 397
Other wearing apparel of plastic including gloves, aprons (industrial and other), excluding waterproof clothing and raincoats			67 894
Men's and boys' specialised protective and safety clothing (e.g. flame and acid resistant)	number	2 323 354	301 516

Manufacturing industry: Production, Report No. 30-02-04 (2008)

Source: Manufacturing industry: Production 2008, Statistics South Africa, Report no. 30-02-04, Statistician-General Pali Lehohla

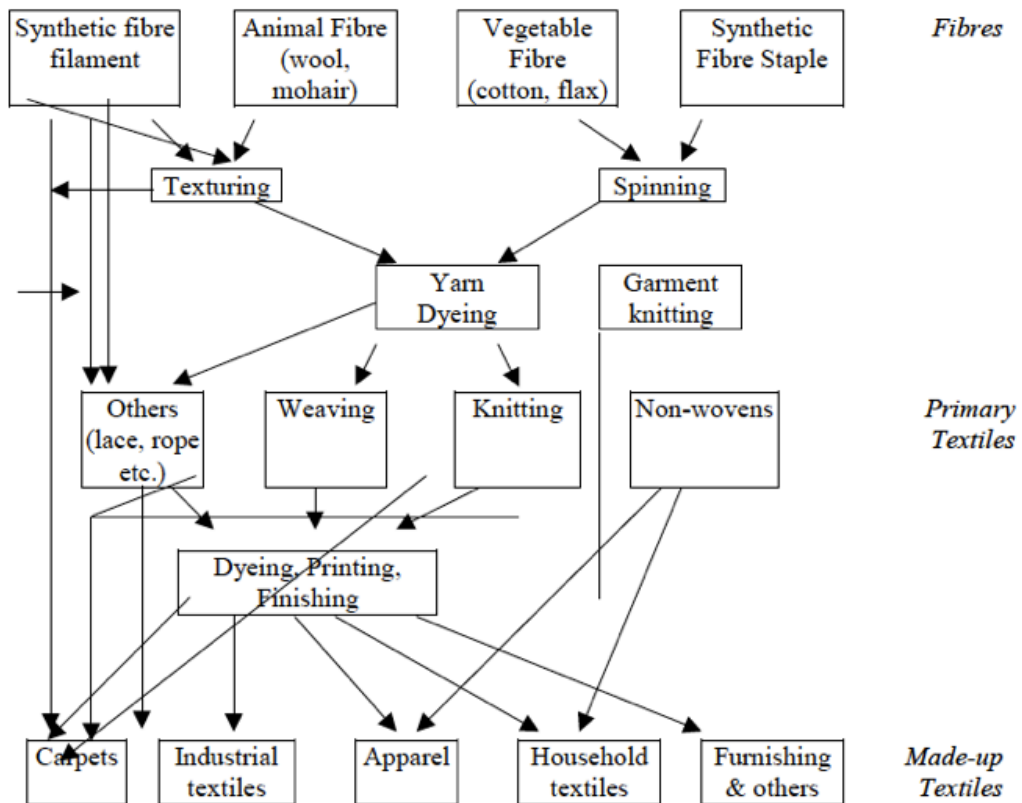
Figure 22 The cotton-to-clothing supply (value) chain



Source: Comesa (2009, p.6) "Regional strategy for cotton – to – clothing value chain"

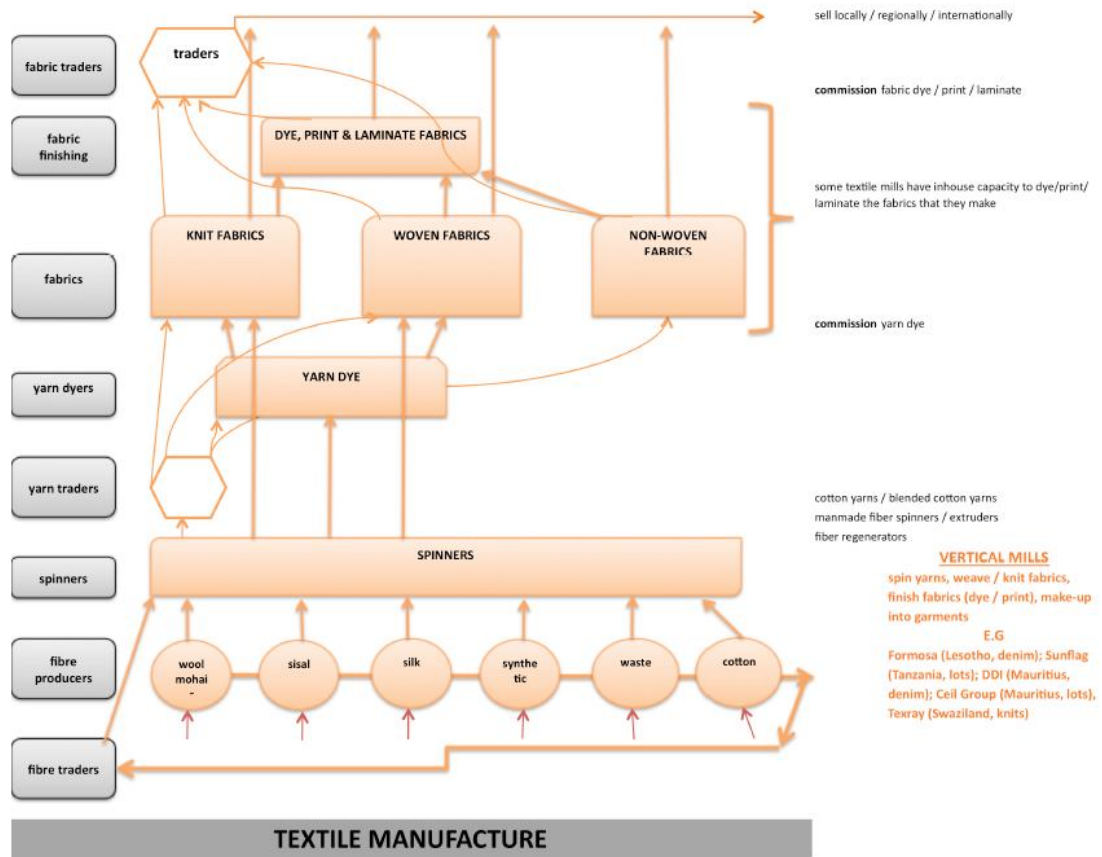
Figure 23 Textile sector structural connections

Figure 1. The vertical structure of textile production



Source: Roberts & Thoburn (2002, p.11)

Figure 24 Textile sector value chain



Source: Bennett, Salm, Greenberg (2011, p.36) "Southern Africa's Cotton, Textiles and Apparel Sector: A Value Chain Analysis"

Table 17 Number of firms operating in textiles and clothing²¹⁷

Sub-sector	Textiles Firms (1996 values)	Total Value Added / Average Value Added (1996 values), R' 000
Spinning, weaving & finishing	141 (of which 95 vegetable fibres)	1 656 679 / 10 971
Other textiles	536 (dominated by 134 blankets, furnishing etc., 165 other textiles)	1 169 373 / 2 126
Knitted & Crocheted Fabrics & Articles	211	588 730 / 2 738
Garment & hosiery knitting mills	173	329 588 / 1 873
Other knitting mills	38	259 142 / 6645
Synthetic Fibres (from chemicals sector)	6	434 601 / 62 086
Sum	1105	
	Clothing Firms (1996 values)	Clothing (June 2004 values)
Western Cape	410	327
Northern Areas	261 (Gauteng)	239
Kwa-Zulu Natal	420	219
Eastern Cape		42
Sum	1098	827

Source: Authors compilations including Roberts & Thoburn (2002, p.9), Barnes (2004, p.5) using National Bargaining Council Statistics.

“The SA clothing industry is concentrated in three provinces: Western Cape, KwaZulu- Natal and Gauteng. According to National Bargaining Council statistics, as of June 2004 there were 827 clothing firms in SA, with 327 located in the Western Cape, 239 in the Northern areas, 219 in KwaZulu-Natal and 42 in the Eastern Cape⁴. Across SA, the sector comprises of a number of well-established large firms, a number of SMMEs, as well as home industries. There is also a large cut-make-and-trim (CMT) industry (mainly in the Western Cape) that ranges from large, well-established firms to small home industries. In addition, many of the smaller enterprises form part of the informal economy. Similarly, there is a diversity of fabrics that are used across the provinces, ranging from natural fabrics to synthetics and synthetic mixes. However, higher value-added fabrics (e.g. wool) tend to be used mainly in the Western Cape. Even though the clothing sector is concentrated in only a few areas, primarily the Western Cape and KwaZulu-Natal, there are some major differences between the industries in these provinces, as outlined in” The table “A comparison of the Western Cape and KwaZulu-Natal clothing sectors” below. Barnes (2004, p.5)

Textile production data from as documented by Roberts & Thoburn (2002, p.9-12) showed there was contraction in spinning and weaving, but ‘other textiles’ (various made-up textile items) grew in 1990s. There was variation in terms of the value added and concentration of sub-categories. The largest sub-category by firm numbers and value added in 1996 was ‘spinning, weaving and finishing of textiles’ (141 firms) dominated by vegetable fibres (95 firms). Close behind in value added with 3 times as many firms (536) followed ‘other textiles’ dominated by ‘other textile articles’ (165 firms) and ‘blankets, furnishings and stuffed articles’ (134 firms). ‘Knitting & crocheted fabrics & articles’ was the third largest grouping by value added and second largest by firm count (211 firms). ‘Garment & hosiery knitting mills’ also represented a large number of firms (173 firms).²¹⁸ Roberts & Thoburn (2002, p.9) also present high concentration levels in animal and synthetic fibres, as well as in finished textile

²¹⁷ One respondent estimated that the total number of factories in South Africa (clothing) was around 1700-1702. Interview nb.14, November 2008)

²¹⁸ Roberts & Thoburn (2002, p.9) note that Statistics South Africa understates concentration by classifying establishments as separate firms even when owned by the same firm or group.

products. Some specific product lines were controlled by a handful of companies. Overall, textiles ownership across vertically integrated firms or groups of firms is also found to be very concentrated.

Retail is also concentrated with 6 retailers, Woolworths, Pepcor, Truworths, Mr Price, Edcon and Foschini dominating the SA market. The influence manifests itself through the pressure to achieve lower prices (Interview 12 November 2008).

“The power of retailers has become an increasingly influential phenomenon as retailers wield substantial control in the clothing and textile industry and the major chains dominate the retail distribution. Large retailing firms exert a great deal of control over prices and sourcing locations, both through the price pressures they can exert on the independent labels they carry and through their growing volume of private-label production (UNCTAD, 2005: 7). Commercial buyers in global apparel value chains are insisting on lower prices, better quality, shorter lead times, smaller minimum quantities and supplier acceptance of as much risk as possible (DTI, 2005: 11). The power yielded by retailers is attributed to (i) changing consumer preferences, and (ii) mergers and acquisitions which have led to greater concentration of retailers in developed countries (DTI, 2005: 11). Customer requirements are changing and placing a greater premium on price, quality, variety, design qualities, fabric performance and conformance to standards than they have previously.” Wolmarans (2011, p.68)

Table 18 A comparison of the Western Cape and KwaZulu-Natal clothing sectors

Western Cape	KwaZulu-Natal
Firms are concentrated in the Cape Town metropolitan	Firms are located in the metropolitan area of Durban and outlying non-metropolitan areas
The industry consists of full-line manufacturers and a large number of CMTs	There is a smaller concentration of CMTs
Firms are subject to a comparatively higher cost structure e.g. wages	Firms are subject to a lower cost structure ³
Firms produce mainly for the higher end of the market	Firms produce mainly for the lower end of the market and wholesalers
Most firms are South African owned	Many firms are foreign owned – Chinese, Taiwanese, Indonesian and Singaporean
Firms focus on domestic markets due to their higher value position and proximity to retail head offices	The industry’s lower cost structure has meant that firms in this region have a greater export focus

Source: Barnes (2004, p.5), “Strategic Assessment of the SA Wearing Apparel Sector”

Table 19 Number of clothing firms by province

Year	Western Cape	KZN	Gauteng	Orange Free State / Northern Cape	Total
1935	30				
1940	40				
1950	104				
1960	166				
1970	253				
1980	332				
1990	433 /448	445	347	8	1248
1994	538				
1995	404	385	268	7	1064
1996	410	420	261	7	1098
1997	379	355	239		980
1998	361	301	226	6	894
1999	350	214	201	5	770
2000	351	186	179	6	722
2001	324	153	171	6	654
2004	327				

Source: Abiola et al (2006, p.2,8), Morris, Barnes, and Esselaar (2004) figures in *italics*

Table 20 Multiple approaches in the literature on South African textiles and clothing

Focus or approach of study	Examples of literature
Joint textiles and clothing industry (overview) studies on South Africa	<ul style="list-style-type: none"> • Salinger et al (1999), Vlok (2006), MATrade (no date accessed in 2011) • AMTS (2008) Texfed and Clofed joint study • Morris & Levy (2010) with a political economy exploration of cooperation in textiles and clothing
Choice of industry or subsector – textiles in South Africa	<ul style="list-style-type: none"> • Roberts & Thoburn (2002, 2003, 2004) on textiles and trade liberalisation • Breitenbach (2007) • Democratic Alliance (2005? accessed 2011)
Choice of industry or subsector – clothing in South Africa	<ul style="list-style-type: none"> • Van der Westhuizen (2006, 2008), Salm (2002), Palmi (2008) with an overview of clothing, Morris (for dti) (2002) • Skinner & Valodia (2002) on labour markets in Kwa-Zulu Natal clothing • Barnes (2004,2005) • Morris (2002) • Godfrey et al (2005) on homeworking in clothing • Hart (2011) clothing in Newcastle (SA) • Morrison & Palmi (2007) clothing in Kwa-Zulu Natal • Natrass & Seekings (2012) on wages • Bennett (2003) on informal labour in clothing • House & Williams (2000) on clothing and employment • Joynt & Webster (2011) on the precariat in inner city Johannesburg clothing
Choice of industry or subsector – geography	<ul style="list-style-type: none"> • Just on Kwa-Zulu Natal: Fakude (2000) on informalisation, Skinner & Valodia (2002) on labour markets in clothing, Ramdass (2007) on an engineering perspective in clothing, Palmi & Morison (2007) firm survey on clothing • Naumann (2002) spatial distribution • Hart (2011) clothing in Newcastle (SA) • Joynt & Webster (2011) on the precariat in inner city Johannesburg clothing
Theme – trade	<ul style="list-style-type: none"> • Woolfrey (2009) on DTI rescue package • Wolmarans (2011), Inggs (2006), and Pursuit (2003) on trade liberalisation and China • Van Eeden (2009), Brink (2006), Sandrey & Fundira (2008), Fundira (2007), Van Eeden & Sandrey (2007), and Sandrey (2006), Clotrade and Retail joint statement (2006) on China import quotas • Roberts & Thoburn (2002, 2003, 2004) on textiles and trade liberalisation • Breitenbach (2007) on the DCCS • Inggs (2006)
Theme – labour	<ul style="list-style-type: none"> • Morris & Reed (2008) on skills gaps • Edwards & Morris (2006) on employment trends • Natrass & Seekings (2012) on job destruction and minimum wages (see also SABC debate between SACTWU and Natrass (2013)) • Fakude (2000) on informalisation in Kwa-Zulu Natal • Baylies & Wright (1993) on female labour in Lesotho • Dugger (2010) on labour legislation • Skinner & Valodia (2002) on labour markets in Kwa-Zulu Natal clothing • Godfrey et al (2005) on homeworking in clothing • Hart (2011) clothing in Newcastle (SA) • Bennett (2003) on informal labour in clothing • House & Williams (2000) on clothing and employment • Velia et al (2006) on trade in used clothing in South Africa • Joynt & Webster (2011) on the precariat in inner city Johannesburg clothing
Theme – production	<ul style="list-style-type: none"> • Morris for the dti (2002), Abiola (2006), Sawkut (2008) in Zeng (2008) • Truett & Truett (2010) economies of scale
Various studies with a focus on competitiveness and globalisation either in South Africa or across the Sub-Saharan African region	<ul style="list-style-type: none"> • Salinger et al (1999), Truett & Truett (2010) on South Africa • Roberts & Thoburn (2002, 2003, 2004) on globalisation in textiles in South Africa • Morris (2006) in Jauch & Traub-Merz (eds), Morris & Barnes/UNIDO (2008) with a value chain approach across Sub-Saharan Africa (including South Africa)

Other country studies on textiles and clothing	<ul style="list-style-type: none"> • Sedowski (2008) and Morris & Sedowski (2008) on Madagascar and the post-MFA developments • Baylies and Wright (1993), Seidman (2009) on Lesotho, • Muradzikwa (2001) on Malawi, Mauritius and Zimbabwe • Action Aid (2005) on textiles in India, Hashim (2004) on Indian textiles cost & productivity (post MFA) • Nadvi & Thoburn (2003) Vietnam • Keane & Te Velde (2008) various country cases including Cambodia), Arnold (2013) also on Cambodia • Shen (2008) on Chinese textiles and clothing • Moskowitz & Gebeke (2007) Eastern Europe • Sawkut (2008) in Zeng (eds) on Mauritius • Jackson (1999) on Ghana, Zimbabwe, Sri Lanka and India • Baylies & Wright (1993) on female labour in Lesotho • Comesa (2009), Bennett et al. (2011) on regional value chains for cotton-clothing alongside a popular research theme producing several studies on specific value chain components, countries, within Sub-Saharan Africa
Other themes (with a focus on either South Africa, Southern Africa, Africa or global)	<ul style="list-style-type: none"> • Morris, Barnes & Morris (2011) energy efficiency in auto and textiles and clothing in SA • Brooks and Simon (2012) on used clothing in Africa, Velia et al (2006) on used clothing in South Africa, and Baden & Barber (2005) on 2nd hand clothing in developing countries • SEDA (2008) on small enterprises in SA
Various studies documenting developments in global textiles and clothing: cutting across themes of trade (MFA, ATC, liberalisation), value chain, upgrading, competition, globalisation	<ul style="list-style-type: none"> • ILO (2005) on the MFA in Africa, Adhikari & Yamamoto (2007) and UNCTAD (2005) on the end of textiles and clothing quotas, Nordås (2004), Lin (2003) also on the end of the Agreement on Textiles and Clothing, ICTFU (2005) and Hyvärinen (no date) on global textiles and clothing trends (post MFA), Kaplinsky & Morris (2006) on the impact of the end of the MFA and role of China on Sub-Saharan African textiles and clothing • Memedovic/UNIDO (2010) on institutions, structural change and trade, Gereffi & Memedovic (2003) on apparel value chain upgrading, Gereffi & Frederick (2010), Fernandez-Stark et al (2011) on global clothing trade and value chains

Table 21 List of key textiles and clothing institutions

Institution
Confederation of Employees in South Africa (COFESA)
Clothing Industry Training Board (CITB)
Clothing Federation (CLOFED)
CLOTRADE
Pursuit (Industry Magazine)
Textile Federation (TEXFED)
National Bargaining Council
Industrial Development Corporation - National development finance (state-owned but self-financed)
Provincial Industrial Promotion Activities: - Eastern Cape Development Council (ECDC), Trade and Investment KwaZulu Natal (TIK), Free State Development Authority (FDC) - "Attract foreign and local investors to locate businesses in that province" (Salm 2002, p.27)
Council for Scientific and Industry Research – (CSIR) - Scientific and Technical research institute. Research and development of new products / technologies and environmental assessments for a fee. Clients include manufacturers, government, and parastatals.
South African Bureau of Standards (SABS) - All industry benchmarking, testing and verification.
Department of Trade and Industry (dti)
Export Council for the Clothing Industry
South African Clothing and Textile Workers Union (SACTWU)
Clothing, Textile, Footwear and Leather – Sector Education and Training Authority

Sources: Salm (2002), Barnes (2005)

Figure 25 Quota restrictions on Chinese clothing imports to South Africa

ITEM	DESCRIPTION	UNIT	2006 *	2007	2008
5208	Woven cotton fabric,>85% cotton,100 or 200g/m ²	Kg	2,635,859	3,004,879	3,425,562
5209	Woven cotton fabric,>20g/m ²	Kg	4,400,371	5,280,445	6,336,535
5210	Woven cotton fabric,85% cotton+manmade fibre >200g/m ²	Kg	457,151	539,438	636,537
5514	Woven fabrics of polyester + cotton >170g /m ²	Kg	1,495,711	1,764,939	2,082,628
6005	Warp knit fabrics	Kg	547,532	635,137	737,759
6006	Other knitted or crocheted fabrics	Kg	2,372,788	2,704,978	3,083,675
6303	Curtains	Kg	4,432,298	4,778,018	5,150,703
6103.4	Men's knitted trousers	No	4,281,423	4,666,751	5,086,759
6104.3	Women's knitted jacket	No	808,896	881,696	961,049
6104.5	Women's knitted skirts	No	3,147,035	3,430,268	3,738,992
6104.6	Women's knitted trousers	No	5,463,905	5,955,657	6,491,666
6105	Men's knitted shirts	No	4,940,906	5,385,587	5,870,290
6106.6	Women's knitted blouses	No	9,011,962	9,823,039	10,707,112
6107.1	Men's knitted underpants	No	9,112,087	9,932,175	10,826,071
6108.2	Women's knitted panties	No	30,384,254	33,118,836	36,099,532
6111	Babies' knitted garments	No	1,557,721	1713,493	1,188,842
6201.9	Men's woven windbreakers	No	1,920,567	2,070,371	2,231,860
6202.1	Women's woven overcoats	No	1,449,691	1,594,660	1,754,126
6202.9	Women's woven windbreakers	No	780,900	874,608	979,561
6203.1	Men's woven suits	No	254,855	295,632	342,934
6203.3	Men's woven jackets	No	2,940,367	3,205,000	3,493,450
6203.4	Men's woven trousers	No	24,759,141	26,690,354	28,772,201
6204.3	Women's woven jackets	No	3,204,244	3,524,668	3,877,135
6204.4	Women's woven dresses	No	1,059,326	1,165,259	1,281,785
6204.5	Women's woven skirts	No	8,304,100	8,951,820	9,650,062
6204.6	Women's woven trousers	No	22,527,103	24,284,217	26,178,386
6205	Men's woven shirts	No	13,716,497	14,950,981	16,296,570
6206	Women's woven blouses	No	10,189,257	11,411,968	12,781,404
6211.3(90)	Men's woven tracksuits	Kg	961,401	1,057,541	1,163,295
	6211.31.90				
	6211.32.90				
	6211.33.90				
	6211.39.90				
6211.4(90)	Women's woven tracksuits	Kg	232,098	259,949	291,143
	6211.41.90				
	6211.43.90				
	6211.49.90				
6212.1	Bras	Kg	667,184	747,246	836,916

Source: Sandrey & Fundira (2008, p.13), Tralac Trade Brief 4/2008

Table 22 Tariff changes in textiles and clothing

Dates	Stage of quota removal	% of products to be brought under WTO	% products quota removal per year under WTO	Average MFN Tariff Rates	Apparel tariff (calculated from collection duties)
1993				<ul style="list-style-type: none"> • Clothing 100% • Textiles 60% • Fabrics 50% • Yarns 35% • Polyester Fibre 25% 	100%
1995	Stage 1: 1 Jan 1995 to 31 Dec 1997 % products to be brought under WTO regulation	16%	6.96%	<ul style="list-style-type: none"> • Clothing 84% • Textiles 52% • Fabrics 42% • Yarns 30% • Polyester Fibre 23% 	90%
1996			6.96%		
1997			6.96%		78%
1998	Stage 2: 1 Jan 1998 to 31 Dec 2001	17%	8.7%	<ul style="list-style-type: none"> • Clothing 66% • Textiles 43% • Fabrics 33% • Yarns 24% • Polyester Fibre 17% 	
1999			8.7%		
2000			8.7%		60% MFN
2001			8.7%		54%
2002	Stage 3: 1 Jan 2002 to 31 Dec 2004	18%	11.05%	End rates <ul style="list-style-type: none"> • Clothing 40% • Textiles 30% • Fabrics 22% • Yarns 15% • Polyester Fibre 7.5% 	47%
2003			11.05%		47%
2004			11.05%		47%
2005	Stage 4: 1 Jan 2005	49%	No quotas left		

Source: Abiola (2006, p.10), Roberts & Thoburn (2002, p.22), Van der Westhuizen (2005, p.5), Salinger (1999, p.33), Naumann (2005,p.5)

Table 23 Grouping of Manufactures Used by DTI

DTI SECTOR CATEGORY GROUPS	
1. AGRICULTURE, FORESTRY AND FISHING	
2. MINING	Coal mining, Gold and uranium ore mining, Other mining
3. NATURAL-RESOURCE BASED MANUFACTURES	Coke and refined petroleum products, Basic chemicals, Other chemicals and man-made fibres, Rubber products, Non-metallic minerals, Basic iron and steel, Basic non-ferrous metals, Paper and paper products
4. DURABLE MANUFACTURES	Plastic products, Glass and glass products, Metal products excluding machinery, Machinery and equipment, Electrical machinery and apparatus, Motor vehicles, parts and accessories, Other transport equipment
5. LABOUR INTENSIVE MANUFACTURES	Food, Tobacco, Textiles, Wearing apparel, Leather and leather products, Footwear, Wood and wood products, Printing, publishing and recorded media, Furniture
6. OTHER MANUFACTURES	Beverages, Television, radio and communication equipment, Professional and scientific equipment, Other manufacturing

Source: material provided during interview 8

Appendix 3: Organisation of findings

Note on the alternative organisation of the factors behind the decline of textiles and clothing

Organising the range of influencing factors and forces behind the textiles and clothing decline in a meaningful manner has presented a challenge for this research. Attempting a synthesis to capture the multiple different factors contributing to the sectors' demise has the advantage of focusing on more than one factor or development at a time. It is also difficult to explore the underlying tensions between interests, and the form of their interaction within the South African political economy, without a sense of the range of factors and the complexity arising from their interaction and variation over time. Initial attempts at organising the combination of insights from interviews and the literature focused on grouping the important factors by scale: sector- or stakeholder level influences, industry-wide challenges, domestic and global influences. A variation of this grouped factors by source of influence: sector/industry-related, policy-related, and external (domestic or global) influences. Whilst each presented advantages in drawing out the detailed nature of the decline with respect to specific factors, the key shortcoming was that they created yet another separation between the causes rather than drawing attention to the linkages and overlap. Though it is not entirely satisfactory, the material was finally organised based on the three key themes from the literature: production, labour, and trade-related factors.

The advantage with this structure was the opportunity to highlight complexity within each key theme arising from the number of different variables or factors, a range of interests and entities involved, as well as look at overlap and interaction between and across the various influences. This structure permitted continuity with the literature by seeking to highlight the complexity and diversity of separate or discrete influences contributing to the decline. Taking this a step further, the findings show a need to move beyond notions of single or isolated factors, and also beyond notions of upgrading or capture of activities within a narrowly defined value chain or competitiveness approach, and extend past the complexities that are associated with changes to the scale and scope of industry activities.

A key challenge and contribution of this research has been to identify alternative groupings of important influences which draws attention to complexity through different sources and targets, allows for the evolution of these influences, and highlights their interaction and combined effects. One of the key aims was to explore explanations and debates for this

disappointing industry performance using a combination of sources. These build on trends displayed earlier, bring together insights from the literature and media debates on South African textiles and clothing, and link these to findings from fieldwork interviews. One of the early categorisations that was attempted for this research grouped the contributing factors and circumstances into three loosely defined and to some extent non-discrete categories as follows:

- factors originating from and specific to the textiles and clothing sectors
- policy issues directly or indirectly affecting textiles and clothing
- influences arising from the domestic economy and from global sources.²¹⁹

The division into sector/structural factors, policy factors, and external factors was an attempt to draw attention to a number of features. Firstly it addressed a gap in the literature in depicting how different influencing factors and circumstances interact and overlap. For example, a policy-induced decline in state investment has affected private investors confidence and the overall lower investment has impacted on the manufacturers ability to make changes to production processes, skills and technology. This has exacerbated existing and emerging production weaknesses such as issues with production volumes or turnaround times, and has made competing in both the domestic market or developing an export market presence more difficult.

Secondly, much of the debate associates a specific agency or source for the different factors but in doing so neglects the multiple underlying pressures and forces that influence these entities, that is, the underlying or root circumstances and causes. For example, policy is typically attributed to the state, conversely, competition from imports or cost/price pressures are attributed to market forces. Yet, policy is influenced by lobbying and pressure from various sectors and interest groups (both connected to or unrelated to any particular industrial activity). Domestic policy is subject to global market and policy pressures (e.g. policy trends and ideology, best practices in other countries, trade agreements or bilateral negotiations) that do not fall under the control of any particular state or policy branch. Similarly, market

²¹⁹ An alternative approach was initially considered. This grouped the factors of influence by scale (sector, domestic, global). This approach was deemed unsuitable as it did not highlight the differences across the textiles and clothing sectors whilst also allowing for instances of joint treatment where similarities between the sector were a dominant feature. This scale-based grouping also failed to highlight the interaction of factors from different sources (e.g. the influence of policy, structural factors, global textiles and clothing influences), or the fact that there was variation in the influence or significance of the different factors over time.

forces are also not excluded from a range of influences. For example, downward price pressure from cheaper imports is typically viewed as a feature of the market, though it can be linked to the sector or industrial policies of other countries just as it can be enhanced or mediated by a number of domestic policies.

Thirdly, and putting aside the above two arguments, this categorisation draws attention to the notion that there are multiple levels for influencing forces to both originate from and to operate in. For example, some of the factors behind the trends are specific to the sectors in that they have emerged from entities or developments relevant to textiles and or clothing (as opposed to broader policy, national economy, global policy or the global economy). Similarly, policy evolution is in part the outcome of pressures from textiles and clothing entities or agents but in part the result of processes independent or separated from the dynamics within textiles and clothing.

Though the complexity and interlinking described here is generally accepted and acknowledged, this is not set out explicitly within the literature and debates on textiles and clothing. The aim of the grouping into policy, sector, external factors is to shift the focus away from single or discrete influences²²⁰, draw attention to the overlap and linking between different forces and their sources, and to highlight the need to understand the role of the underlying / broader context in shaping this evolution. Given the extent of the literature on the various factors affecting textiles and clothing, this discussion has not sought to provide an exhaustive overview of the various sector, policy or external influences (or of the literature on the subject). Instead the aim was to provide a set of examples that challenge some of the popular views behind the trends and raise select notions of complexity, interlinking and gradual, but continuous build-up of various influences within a specific time and political economy space. A variation of this structure using three themes (issues around trade, labour, production) was eventually selected for the presentation of the material. This in part because it allowed a comparison or extension of existing literature that has focused on one sub-topic within these themes as well as a comparison with literature that provides an overview of multiple factors but in a descriptive and unconnected manner.

²²⁰ More specifically, shift the focus away from limiting assumptions about the independence and separation between the sources or the different influences.