Strategies of Avoidance

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Value Chain Reactions in the Durban Clothing Industry

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Here it is!

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ABBREVIATIONS

AGOA – African Growth and Opportunity Act

ANC – African National Congress

ATC – Agreement on Textiles and Clothing

BC – Bargaining Council

BCEA – Basic Conditions of Employment Act

CMT – Cut, Make and Trim

COFESA – Confederation of Employers South Africa

COSATU – Congress of South African Trade Unions

DCCS – Duty Credit Certificate Scheme

DTI – Department of Trade and Industry

ET – Economic Trends Group

FDI – Foreign Direct Investment

GATT – General Agreement on Tariffs and Trade

GEAR – Growth, Employment and Restructuring

ILO – International Labour Organization

IMF – International Monetary Fund

LRA – Labour Relations Act

MERG – Macro-Economic Research Group

MFA – Multi Fibre Agreement

NEDLAC – National Economic Development and Labour Council

NIC – Newly Industrialized Country

NIDL – New International Division of Labour

NCMA – Natal Clothing Manufacturers Association

OECD – Organisation for Economic Co-operation and Development

RDP – Reconstruction and Development Programme

SACP – South African Communist Party

SACTWU – South African Clothing and Textile Workers' Union

SACU – Southern African Customs Union

SADC – Southern African Development Community

SETA – Sector Training Authority

WTO – World Trade Organization

1 INTRODUCTION

Industrialisation is considered as a necessary condition for a country's further development, contributing to economic growth and providing employment opportunities. The clothing industry has generally been regarded as an important first step of industrialisation in developing countries (Applebaum et al. 2005). The low capital investments required in production make it possible for the industry to be transferred to poorer countries. The nature of the industry with its low entry barriers, high labour-intensity and mobility has made it function as an economic springboard, by absorbing surplus labour and attracting foreign direct investments (Jauch & Traub-Mertz 2006). The global dispersion of clothing-related activities can thus be related to the fact that the production process is highly fragmented and can easily be exported at all stages. These factors have also made the industry relatively 'footloose' and able to adjust quickly to changing market conditions (Nordås 2004).

Trade in clothing was long protected through the quota system of the Multi-Fibre Agreement (MFA) in the World Trade Organisation (WTO), first established to protect developed countries from cheap imports. An additional effect of the quota system was that production capacities spread to numerous countries. Several links were added in the value chain of clothing for companies to make use of quotas in different countries. The quota regime thus protected clothing production from the high levels of competition on the global market. This has now changed. After phasing out the MFA over a ten year period, the industry opened up to free trade in 2005.

The spread of capacities in clothing production has certain consequences, namely increased competition. According to Kaplinsky (2001), the competitive pressure will heighten when capabilities increase in an industrial activity. This dynamic is especially apparent in the clothing industry, where the spread of production capabilities has increased the pressure on production costs. When labour cost is one of the variables determining the final cost of production, competitive pressure will hit labour and the local regulative framework. When entry barriers fall in an industrial activity, companies will strive to create new terrains of economic operations to enhance profit and distance themselves from the competitive pressure. The companies caught in activities with low entry barriers will ultimately lose in the process of capital accumulation (Kaplinsky 2001), leading them to apply strategies to avoid labour regulations that hamper competitiveness. The message from the global arena is clear; learn how to compete or exit. This has made manufacturers search for alternative strategies to cope with the new rules of the game (MacCormick & Rogerson 2004).

Academic attention has been centred on the Asian experience of trade liberalisation of the labour-intensive industry - the formation of export-processing zones and deteriorating labour conditions. Another research front has focused on high fashion clusters, product development and innovation in e.g. northern Italy. The African experience has been in the shadow, making it more difficult to grasp the current trends on the continent (Jaunch & Traub-Merz 2006). South Africa is especially interesting in this regard, as it is an African middle-income country. Hence, South African clothing production falls between the dual division seen dominating competitiveness in the global clothing industry:

> *It is neither a high-value-added, fashion-oriented, first-world player competing through the best technologies, highly skilled personnel and specialized market knowledge; nor is it a low-cost, mass-based, developing-country industry competing via scale economies, low-cost labor and aggressive government policies (Morris & Reed 2009:202).*

The question remains; what is South Africa's position in the value chain of clothing?

South African clothing production has provided the country with industrial development and employment in low- and semi-skilled positions. As opposed to other African countries, South Africa was to a certain extent shielded from extensive world trade in clothing until democratisation in 1994. This meant a longer period where clothing manufacturers held the bargaining power in the value chain and could demand a price from retail that could be passed on to the consumers. The rapid liberalisation of the economy in South Africa through membership in the WTO in 1995 and the policies of Growth, Employment and Restructuring (GEAR) from 1996 have altered the conditions for trade and competition (Gibbon 2002).

Production in Asian countries, and especially China, poses a threat to the industry due to lower production costs and a more efficient production (Jaunch & Traub-Merz 2006). The South African market is flooded with cheap imports, which are weighing heavily on the national industry. The previous direction towards the domestic market is now one of the greatest challenges facing the industry, which has not managed to build up a sustainable structure that can compete globally.

With the outlined conditions as a backdrop, the thesis' point of departure is the clothing industry in Durban, the largest city in the eastern region of KwaZulu-Natal. The industry is currently struggling to cope with the changed competitive environment. The Durban context is interesting because of the fragmented industrial structure, the low levels of skills and the traditional focus towards mass-production (Gibbon 2002, Barnes 2005). These conditions are in sharp contrast to e.g. Cape Town which has displayed more advanced behaviour in process innovation, technology advancements and skill improvements (Altman 1996). Hence, Durban faces direct competition with other low-cost areas in the Southern African region and Asia, while pursuing relatively strict labour regulations. The literature reveals that Durban has experienced great losses of employment and has had one of the highest numbers of company closures in the South African industry (Gibbon 2002, Skinner & Valodia 2002, Barnes 2005). Clothing is one of the six most important industries in Durban in terms of total employment and output, making the deteriorating competitiveness amongst manufacturers a burning issue (Morris et al. 2001).

1.1 Research Questions

The purpose of the thesis is to contribute to the literature that reveals an incompatibility between competitiveness and protection of labour in labour-intensive industries. The literature points to tendencies regarding global competition at the manufacturing level, where the spread of capabilities in clothing production has made production costs subject to competition (Munck 2002, Bergene 2010). In combination with neo-liberal policies aiming to break down barriers to free trade, places compete against each other to attract investments in production (Lier 2007). This has made it difficult to sustain strict labour regulations, as the cost of labour will determine the cost of production. This can reinforce the accumulation of power in the retail end of the value chain where companies are able to distance themselves from the competitive pressure at the manufacturing level (Nordås 2004). In the Durban context, through the perspective of manufacturers and related institutions, the tendencies will be explored through the following research question:

- *What are the factors that deteriorate competitiveness of the manufacturers in the industry, and how do these affect their position in the value chain?*

Deteriorating competitiveness will spur local response. The literature reveals that profit is problematic to achieve in the highly competitive area of production, making manufacturers search for new combinations and alternatives to stay in business (Kaplinsky 2001). The competition at the manufacturing level will ultimately hit workers, leading to a further segmentation of the workforce and an increased competition for the low- and semi-skilled positions with unstable working conditions (Beerepoot 2010). The following research questions will explore how manufacturers choose to deal with the altered competitive framework, and how this is affecting the Durban labour force:

- *What strategies are manufacturers in Durban using to stay competitive?*

- *How do these strategies affect employment opportunities in the Durban labour market?*

Some of the concepts applied need further elaboration. I will use the concept of strict labour regulations. This is not a fixed term, but refers to labour regulations that are strict relative to how they influence competitiveness at the manufacturing level. The labour regulations I refer to are the formal regulations established in national law, maintained and developed in the national Bargaining Council for the clothing industry. If the labour regulations demand wages and other labour protective measures that heighten production costs to a level that make manufacturers unable to compete with production costs elsewhere, these regulations are regarded strict. I will only comment on labour regulations regarding how they affect production costs and employment, and not explore working conditions.

I will use the concepts of regulated and unregulated business. Regulated business are those establishments that fall under the jurisdictions of the Bargaining Council (further explained in the background chapter), unregulated business will refer to those that do not. These concepts are also transferred to workers; workers in companies that do not fall under the local labour regulations, and workers in companies that do. I will also describe companies as compliant or non-compliant, which basically have the same meanings as regulated and unregulated business. Compliant companies follow the labour regulations, and non-compliant companies do not. It may be argued that the distinction I use between regulated and unregulated business can relate to the concepts of formal and informal business. In the Durban industry, with the reference being solely to regulation from the Bargaining Council, my dichotomy is more accurate. The thesis wants to illustrate the perspective of manufacturers, justifying the choice of concepts to describe the distinction of regulated/unregulated business and strict labour regulations.

Given the introduction and the research questions presented above, the structure of the remaining thesis is as follows: Chapter two provides the theoretical framework, while chapter three gives a background to and situates the case of Durban in the global clothing industry and the South African context. Chapter four presents and discusses the research methods applied in the thesis. Chapter five and six contain the analysis; firstly analysing constraints to competitiveness in Durban, and secondly the responses to competition. Finally, chapter seven collects the concluding elements of the thesis.

2 THEORETICAL APPROACH

The theoretical framework will firstly outline the dynamics of capitalist production before linking these to the expansion of a global production system through neo-liberal policies and processes of globalisation. Further, theories of industrial value chains will be applied to explain dynamics and governance at the industrial level, while labour segmentation and a global division of labour present theoretical explanations of labour market dynamics.

2.1 The Dynamics of Capitalist Production

Current patterns in global trade are intrinsically connected to the underlying premises of capitalist production. This section will present a theoretical approach to the dynamics of capitalism.

The capitalist system is dependent on two forms of commodities: labour power and the means of production. The means of production signifies everything necessary for labour to produce, e.g. machinery or materials. For capital to accumulate, what is produced and sold for money must generate a surplus value above the inputs in the production process (Lier 2007). Hence, access to ever cheaper inputs and widening markets to find new profitable opportunities is important to uphold the accumulation process. Through the capitalist logic of power, territories must constantly be opened up to capitalist development. This openness does not simply refer to trade, but additionally allow the capital to make use of cheap labour power, raw materials, low-cost land etc. (Harvey 2003). From this logic one can establish that capitalism is an inherently expansionary production system. According to Harvey (1982 in Lier 2007:815), *"geographical expansion provides a strong basis for sustained accumulation"*. The need for expansion is initiated in search for new markets and new ways to make profit, as well as to overcome its own internal crises. Thus, an increased number of places and workers are linked under the same capitalist system of interdependence. These socio-economic processes at a global scale often impose fundamental limitations on local issues. Lier (2007) further goes on to explain how the global expansion of capitalism is inherently uneven in the way it affects places and workers differently, and constructs contradictory and competitive relationships between them. The spread of capitalism as a hegemonic production system, through processes of economic globalisation, has constructed dependency and vulnerability of places to capitalist processes across space. Capitalism continues to create class processes leading to social inequality and conflict.

The capitalist system conceals a range of contradictions, one of them being how crisis both challenge and drive the system. Botwinick (in Moody 1997:45) explains the following: *"the relentless drive to expand capital value is necessary accompanied by a growing struggle over market share. These two dynamics, accumulation and rivalry, are inextricably bound up with one another".* Moody (1997) goes on to explain how the competition referred to above signifies how capitalism is regulated by constant crises. The competition that fuels these crises does so by driving firms to increase investments to improve efficiency and reduce costs. He differentiates between deep and long-lasting crises like the Great Depression of the 30s and the persistent crisis of profitability since World War Two, and other smaller and cyclic like that of business-cycle recessions in 1981-83 and 1990-93. One can further mention the financial crisis of 2008-09. The credit system had smoothed out minor problems in the capitalist system, but additionally worked to accumulate these problems. The core of the crisis was a lack of reinvestment opportunities of the surplus value created in production (Harvey 2010). Crises are in Harvey's (2010:117) words; *"necessary to the evolution of capitalism as money, labour power and capital itself".*

2.1.1 Individual Capitalists under Capitalism

The capitalist system consists of different individual capitalists. These do not necessarily cooperate down the same path towards further capital accumulation, it is in fact the opposite. Individual capitalists are acting from their self-interest under the social relations of capitalist production and exchange. They are forced, through competition, to make technological restructurings that might threaten further accumulation, balanced profits and capitalists as a class (Harvey 1982). According to Marx (in Harvey 1982:202), the relationship between individual capitalists depends on their independent ability to accumulate:

> *So long as things go well, competition effects an operating fraternity of the capitalist class…so that each shares in the common loot in proportion to the size of his respective investment. But as soon as it no longer is a question of sharing profits, but of sharing losses, everyone tries to reduce his own share to a minimum and to shove it off upon another. The class as such must inevitably lose. How much the individual capitalist must bear of the loss…is decided by strength and cunning, and competition then becomes a fight among hostile brothers. The antagonism between each individual capitalist's interests and those of the capitalist class as a whole, then comes to surface…*

As a vast number of competing firms make up the total of capital, conflict is an inherent part of the capitalist system. Lier (2007:818) explains the conflict by stating that individual capitalists have a *"knife-edged movement along a crisis-prone trajectory"*. He further goes on to argue that this fundamental tension between individual capitalists and capital-in-general will lead to different strategies of restructuring in place, e.g. the process of outsourcing, and restructuring across space, e.g. through relocation. Harvey (2010) points out that competition is necessary to keep the permanent expansion of production going, and thus for capitalism's survival.

2.1.2 Labour under Capitalism

To understand how the dynamics of capitalism affects labour and labour markets, understanding the role of labour in the production process is significant. According to Braverman (1974), labour under capitalist production has distinct characteristics: the worker is separated from the means of production and has access to it only when selling labour power to others. The worker is freed from legal constraints - such as slavery – that deny them in having the determining power over their own labour. The purpose of hiring the worker is to enhance the part of capital that belongs to the employer, and the worker enters this deal because the social conditions do not offer any alternatives. After being forced to sell his/her labour power, the worker has to give up any interest in the labour process since he/she is alienated from it. The labour process is, as such, the responsibility of the capitalist. In this process the complete realisation of the bought labour power might be weakened as a result of the contradictory interests of those who determine the purpose of the labour process and the ones who execute it (Braverman 1974). According to Marx (in Harvey 2010), reproduction and expansion of capital depend on a labour pool which has to be *"accessible, socialized, disciplined and of the requisite qualities (i.e. flexible, docile, manipulable and skilled when necessary)"* (Harvey 2010:58). Without these conditions, continuous capital accumulation may be challenged.

2.1.3 Supply and Demand of Labour

The conflict between capital and labour, understood as the balance between wages and profit, is explained by Harvey (1982) through his discussion of Marx' *Capital*. Marx describes the value of a total social product as the sum of constant capital, value of labour power and total surplus value produced. The labourers trade the use value of the commodity they possess, which is labour power, in return for a money wage. The market, according to neoliberal arguments, fixes the value of labour power through supply and demand. What Marx argues (in Harvey 1982) is that capital has a certain power to influence both. Through the logic, capital may affect both supply and demand through restructuring, and thus contribute to the determination of labour's value. On the supply side this could occur through the process of 'primitive accumulation'[1], mobilisation of latent sectors in the labour force, migration, or by producing relative surplus populations. These processes can be made possible through policies of the capitalist state, e.g. population and immigration policies. With a surplus of workers, the value of each worker will be less, and capital can both take advantage of the demand for jobs by workers as well as being able to replace workers if not satisfying capital's needs. Demand-wise, capital can adjust its requirements through reorganisation, restructuring and technological change (Harvey 1982). That way, capital may change the production process and thereby make labour obsolete. This would mean that the value of labour power is in fact affected by capital, and not by the balance of the market. Marx' theoretisation may come across as somewhat conspiratorial in the way he uses capital and labour as fixed concepts and dedicate enormous power on capital's behalf, but in relation to how companies may react to e.g. wage increases, the understanding is still a useful approach.

According to Harvey (1982), capital will only let wages rise if they do not interfere with the accumulation of capital. The reason for bringing labour into the production process is, as mentioned, to enhance the part of value in the capitalist's hands (Braverman 1974). This means that the balance between wages and profit must leave a surplus value on capital's behalf to continue its local operations. If labour has succeeded in a struggle, e.g. through trade unions, wages will raise and profit decrease. When this occurs, accumulation of capital will slow down and ultimately lead to stagnation. Capital will then recess from areas where profit is not created. The recession will have the effect of disciplining labour; reducing wages to re-establish the balance. A rise in unemployment will e.g. have this effect on the labour force. Companies, as individual capitalists, may become more cautious in adjusting their workforce

[1] The concept of primitive accumulation is, according to Marx, the original process where capital found new assets outside itself to confront and circumvent pressures of overaccumulation. The concept is further developed by Harvey (2003) to explain how these processes did not end with the original creation of an 'industrial reserve army', but continue to take place under current capitalism e.g. through the commodification and privatization of land. He then refers to the concept as 'accumulation by dispossession'.

with the effect of reducing labour turnover. Some companies are more committed to less mobile investments. Production capital may support an alliance with labour by compromising on wage rates, as they are depending on local labour markets and restructuring or relocation are unfavourable options. Still, production capital may often not afford to ignore the availability of more profitable locations. High labour protection can thus raise labour costs and thereby reduce job creation. Protection levels must be traded off for either lower wages or higher productivity, or it can lead to lower job creation and possibly lower investment in new technologies (Harvey 1982).

2.2 Responding to the Crisis of Fordism

The regulation school is a useful approach in understanding how production patterns and labour markets have changed as a response to an accumulation crisis in the capitalist system. This section will elaborate on what made these changes possible and the global effects on production and politics.

In 1973, the capitalist system in the developed world entered a state of crisis: Stagflation, rising unemployment and spiralling oil prices led to a phase of deep restructuring. The crisis showed that the form of capitalist production dominating the post-war period was unsustainable (Tickell & Peck 1992). The internal and external crisis provoked significant changes. The outcomes of the crisis cannot be seen as homogeneous globally, but it created interrelated and coexisting labour regimes with different forms of labour organisation and control (Lipietz 1997).

Harvey (2006) states that the social pact between capital and labour in the majority of Western countries in the 50s and 60s, resulted in high growth. The policies in most advanced capitalist societies included redistributive politics, control over free mobility of capital, public expenditure and welfare state building, which coincided with high rates of capital accumulation and profitability. This was known as Fordism, which Lipietz (1997) analyses in three ways: First, as a principle of organizing labour where administration and the production process were held strictly separated (also known as Taylorism). The management controlled organisation, while production was divided into concrete tasks for the workers. Secondly, Fordism comprised a macroeconomic structure where gains from the organisational principles would derive from an increase in financial investments from profits, and from the increased purchasing power of wage labourers. The third was a mode of regulation, where Fordism had rigid controls over employment, and wages increased proportionally to prices and productivity. Supplements from the welfare state gave a permanent income for waged labour (Lipietz 1997). This combination of a regime of accumulation and a mode of social regulation has been referred to as the social compromise between capital and labour (Munck 2002). The growth in productivity led to a significant rise in real wages, which then resulted in the formation of mass markets for consumer goods (Tickell & Peck 1992). According to Lipietz (1997), the demand-side was based on salaries inside each country. The external constraints were limited because of a correspondence of growth between different countries and the limited importance of international trade relative to the growth in domestic markets. Monopoly conditions in the productive sphere allowed firms to maintain prices irrespective of demand (Tickell & Peck 1992). As pointed out above, competition is necessary for capitalism's survival. Hence monopolisation and centralisation of capital can provoke internal crises (Harvey 2010), which ultimately happened under Fordism.

The system began to break down by the end of the 1960s, both internationally and within domestic economies. On the demand-side, competitiveness started levelling out between the leading economies in USA, Europe and Japan, and the search for economies of scale led to an internationalisation of production processes and markets between developed countries. When prices on imports of primary commodities increased in the start of the 70s, competition intensified. Subcontracting of production to either non-Fordist countries, 'the socialist bloc' or Newly Industrialised Countries (NICs) was used as a way to overcome national rigid labour regulations. Because of the need to balance external trade, the rigidity of national wage policy had to be compromised (Lipietz 1997).

When profitability decreased in the 1970s, this was due to a fall in productivity, growth of total labour costs, a worsening of the capital-product ratio, and increasing commodity prices. The problems were identified as supply side related, and focus turned to the capital-labour relationship. According to Lipietz (1997), profit was low because of limitations from a strong labour force, a result of the inflexible rules of the game. The system that had regulated international economic relations had dissolved and politics of liberal flexibility were established in many of the leading economies, followed by most countries in the Organisation for Economic Co-operation and Development (OECD). The social compromise had collapsed as a way to combine capital accumulation and social democratic politics. With the internationalisation of production and growth in the export sector, wages were no longer seen as a contributor to consumption, but a heave on economic competitiveness (Tickell & Peck 1992). The move away from the social compromise:

> *...attained different degrees and was drawn on different fronts: from the rules governing wage rises to the breadth and depth of social security, from the liberalisation of employment laws to the proliferation of insecure jobs (Lipietz 1997:4).*

Socialist and communist states sought a deepening of state control and a restrictive regulation of the economy. The right-wing answer, and also the answer to threats against the capitalist social order, was neo-liberalism. With British and American policies in front, the welfare state was abandoned for monetarist supply-side solutions. It reformed fiscal and social policies in a search for higher flexibility within the economy. The policies included a rolling back of the welfare state and privatising of public enterprises to provide a favourable business climate for foreign investments. These political changes meant a relocation of power over capital accumulation to owners and their financial institutions (Harvey 2006).

Externally, neo-liberal states seek to reduce the barriers to movement of capital across borders and to open markets to global forces of capital accumulation. The powers of international competition and the ideology of globalisation were used to discipline internal opposition while new areas for capitalist activity were opening abroad. With the creation of new international institutional arrangements like the WTO, the International Monetary Fund (IMF) and the World Bank, large corporate capitalist interests could cooperate with government power in policy making (Harvey 2006). It is important to point out that neo-liberal policies were not established throughout the world instantly; many European and Asian states resisted neo-liberal reforms and held on to the old social democratic policies. Harvey (2006) explains how it was still possible for the neo-liberal project to be implemented on the world stage: Firstly with the financialisation that begun in the 1970s and escalated through the 1990s, where foreign direct investments and portfolio investments rose throughout the capitalist world; and secondly, structural adjustment programs from the IMF in the developing world combined with American preferential trade agreements spread neo-liberal policies. This began to put competitive pressure on the more rigid systems in Europe and Japan. It has been argued (Munck 2002, Bergene 2010) that the mobility of capital created a competition between social systems. National policies were now formed to attract business through deregulation, to provide an environment in which capital could operate. The use of national bargaining to take wages out of competition faded as a result of the increased mobility of capital. The economic integration of global capitalism thus forced companies to compete on labour costs. Parts of production shifted to low-cost areas, with enterprises keeping marketing and management in developed countries. The strategies of outsourcing and subcontracting spread to maximise flexibility, with major corporations holding the power (Taylor & Bryson 2010).

The policies of neo-liberal flexibility and global competition have marked the domain of production. Munck (2002) highlights that what seems to be emerging in many parts of the world is similar to old production modes, but without the social institutions and the social compromise that gave stability in the post-war period. Neo-liberalism is seen to have undermined the social compromise between labour and capital.

2.2.1 Neo-Liberalism and Globalisation

The expansion of functional integration of trade operations between states has become known as globalisation. This concept is one of the most used, misused and confused of current terms (Dicken 2003). As outlined by Alvstam and Schamp (2005:xxiii), globalisation seems *"to work at all times and in all places, to penetrate all spheres of economic life and to determine both the worlds of practice and scientific discourses".* This comprehension, among many, is neutralizing the processes of globalisation when presenting it as unavoidable. Different agents, e.g. states or international organisations, are portrayed as powerless in affecting or adjusting the outcome. The concept of globalisation has become so exhausted that it has lost any comprehensible meaning, and the politics and practise that govern the outcome are hidden. As we have seen, it is more useful to connect the processes of globalisation to capital's search for new markets and the spread of neo-liberal policies. Where others explain globalisation as a force of history, Van der Westhuizen (2009) argues that it is the result of political and policy decisions made by powerful elites to advance and defend their interests. She sees the ideology of neo-liberalism as central, as it pursues a world where the market reigns over society. Globalisation, in her view, is exploiting the relative weakness of countries, where international regulations are forced upon nations that remove state protection for industries and populations, and replace it with vulnerability.

The definition of globalisation as a *"closer integration of the countries of the world as a result of the lowering of transportation and communication costs, and the removal of artificial, man-made barriers"* (Stiglitz 2003 in Van der Westhuizen 2009:618) is misleading as it directs focus towards the technical aspects of globalisation and hides the ideological. Her proposed definition would be the following:

> *Neo-liberal globalisation is the increasing interconnectedness between states, through the accelerated movement of goods, services, capital and, to a significantly lesser extent, labour across national borders – a process enabled by political decisions to deregulate capital and liberalise trade, and by related advances in technological capabilities. Therefore, these 'intensified processes of spatial interconnection' are associated with capitalist restructuring and are 'deeply infused' with the exercise of power (Hart 2000 in Van der Westhuizen 2009:618).*

Neo-liberal globalisation has also been made possible through the power it is trying to subjugate; the state. In contrast to governments claiming their powerlessness against the 'forces of globalisation', the state's reduced role is actually pursued through its own political design (Van der Westhuizen 2009).

Local economic strategies can be seen in the light of global neo-liberal trends of deregulation and flexibilisation. Because of the mobility of capitalist interest, they can take advantage of labour by enhancing regime competition and pit places and workers against each other. When this results in a restraint on wage levels and labour legislation, capital has succeeded in regaining control over labour. It is argued that the mobility of capital is in fact exaggerated, but built up through the political success of capitalism. By depoliticising global competition and labour market dynamics through neo-liberal policies, and portraying this as an inevitable and natural process, capitalism has succeeded (Lier 2007). The spread of neo-liberal policies can be seen as a way to oppress the power of labour and simultaneously free the laws of competition to secure continued capitalist accumulation (Harvey 2010).

The concept of globalisation has also been seen as a process of subordinating place to space in the way that capital has overcome the pressure and challenge of local labour needs. Jonas (1996) argue that this is not the case, but that globalisation must be seen as localizing struggles around capital's needs for labour control. This will in turn lead to an unevenness of labour market conditions. Thus, the mobility of capital threatens local institutions of labour market regulation, and has lead to various approaches locally. According to Moody (1997), the power relations of the capitalist world are crucial when discussing the concept of globalisation:

> *While there are powerful international market forces, world-wide corporate operators, and production systems that stretch across borders, there is no seamless global market, no corporation operating with the same weight everywhere, no production system that*

spans the entire world. What is global is capitalism as an economic system (Moody 1997:66).

He denies the existence of free trade and perfect competition, but that the phenomena are portrayed as such through neo-liberal policies and the rhetoric of globalisation. Hence, power relations should be seen as a key factor when examining global trade.

2.3 The Power Relations within Value Chains

So how can one connect the more overarching dynamics of global, capitalist trade and competition to specific industries? Who dominates an industry when the different stages behind consumer goods are dispersed throughout the world? The following theoretical approach will aim at linking the theories of capitalist dynamics and expansion with the industrial level through the concept of value chains.

In discussing trade and production, certain classifications have been developed as to explain the links between design, production, marketing, distribution and sale in global trade. The value chain analysis firstly became widely used in the 1990s, especially through the workings of Michael Porter (1985, 1990) and Womack and Jones (1996). The concept of value chains was further developed by Gereffi (1994, 1999), relating it to developing countries and building on an analysis of world systems (Kaplinsky 2001).

The terminology differs between researchers in explaining very similar ideas; global commodity chains, value chains, value systems, production networks and value networks. At the Bellagio-conference in 2001 on value chains, 14 researchers came together, discussing the work on value chains in explaining global trading networks (Gereffi et al. 2001). They found that out of the different terms, the value chain perspective was the most effective in explaining the various forms a functional integration between internationally dispersed activities may take. More importantly, it problematises the question of governance – on how value chains are organised and managed. The concept allows for thinking about firms that only perform certain value chain operations, such as design or marketing, and therefore makes it possible to analyse questions on how power, governance and the dynamics of chains occur. The value chain analysis:

...highlight the relative value of those activities that are required to bring a product or service from conception through the different phases of production (involving a

> *combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use* (Gereffi et al. 2001:3).

Governance can be defined as *"non-market coordination of economic activity"* (Gereffi et al. 2001:4), and involves the ability of one firm in the chain to influence, control or decide activities of other firms in the chain. Kaplinsky and Morris (2001) argue that the value chain perspective brings important issues to the debate on globalisation by highlighting how producers participate in global trade. By addressing the nature and determinants of competitiveness, it can clarify the position of individual and groups of firms. Simultaneously, it helps identify the activities that will deliver increasing profits and those that will not.

Gereffi's (1999) concept of global commodity chains was developed earlier, but is based on the same understanding. It leaves a good basis for identifying power distribution and pressure in global trade. He distinguishes between producer-driven and buyer-driven commodity chains. They will further be referred to as value chains. Producer-driven value chains are found mainly in industries where large manufacturers, often transnational, play the central role in coordinating the value chain. Examples could be capital- and technology intensive industries like automobiles, computers or heavy machinery. Because of the capital-intensity, the barriers to entry are higher for new firms, and the lead firms in these chains usually belong to global oligopolies. There are often multiple companies involved in production, parents, subsidiaries and subcontractors, leaving the producer-driven chain relatively fragmented (Gereffi 1999).

The buyer-driven value chain, on the other hand, refers to industries where retailers, marketing companies and branded manufacturers are the lead companies, structuring decentralised production networks in several exporting countries. This is common in labour-intensive industries, such as clothing. Lead companies in the industry make the specifications. They design and/or market the products, but do not make them, and profits in these industries derive from high-value research, design, sale, marketing and financial services. The retailers have gone from being the main customer of clothing manufacturers to become their competitors, through an increased use of imports (Gereffi 1999).

The distinction between producer-driven and buyer-driven value chains has been criticised for not being able to deal sufficiently with value chains that are lacking strong control by a lead firm or sufficiently explain the difference between the two types of governance structures (Gereffi et al. 2001).

Gibbon (2001 in Scott 2006) and Sverrison (2004 in Scott 2006) argue for the need to expand the framework with a trader-driven chain. This is to explain the enhanced importance of traders, brokers, export-agents and other middlemen in linking producers and buyers. These new important roles are to be found in both more advanced and less advanced economies in the world. The intermediaries operate from local to global scales, and make it economically viable also for small firms to make use of subcontracting services or imports from offshore production (Scott 2006). Gereffi et al. (2001) argue that many lead firms have changed their focus to product development and marketing, while outsourcing the production and production related activities to suppliers.

A process of 'triangle manufacturing' can describe the flexible production patterns in the clothing industry. Gereffi (1994, 1995, 1996 in Hassler 2003) argues that clothing companies from first generation NICs increasingly have taken over the role as middlemen between buyers of advanced economies and producers of East and Southeast Asian developing countries. The triangle relates to theories of core and periphery where the buyer originates from the core, the middleman/agent is of a semi-peripheral node and the clothing producer originates from a developing country (Hassler 2003).

Hassler (2003) argues that earlier theoretisation of global value chains have largely been emphasising a homogenous, sectored pattern of clothing production without highlighting the similarities/differences among global competitors of different institutional and societal contexts. He focuses on how e.g. brand ownership, as one of the critical factors in controlling the clothing commodity chain, can also lay with the manufacturer and therefore bring about a higher bargaining power on their behalf. Manufacturers basing their company solely on production are not seen to obtain higher bargaining power in the value chain. Kalantaridis et al. (2008) argue that successful restructuring strategies are likely to move away from actual production, and towards branding and consolidation at the retail end of the value chain. The aim is to avoid having to compete on price.

The theory of value chains must not be confused with the assumption that places are becoming less significant. It is in fact the opposite. Hudson (2001 in Lier 2007:816) argues that since capitalist production is increasingly being relocated; *"where production occurs is becoming more, rather that less significant".*

2.4 Labour and Labour Markets

To conceptualise a labour market, one can use the definition of Loveridge and Mok (1979:27): *"those mechanisms and institutions through which the purchase and sale of labour power are arranged".* Marxist and classical theory link these mechanisms to the system of power and domination in society, as opposed to neo-classical approaches that see labour market theories without reference to the societal context. Thus, the first approach will be the most relevant in this thesis. The mechanisms that influence supply and demand of labour, outlined above, are crucial.

Tickell and Peck (1992:196) argue that in response to the so-called rigidity in production and a reduction of the power of trade unions throughout the world, firms have adopted three kinds of flexible labour practices:

> *First, traditional collectivist pay bargaining structures have been diffused, gradually being replaced by individual negotiations. Secondly, labour is increasingly deployed in a range of activities across the shop floor, which stands in sharp juxtaposition to the rigid job demarcation spawned by Fordism and the Taylorist division of labour. Thirdly, firms are relying upon external adjustments to their labour forces in response to changes in demand. Typical strategies include the greater use of part-time staff whose hours can be adjusted in line with demand, a growing tendency to hire and fire staff as firm's order book requires and increased use of subcontracting.*

They argue further that these developments have led to an increased segmentation of labour and a weakening of the power of labour to resist capital. As a new type of economic geography is appearing with the post-Fordist regimes, one can observe both the emergence of new industrial spaces as well as a deepening of the global social and spatial division of labour.

Competition in manufacturing and an increased use of imports may hamper the demand for unskilled labour in manufacturing. Nattrass (1998) argues that when this occurs, economic theory predicts it will result in a decline in real wage and unskilled manufacturing employment will fall. If labour market regulation provides a wage floor, the decline in employment will be even sharper. Where trade liberalisation results in increased competition from low-wage countries, firms in these product lines will have trouble finding room to adjust. In the absence of minimum wages, the response might be to lower product prices by reducing labour costs through wage cuts. Where minimum wages prevent this, firms have no other option than to increase productivity or simply to cut employment (Nattrass 1998).

2.4.1 Segmentation of Labour

According to Braverman (1974), a systematic division of labour is one of the main characteristics of capitalist production. Different workers are designated to limited operations based on productive skills. Work went from having one social division in primitive societies to a new industrial divide. Here, the construction of a product is divided into multiple operations executed by different workers. Braverman (1974) argues that the detailed division of labour destroys positions. The result is a situation where one worker cannot complete the entire production process. Capitalism damages the craft of a process controlled by labour and reassembles it as a process under its own control. This way, capitalism gains in two ways; higher productivity and tighter administrative control (Braverman 1974). It also results in workers being more dependent on capitalists. Braverman (1974) argues further that the division of the labour process makes production cheaper for the one who controls the process as it can fetch the exact quantity of what is demanded at each stage of production. If the whole process was to be executed by one single worker, he would have to inhabit adequate skills and knowledge to do the most advanced parts of the work and enough strength to do the heavy parts of the work. The capitalist production mode is thus destroying all-round skills where it exists, and constructs skills and positions that correspond to capital's needs. A distribution of knowledge around the production process to the participants is therefore not only unnecessary, but also a potential barrier to the functionality of capitalist production. Harvey (1982) argues that because of the distinct characteristics of capitalist production, freedom of the wage labourer is converted into the exact opposite. When wage labour is the only option, the labourer is forced to follow capital, and the freedom of labour is reduced to the freedom of capital.

Traditional labour market segmentation theory tries to understand and conceptualise how workers and jobs are not distributed evenly in a universal market. Labour systems vary over time, between industries and places, and this variability of labour systems is one of the principles that define segmentation theory (Beerepoot 2010). The jobs in a labour market have different criteria for hiring, working conditions, wage levels and career prospects, which is reflected in the different groups filling the positions. Authors have tried to make comprehensive concepts to understand labour market segments. Doeringer and Piore (1971 in Beerepoot 2010) differentiate between a primary and a secondary segment of workers. The primary segment has well-paid jobs with career prospects and the secondary describes workers with temporary, insecure and badly paid jobs. Carnoy (1980 in Beerepoot 2010) has a different approach, with a high-educated segment, a unionized segment and a competitive segment in labour markets. The competitive segment reflects the secondary segment, where a large pool of poorly educated workers is competing for the unstable and badly paid jobs. The unionized segment has jobs where unions have secured structures that regulate employment and restrict competition from other workers. A cohesive aspect of segmentation theory is the need for labour to be flexible and therefore it is necessary that the core of stable and secure employment is balanced by a secondary pool of workers (Beerepoot 2010).

To include the global aspect of labour segmentation, one would need an expansion of the theory. Traditional segmentation theories were also developed at a time when unions had a greater bargaining power throughout the world than they do today (Beerepoot 2010). A global perspective must complement segmentation theory as to provide a better understanding of the world's current division of labour. Friedman (2006 in Beerepoot 2010) argues that worker's vulnerability to international outsourcing is an important classifying aspect. In his view, only a small part of the global workforce can secure long-term employment and refuse to be a part of the enhanced competition enforced by globalisation. The majority would need a large and constant re-investment in skills and knowledge to be able to secure employment in global competition.

2.4.2 A Global Division of Labour

As a way to lower the total cost of production, it is well known that certain industries are using strategies of subcontracting and off shoring of production (Fröbel et al. 1980). This has impacted the composition of labour markets locally and globally.

The global dimension of labour division has become an increasingly important characteristic of capitalist production. Taylor and Bryson (2010) discuss new patterns of industrial production and employ the New International Division of Labour (NIDL) as an explanation for an enhanced relocation of production to low-cost areas. They understand this as an inevitable development when the major corporations are increasingly stateless and can produce their services where they gain the most profit. The concept of NIDL was first developed by Fröbel et al. (1980), and refers to a change from the colonial division of labour where production of raw materials in the developing world supported industrialisation in the developed world. The changes were made possible as de-colonisation changed traditional social economic structures, leading to a large pool of cheap labour supply in developing countries. A fragmentation of the industrial production process allowed the unskilled tasks to be relocated, facilitated by developments in transportation and communication technology. This resulted in high rates of unemployment and displaced workers in developed countries. Fröbel et al. (1980) saw industrialisation in the developing world as highly dependent on foreign companies, extremely fragmented and mainly oriented towards the world market. One of the driving forces was the new ability of firms to separate labour-intensive from capital-intensive processes in sectors like textile and clothing. The consequence was that firms were able to relocate labour-intensive production to locations characterized by low wages and a sufficient and qualified supply of labour. This resulted in a massive exploitation of the workforce in the developing world, without particular improvements of the social conditions for the population.

The NIDL-view has been subject to criticism for neglecting agency of the states in developing countries, underestimating the levels of industrialisation already present in developing countries, and assuming that labour has the same mobility as capital. The NIDL-view use globalisation as an umbrella-concept, which covers and contains a multitude of contradictory and unstructured events, and does not focus on other determining powers (Alvstam & Schamp 2005). It was also unable to capture the different industrialisation strategies in developing countries, with import substitution on the one hand in e.g. Latin America and the rise of NICs with export promotion on the other (Munck 2002). Additionally, they have been criticized for assuming that the only way firms can increase their profitability and competitiveness is to relocate production to low-cost areas. This would vary between industries and companies, and it is within branches where it is difficult to automate and mechanize production that relocation is seen as a profitable option (Knutsen 1998).

Harvey (2006) argue that small geographical differences have gained importance rather than been eroded through trade liberalisation and global competition. As outlined above, the laws of capitalism make capitalists relocate production to more advantageous sites and diverse requirements of different forms of commodity production lead capitalists into territorial specialisation. Obvious regional specialisations in production due to different resources, differences in infrastructure and built facilities have decisive effects. According to Nattrass (1998), labour costs are increasingly important in determining competitive advantage in labour-intensive industries, as capital moves ever so freely. Firms in developing countries whose wages are not proportional with productivity, will increasingly be out-competed by other low-cost countries. He sees that labour-intensive sectors migrate to low cost areas and high productivity sectors with high wages are established in developed countries.

Lipietz (1997) makes note of the fact that competition between the NICs in Asia and Latin America seems capable of imposing one single mode of production regime on the whole world: continually lowering wages and even more flexible labour contracts. He argues that countries holding on to the classic Fordist wage relation (labour protection in combination with the specialisation of tasks) will gradually be outcompeted from both above and below. He further sketches out two separate types of labour markets which could operate within the same society: either external rigidity of the labour contract including negotiated involvement by producers, or external flexibility with direct hierarchical control. The latter resembles a Taylorist organisation of working practice, but without the social benefits of Fordism. The first will struggle as a result of the rigidity and high costs in routine sectors, and the more flexible one will struggle in the sectors requiring the greatest skill. The consequences of the outlined labour markets are the following:

> *Corollary 1: Those countries practising negotiated employment will attract industries with the highest added value (per worker) and those with the greatest skill content.*
> *Corollary 2: Among these countries, the most competitive will be those where involvement is negotiated at the lowest level.*
> *Corollary 3: There are still countries which are too fordist (too rigid for such an overly weak involvement) or with too low a skill level despite extremely low labour costs. In such countries exclusion develops, which is to say that the labour supply is of no interest to capital (Lipietz 1997:17).*

This shows that in the more skilled sectors one will find the highest salaries, the highest qualifications, the greatest internal flexibility, the greatest capacity to introduce new processes and to design and test new products. These sectors will be based in those parts of the world acting as the centre. In the more routine based sectors, competitiveness can only be maintained through more extreme flexibility and lower wages (Lipietz 1997).

2.5 Summary

The theoretical approach started with introducing the dynamics of capitalist production: Explaining how the system is inherently expansionary, and driven and challenged through competition and crises. Labour under capitalism is separated from the means of production and sell his/her labour power through waged work under capitalists' management. To be of interest for capital investments labour costs cannot inhibit the accumulation process, which can result in a recession of capital from the specific area.

After a period of Fordist production in the post-war period, the system began breaking down due to a fall in productivity, increasing labour costs and higher commodity prices. The relations in production were regarded as inflexible, which hampered profit. Subcontracting and outsourcing increased as strategies to lower production costs, and wage rates were left to the market through the implementation of neo-liberal policies at the world stage. The concept of globalisation has been used to explain the functional integration of trade across borders, but the literature reveals how the concept cannot be seen separately from the expansion of neo-liberal policies.

The concept of industrial value chains allows for useful thinking about governance in industries in global trade, highlighting bargaining power and identifying which activities that will deliver increasing profits and which that will not. One can differentiate between producer-driven, buyer-driven and trader-driven value chains.

The changing production patterns have affected labour market segmentation. As production costs have been subjected to competition, so will the cost of labour. Segmentation theory uses different terminology to distinguish between a core and a peripheral segment of workers, where the latter is competing for insecure and badly paid jobs to balance the stable and secure jobs in the core. Segmentation theory has been expanded by theories of a global division of labour to include the global aspect in production. The NIDL-view has been developed to explain the displacement of work in manufacturing from the developed to the developing world, in a search for lower production costs. Labour costs are increasingly important in determining competitiveness in labour-intensive industries.

3 BACKGROUND

This chapter will provide background information for the South African context and the clothing industry in Durban. As the industry can not be seen isolated from the global clothing industry, the chapter will start with a brief introduction to the developments in the clothing industry globally, before attention is directed towards the South African transition and the industry in Durban.

3.1 Developments in the Clothing Industry

The clothing industry is labour-intensive at the production level, and offers jobs for low- and semi-skilled workers at an entry level. Simultaneously, the technology level is low, and relatively modern technology (from a clothing industry perspective) can be adopted at low investment costs. This means that the industry has the potential of being an important job creator and is transferrable to less developed countries. As mentioned, the industry can be described as relatively 'footloose', and can adjust quickly to changing market conditions. Important competitive factors in the clothing industry are design, marketing, research and commodity development (Nordås 2004), which makes it apparent that retail is increasingly controlling operations in the value chain. Nordås (2004) argues that this trend first started with the establishment of shopping malls in the United States in the 70s. The chain store Wal-Mart demanded that their suppliers had:

> *Information technologies for exchange of sales data, adopted standards for product labelling and methods of material handling. This ensured quick replenishment of apparel, which in turn allowed the retailer to offer a broad variety of fashion clothes without holding a large inventory (Nordås 2004:1).*

While this strategy spread across the world, the competitive advantage of suppliers shifted from being just costs to be a combination of cost, lead-time and flexibility. This has again given an advantage to suppliers close to major markets. Not only does retail have the power in the consumer markets, but they have additionally increased buying power. Many retailers have developed their own brands and can source directly from foreign or local suppliers.

The global clothing industry has gone through dramatic changes in the last decades. The shift in sourcing strategies of clothing companies, and especially retail, has in many areas led to a deep restructuring. Firstly, Western countries felt the pressure on production costs to chase low-costs production through relocation. To prevent this from eliminating clothing industries in the Western world, the MFA was established to protect clothing from free trade (see below). Through the phase out, one has been experiencing a second phase of restructuring where especially Asian countries, led by China, are increasingly expanding in the global market for clothing (Nordås 2004). This is forcing competitive pressure on clothing manufacturers throughout the world in a struggle to remain competitive in the value chain, and to secure employment in the labour-intensive sector.

Trade in clothing is long established, but it is the increased global interdependence in the last decades that links the industry to theories of global expansion of production. Three main factors can be used to explain the global integration of the clothing industry. First, it has been facilitated by advances in transportation and information technologies, in combination with the spread of neo-liberal policy and trade liberalisation. Secondly, the sector's low entry barriers regarding capital and skills, and the high labour-intensity, made a relocation of production easier compared to other global industries. Finally, it has been affected by the rise of retailers, branders and marketers as global buyers (Kalantaridis et al. 2008). The global dispersion of the industry can thus relate to the fact that the production process is highly fragmented and can easily be exported at all stages of the process. Scott (2006) states that even low-wage countries are starting to see that their production expands in even poorer countries. Especially the intensified production and exports from China seem to lead to negative effects on employment in less developed countries. He continues to argue how a further liberalisation of world trade will intensify competition between low-wage countries.

3.1.1 The Multi-Fibre Agreement

Global trade in clothing and textiles has been heavily protected for more than 40 years with the MFA under General Agreement on Tariffs and Trade (GATT) and later WTO. The protection regime ended in January 2005 (Nordås 2004). The MFA was supposed to be a temporary agreement for an orderly opening of restricted markets, as to avoid market disruptions. The agreement had defined quotas for the quantity possible for exports to the global market from each country. This was initiated by the developed world, especially United States and European Union, in fear of loosing production to low-cost areas in the developing world (Jauch & Traub-Merz 2006). The MFA hampered the possibilities of monopoly in clothing exports, and resulted in numerous developing countries establishing and enhancing their capacity in clothing manufacturing. Clothing industry was, under the MFA, seen as a typical first-step in industrialisation (Applebaum et al. 2005). Opposition grew against the MFA, which was said to violate the principles of the multilateral system in the following ways: ”*It violated the most favoured nation principle, it applied quantitative restrictions rather than tariffs, it discriminated against developing countries, and it was non-transparent”* (Nordås 2004:13).

After four rounds of negotiation on the MFA status, it expired in 1994. This did not mean the end of quotas in clothing and textiles, but a transitory phase-out towards full integration of textiles and clothing in the multilateral trade agreement. The period between 1995 and 2005 was renamed the Agreement on Textiles and Clothing (ATC).

According to Jauch and Traub-Merz (2006), the regulations led to a new form of foreign direct investment (FDI), which they call ‘quota hopping’. When having exhausted the quota in one country, companies were searching for possibilities in other countries where they could invest to make use of the additional quota. This is one of the reasons why clothing production spread to countries that initially did not have their own clothing industry. Trading in quotas and the use of subcontractors increased as a way to bypass the quota rules (Appelbaum et al. 2005). Giant manufacturers like China used other Asian countries to do the finishing of products to make use of both their enormous capacity in clothing manufacturing and their large pool of low-skilled workers. Hence, companies needed multiple suppliers to profit the most in clothing production under the quota system. This ended with the ATC. International buyers could now reduce the number of international suppliers, and determine where to buy based on the cheapest price on the international market (Palmi 2007). Still, the fragmented value chains continued to dominate the industry (Jauch & Traub-Merz 2006). China is seen as the country benefiting the most from the phase out of the ATC/MFA. Jauch and Traub-Merz (2006) claims that Chinese clothing and textile exports to the US and the EU multiplied in just a few weeks after the quotas were removed.

3.2 The South African Transition

South Africa’s double transition is somewhat unique, where political democratisation coincided with economic liberalisation (Bezuidenhout et al. 2008). The democratisation led to an intense discussion about what political course to embark on for the country’s economy and society. Peet (2002) shows how the leading party, African National Congress (ANC), had a discursive change in policy approach. The Reconstruction and Development Programme (RDP), which ANC was grounded on before the election, was written by intellectuals from The Economic Trends Group (ET) and The Macro-Economic Research Group (MERG), with representatives from other social movements and non-governmental organisations. ET's members were leftist, union-oriented academics in Johannesburg, University of Natal and Cape Town University. MERG had members from the economics department at the University of Witwatersrand, with connections to the South African educational system and ANC-members in the country. This laid the basis for a post-Keynesian policy framework.

The RDP had an industrial strategy of increasing national investments - especially in manufacturing and job creation, and emphasized the goal of meeting the basic needs of the population. It is important to highlight that the policy program mentioned, but did not stress, the country's integration in the world economy for exports of manufactured goods. Already after the election, the white paper was modified from the original RDP: It focused more strongly on financial and monetary discipline, the creations of an economic environment that encouraged economic growth, and had a more outward orientation in trade and industrial policies. This is seen as early signs of reorientation towards more neo-liberal policies, even though the ANC continued to commit to RDP's policies of reconstruction and sustainable development to increase the poor's access to resources (Peet 2002). It was also important for the new government to make a clear stance when reforming the labour market. Under Apartheid, a racial segmentation had governed the South African labour market, and a change in labour regulation was an important issue after 1994. This led to the introduction of a number of new legislations: Labour Relations Act (LRA), Basic Conditions of Employment Act (BCEA), Skills Development Act, Employment Equity Act, and the Unemployment Insurance Act. A number of adjustments had to be made by employers to integrate the new labour rights (Naidoo 2003). The LRA deals with general labour relations; the right of trade unions, collective bargaining, strikes and lockouts, unfair labour practices, procedures for labour dispute, which is sustained through industrial Bargaining Councils (BC) (see elaboration below). The BCEA concerns minimums standards of working time, overtime, paid leave etc., but most of the standards can vary in the different BC-agreements (Makino 2008).

According to Pretorius (2000), the government tried to establish a form of corporatism in negotiation through the National Economic Development and Labour Council (NEDLAC), to please both business and union demands. Corporatism can be defined as a *"process of policy-making and implementation where large interest groups cooperate with each other and with public authorities"* (Makino 2008:3). NEDLAC is a forum for negotiations between the different agents in the industry, state, labour and business, to seek consensus and agreement between them on labour market policy before it is introduced in Parliament (Makino 2008). This has largely failed, and Pretorius (2000) argues that all three of the above mentioned agents have bypassed NEDLAC when dealing with these issues. The unions are pursuing a strictly controlled market, business is in favour of a flexible labour market, and government has taken the middle road of controlled flexibility.

South Africa sought membership with the WTO in 1995, which led the country to rapidly decrease tariff rates with an even higher speed than what was recommended by the WTO. Tariffs are still regarded as relatively high, but the sharp reduction led to an increase in imports of both clothing and textiles, mainly from Asia (Gibbon 2002).

South Africa is also participating in two regional agreements; the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). A new agreement with SACU was signed in 2002 by South Africa, Botswana, Lesotho, Namibia and Swaziland. Its main objectives are to promote the integration of members into the global economy; to facilitate cross-border movement of goods; to establish effective, transparent and democratic institutions to launch equitable trade benefits; to facilitate equitable sharing of revenues from customs, excise and other duties; to promote fair competition, increase investments and facilitate economic development; and to facilitate development of common policies and strategies. Eleven of SADC member states started to implement a Free Trade Area from 2000. The members are South Africa, Botswana, Lesotho, Namibia, Swaziland, Mauritius, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe (Kirk & Stern 2005).

3.2.1 Growth, Employment and Restructuring

In 1996, the government embarked on a 4-year policy-program called the Growth, Employment and Restructuring program (GEAR). The strategy was developed from the approach proposed by the South Africa Foundation and favoured by the National Party before democratisation. The government was to speed up privatisation, monetary liberalisation, fiscal discipline, and make the labour market more flexible (Bezuidenhout 2000). Peet (2002) argues that the move towards neo-liberal policies was a result of pressure from business organisations and media within the country, as well as external pressure from the World Bank and IMF. NEDLAC played no role in the formation of the GEAR program (Makino 2008).

The ANC did not negotiate with its alliance when formulating the GEAR strategy as they had done with the previous, post-Keynesian, RDP (Wood 2001), and the GEAR program is seen to represent a clear shift in South African policy-making. Peet (2002) argues that the underlying premise of GEAR is that South Africa must create the right business climate to attract foreign capital investments, as to achieve rapid growth. This would imply an adoption of neo-liberal policies.

GEAR predicted a growth rate of an average of 4,2% for 1996-2000, aiming to tackle the country's main challenges (Gibbon 2002). Policies aiming to open the economy were based on the premise that cutting protection and reducing tariff levels would lead to production and exporting according to the country's comparative advantage (Roberts 2000). Results were disappointing already in the first years after the program was implemented. Growth rates were low and unemployment rose. This resulted in a decline in the value of the Rand, and the SA Reserve Bank had to stabilise the currency in 2001, leaving it on an exchange rate of 12,11 against the US$. This directly affected the clothing industry, as the exchange rate favoured imports and constrained exports (Gibbon 2002). Naidoo (2003) argues that GEAR failed to accomplish most of its intended goals. They only reached 2,5% growth per annum and instead of the promised 400 000 in net job growth annually, they had a negative 100 000. He also claims that the cutbacks of the state led to a collapse of investment levels rather than attracting private investments. Where the GEAR-program was somewhat successful was in bringing down the budget deficit and inflation figures to OECD-levels. Income inequality actually worsened from 1991 to 2001, and the labour share of national income declined from 57% to 51% in 2001, while capital grew in profit share (Naidoo 2003). The combination of the national neo-liberal policy and membership in the WTO led to increased pressure on the previously protected industries.

3.2.2 The African Growth and Opportunity Act

The African Growth and Opportunity Act (AGOA) was signed in 2000 and, as stated by the International Trade Administration in the U.S. Department of Commerce, *"it offers tangible incentives for African countries to continue their efforts to open up their economies and build* *free markets"*[2]. The agreement suggests a duty-free and quota-free access to the U.S. market, given the country comply with certain criteria. The agreement is divided into two different systems of trade regulation, one for developing countries and one for less developed countries. For developing countries, it involves a triple transformation rule of origin. This means that to make use of the agreement, clothing exports have to use both fabric and yarn from other AGOA countries or the U.S. For less developed countries, the agreement demands only a single transformation rule, which is simple local manufacturing with no specific national source of fabric or yarn (Gibbon 2002). South Africa qualified as a developing country, while fellow members in both SACU and SADC mainly qualified as less developed countries. The agreement was supposed to lead to greater export opportunities for clothing exporters in South Africa, but as manufacturers have had problems qualifying their exports within the complex rules of origin, only a minor part has in practise been able to benefit from the agreement (Barnes 2005).

3.2.3 The Clothing Industry in South Africa

South African clothing production has traditionally been strong, providing both industrial and employment opportunities. The country has been the site of the continent's largest clothing industry for more than half a century. Before 1994, the clothing industry in South Africa was highly protected through the system of import substitution with an extensive use of tariffs. This resulted in a low level of specialisation, and the distribution of production between different lines of products basically corresponded to national demand (Gibbon 2002). Due to the apartheid system, South Africa was to a certain extent isolated from integration in global trade, which meant a longer period of import substitution. The most important instrument for import substitution in the clothing industry was a large and complex system of protection. Altman (1997 in Gibbon 2002) states that there were about 2000 different clothing and textile tariff rates in the 1980s. Some of them were even introduced to protect individual firms.

During the years of protection clothing manufacturers more or less held the power in the value chain. Even though there were some imports, the market was basically closed with both export and import levels below 10 % (Gibbon 2002). After joining the WTO, South Africa was not forced to implement a structural adjustment program designed by the IMF, but their national policy embarked on a fierce route of trade liberalisation. For a short while,

[2] http://www.agoa.gov/

clothing companies managed to invest in modern technology, supported by a depreciation of the Rand, and to stay competitive against imports. Since 2002, the industry has gone in to a phase of restructuring; the value of local currency has appreciated and production costs have simultaneously increased (Gibbon 2002).

3.3 The Durban Industry

The clothing industry in South Africa was mainly focusing on the domestic market before liberalisation, and is now experiencing great challenges in terms of competitiveness in both the global and the domestic market. Particularly China poses a huge threat to the industry, having both cheaper production costs and a more efficient production (Jauch & Traub-Merz 2006). The industry was traditionally concentrated around the areas of Johannesburg, Cape Town and Durban. It expanded in Durban because of large reserves of Indian and "Coloured" labour. The Durban clothing industry is broader than the other two, aiming at a lower marked-segments customer base, and mostly wholesale trade (Gibbon 2002).

The ongoing restructuring in the Durban industry can be characterized as a crisis due to large changes in the traditional relations of production and employment. There has been a rapid decline in regulated employment as companies are downsizing, relocating and closing. Employment in registered enterprises in South Africa has declined by over 40% from 1995 until 2001, and within the Durban area, the fall reached 55% (Gibbon 2002).

The national Bargaining Council differentiate between metro- and non-metro areas in KwaZulu-Natal, with two distinct sets of labour regulations. The regulations of the metro area in Durban are applicable for establishments situated within the Magisterial Districts of Chatsworth, Durban, Inanda, Lower Tugela, Pietermaritzburg and Pinetown, while those of the non-metro areas cover all establishments in KwaZulu-Natal outside the mentioned metro areas (NBC 2010). The job losses are particularly severe in the metro areas, but even in non-metro areas where wages are substantially lower, one can see a considerable decline. This indicates the extent of the pressure on the industry. In addition to regulated companies, Durban has a growing unregulated sector in clothing. These are mainly smaller manufacturers producing outsourced orders (Skinner & Valodia 2002).

3.3.1 The Manufacturers in Durban

Clothing manufacturing in Durban is characterized by a small number of large corporations with full manufacturing facilities, a large number of small suppliers doing Cut, Make and Trim-operations (CMTs), and an increasing number of trading houses/buying houses/design houses. To simplify, the latter will be referred to as trading houses.

Full manufacturers produce in-house, and can have their own design centres or their own brand. They are increasingly outsourcing their orders locally, to neighbouring countries or Asia, and receive their orders through retailers or trading houses (Gibbon 2002).

CMTs do not perform the whole production, but manufacture outsourced orders from full manufacturers or trading houses (Gibbon 2002). This makes them highly dependent on their local network and reputation to receive orders. They may have direct contact with under-affiliates in retail or brands, but this is less frequent. The segment of CMTs emerged already in the 1960s, when large retailers sourced directly from manufacturers and helped them set up specific CMT operations. A decade later, large manufacturers themselves started using CMTs to ride off season peaks and complement their own production if assistance was needed. In the 1990s this took a step even further, when medium-sized manufacturers specialized in design, marketing, finishing and merchandising, or converted into so-called trading houses (see below), while their previous technicians and machinists formed a CMT or just Make and Trim. Additionally, a number of unregulated CMTs emerged as a result of the closures of many larger companies. There are limited possibilities to upgrade from CMT-operations to full manufacturer, as technology levels tend to be very low, and working capital is close to non-existent (Gibbon 2002). According to Morris et al. (2001), 320 out of approximately 416 clothing companies in Durban are CMTs, demonstrating the importance of CMTs in the industry.

Trading houses get orders from retail, and they are tasked with finding a suitable (read cheap) factory to do the actual production. There is an increasing number of trading houses establishing in Durban, or converting from manufacturers to trading houses. Trading houses work closely with retail, either cooperating on the design operations, or presenting their own designs to the customer in retail (Gibbon 2002). They do not perform actual production, and thus do not offer the entry level and low skilled jobs as those of manufacturers.

3.3.2 Bargaining Council Negotiations

Negotiations regarding labour market regulations take place in the BC for the clothing industry[3], with representatives from the trade union and the employer body. The regulations are to be followed by all manufacturers in the industry even without membership in an employer organisation (Nattrass 2000, Makino 2008). The rates differentiate between the metro area and non-metro area, with the latter being significantly lower (Gibbon 2002). To exemplify the wage difference, a qualified cutter in a metro area will have a weekly wage of 694,75 R (NBC 2009 (1)), while a qualified cutter in a non-metro area will earn 406 R weekly (NBC 2009 (2)).

The main objectives of the national bargaining activities are a strengthening of national bargaining structures, wages, organisational rights, member benefits, retirement fund provisions, primary health care, and the consolidation of organization in non-metro areas[4]. There has to be three parties in the negotiations and if the union and the employer organization cannot come to an agreement, the result will not be approved. According to Gibbon (2002), employment in companies registered in the BC declined by 40% from 1995 to 2001. He further argues that the decline reflects that around 200 companies have gone underground to reduce their costs, and not actual employment loss. The loss could also correspond to manufacturers converting to trading houses.

Currently, the BC is struggling with a large amount of non-compliant companies and, as the regulations are to cover all companies in the region, the council is tasked with having to reveal and prosecute the non-compliant companies (NBC 2010).

3.3.3 The Trade Union

The South African Clothing and Textile Workers' Union (SACTWU) was formed in 1989 as a part of a broader trend for non-racial, and politically connected, general unions in contrast to the earlier trend of more apolitical unions divided along industrial and racial lines (Gibbon 2002). SACTWU is under the umbrella federation The Congress of South African Trade

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[3] For further information on the main agreement, view the BC's website:
Metro: http://www.nbc.org.za/jun2010_updates/Part%20C%20-%20KZN%20Region_19%20Mar%2010.pdf,
Non-metro: http://www.nbc.org.za/jun2010_updates/Part%20I%20-%20Non-Metro_19%20Mar%2010.pdf

[4] http://www.sactwu.org.za/collective-bargaining

Unions (COSATU), with 21 member unions [5] and 1,770,155 members in 2003 (Naidoo 2003). COSATU is in a tripartite alliance with the ANC and the South African Communist Party (SACP). The Alliance involves cooperation towards the establishment of a democratic and non-racial South Africa, economic transformation and continued process of political and economic democratisation[6].

SACTWU is the largest union in the clothing, textile and leather industry in South Africa and the sixth largest affiliate of COSATU. They had 99 000 members in June 2010[7]. The union is in often assumed to be more powerful than the employer organisation in promoting their members' interests in labour law negotiation, as the government has tended to ignore business demands on core aspects of labour legislation (Pretorius 2000). Makino (2008) argues that the LRA reflected more of the demands of labour than of business in areas were labour and business disputed. Still, the union has experienced a continued loss of membership, due to relocation, downsizing, retrenchments and the like (Skinner & Valodia 2002).

3.3.4 The Employer Body

In the national main agreement on clothing, the employer body is represented by 7 different employer organisations: Cape Clothing Association, Consolidated Association of Employers of Southern Africa Region, Eastern Province Clothing Manufacturers' Association, Free State and Northern Cape Clothing Manufacturers' Association, Natal Clothing Manufacturers' Association (NCMA), Northern Decentralised Clothing Manufacturers' Association, and Transvaal Clothing Manufacturers' Association (NBC 2010). In KwaZulu-Natal, the NCMA is the main representative for employers. The employer body has lost membership due to lack of compliance in the Durban-region, and the remaining members are mainly large manufacturers (Nattrass 2000). In the NCMA, what used to be a membership of 220 firms has been reduced to 16. When interviewing the organisation leader, he has a condescending tone towards the union, expressing that they lack education and skills to understand the dynamics and competition in the industry (NCMA representative 11.05.10). This is reflecting Pretorius' (2000) observation that business is struggling with an inflexible labour market in an environment of global competition.

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5 http://www.cosatu.org.za/docs/misc/2009/structure.pdf
6 http://www.cosatu.org.za/show.php?ID=2051
7 http://www.sactwu.org.za/

4 RESEARCH METHODS

This chapter will outline the methodological premises on which the thesis is based on. It is important that the principles grounding a research project are explicitly defined. According to Thagaard (2009), this is done by highlighting and illustrating the processes leading to research results, which will be the aim of the following chapter.

4.1 The Qualitative Method

Qualitative research methods have traditionally been characterized by a close contact between the researcher and the research object. The methods try to deepen understandings and emphasize meaning, instead of reach and numbers like that of quantitative research. Hence, the qualitative approach focuses on processes and phenomena that are not possible to measure in quantity or frequency. The outcome of qualitative analysis is often analytical descriptions instead of statistical generalisations, which describe the result of quantitative methods (Thagaard 2009). Analytical descriptions have the goal of combining the specific empirical findings with theory, and discuss these in the light of theoretical approaches (Yin 1994). Qualitative research wishes to create an understanding of various social phenomena, and interpretation is an important aspect in qualitative research projects.

The choice of qualitative methods implies a certain understanding of truth and reality. The philosophy of phenomenology focuses on experience and the world of the living. It highlights the importance of understanding phenomena through the perspective of the agent and sees reality as the one perceived by humans (Kvale & Brinkmann 2009). Thagaard (2009) stresses that phenomenology has the subjective experience as its point of departure and seek to understand the deeper meaning behind the individual experience of the informant. Hermeneutics emphasize the importance of an interpretation of people’s actions by focusing on further understanding than what is instantly visible. This approach highlights that a fixed truth does not exist, as a phenomenon has several levels of interpretation (Thagaard 2009). The hermeneutic view of interpretation lays the basis for the critical theoretical approach taken in this thesis.

4.1.1 Critical Theory

Interpretation has a striking position in critical theory, which highlights the revealing of ideology and takes a critical stand towards the established social structures. By finding interpretive inspiration and ideas from metatheoretical perspectives, critical theory places phenomena and actions in a wider context (Thagaard 2009). Critical theory is relevant to this thesis as I wish to use the data material to shed light on global structures of economic activity and value chains through the local context of Durban. Connecting the empirical data with metatheories of capitalist production and the relation between capital and labour is also an important goal in this regard. The triple hermeneutic of critical theory (Alvesson & Sköldberg 1994 in Thagaard 2009) has an important position in explaining how the interpretation develops. The single hermeneutic refers to the informant's interpretation of himself and his reality. A double hermeneutic explains how the researcher interpret this reality, while the triple hermeneutic of critical theory contains this double hermeneutic *and* a critical interpretation of the social conditions that both the informant and the researcher are influenced by. The approach focuses on processes that promote certain interests at the expense of others, which is in close relation to the theories of governance in industrial value chains, competition and the dynamics of capitalist production.

4.1.2 The Qualitative Research Interview

The method of qualitative research interviews is based on the assumption that the world's processes and phenomena have to be described before one can develop theories of them, and be understood before one can explain them. The interview is one of the most used qualitative methods. With few rigid rules defined beforehand, many decisions must be settled in the actual interview situation (Kvale & Brinkmann 2009). Hence, the researcher is granted great freedom, but is also confronted with many challenges.

The interview provides a good starting point to receive knowledge about individuals' experiences and have them reflect on their own situations (Thagaard 2009). The chosen research method should reflect the research questions of a given project. As I wanted to get my informants' perspective on changes and dynamics within the industry, as well as strategies they use to confront the challenge of change, the qualitative interview was the most viable way to get the detailed information I was searching for. Through the qualitative interview, one can see the world from the informants' point of view, bring forth their experiences and reveal their perceptions. The interview is a professional conversation where knowledge is constructed through interplay between the researcher and the informant. This knowledge is influenced by the technique used in the interview as well as in the process of analysing. Thus, the conversation is not symmetrical, as the researcher has defined the theme, developed the questions and controls the conversation. Additionally, the researcher generally does not contribute with his/her own attitudes on the subject. As the statements from the informants are related to their specific context and sensitive to qualitative differences, one needs thorough descriptions of the contextual aspects in the analysis (Kvale & Brinkmann 2009). Therefore, I chose to include a detailed background chapter to highlight the Durban context.

4.2 Doing Fieldwork and Handling Data Material

4.2.1 The Research Object

The research object of this study is the clothing industry in Durban, in the context of global competition. Durban is situated in the metro area of KwaZulu-Natal, already defined by the Bargaining Council. The labour regulations are the same throughout the metro area, but challenges and possibilities might differ as Durban is the largest city in the region and an important harbour in South Africa. I chose my research object believing that a study of an African middle-income country can add valid contributions to the vast research field of industrial relations in the clothing industry. Additionally, South Africa presents an interesting study as the country has implemented policies aiming at liberalising trade while protecting labour through regulations (Müller 2004, Makino 2008). As mentioned, the Durban area is an exciting point of departure as it is concentrated on mass-production and thus in direct competition with other low-cost areas. Numbers on job losses and company closures also reveal that Durban is one of the areas in South Africa that is struggling the most to find a sustainable structure for further clothing production (Gibbon 2002, Barnes 2005). By exploring the reasons behind the deteriorating competitiveness of companies and the local response, Durban might shed light to whether there are any conflicts in the relation between trade liberalisation and labour regulations in a labour-intensive industry.

I stayed in Durban from the beginning of May to mid-July 2010 with Ana Veronica Roman, who did her fieldwork in the same industry on the case of co-operatives. We also did pilot interviews on each other to make sure that our guides were comprehensible and had a logical dramaturgy. During our stay I performed 15 in-depth interviews: one with a trading house, one with a representative from the union SACTWU, one with a representative from the employer organisation NCMA, one with two representatives from the Bargaining Council, one with a consultant of textile and clothing companies, one with a manufacturer of interlining for the clothing industry, one with an official from the EThekwini municipality, five with CMT manufacturers, three with large manufacturers, as well as two conversations with my contact in the Chamber of Commerce in Durban. As shown, my informants are mostly manufacturers, but representatives from important institutions connected to the industry are also included. This gave me the opportunity to get differing and conflicting views on the status of the industry. The interviews lasted between half an hour and three hours, depending on the schedule of the informants and how thorough they were in their answers. Some of them set time limits in advance, but the interviews were mostly around two hours.

4.2.2 The Interview Guide

When entering the field I had a theoretical framework based on secondary literature and an interview guide with between 60-70 questions under specific themes. According to Kvale and Brinkmann (2009), the researcher needs a solid theoretical background to ask the right questions that one would need to build the analysis after a completed fieldwork. Still, the interview guide reflected that I had not made any preliminary conclusions before starting to collect the empirical data. As the interviews aimed at capturing the perspective of the informants, I wanted to leave it up to them to guide the central point of the conversation, but at the same time be sure that I did not leave out important aspects. When noticing the focus of the specific informant, I could follow up with questions related to that specific theme. This reflects Kvale and Brinkmann’s (2009) perception that the work with the interview guide can be seen as a circular process. They see that new discoveries can lead to the need to change or expand the interview guide. One of my last questions was if they had something to add or if I had forgotten anything important, to allow for the informant to include other issues that I was not aware of. Even though I kept a similar interview guide throughout the fieldwork, follow up questions and the weight of the interviews were different.

I worked out two different interview guides, one for manufacturers and one for informants from various organisations connected to the industry (the first is attached as appendix). The latter had more general and overarching questions, leaving out those related to specific structure and strategies of companies. The guides started with simple and neutral questions regarding informant background and company/industry facts, leading up to more detailed questions about industry dynamics and challenges. By the end of the guide, the questions were simpler again, as to tone down the complexity and round off the interview. One of these questions would be how the informant perceived the future of the industry and the company. These kinds of open-ended questions to finish off an interview can bring out additional and interesting reflections from the informant. According to Thagaard (2009), the order of questions is decisive for the progress of the interview. To start with neutral questions about the informant or the relevant theme help building up trust between the researcher and the informant.

While working on the interview guide I also had to change several words when finding out which were relevant in the Durban context, and to avoid words with a negative connotation. An example would be that I chose to use the word outsourcing instead of subcontracting, as the latter is perceived more sensitive while the first is well established amongst manufacturers in Durban. These may seem as small and irrelevant details, but the smallest mistake on behalf of the researcher can break the trust of the informant (Thagaard 2009). A well performed research interview needs to balance the spontaneous and the structured, or in Thagaard's (2009) words; the systematic and the empathic. I felt that this balance was successfully obtained in my interviews, and generally had a good connection with all my informants.

4.2.3 The Field and the Informants

To enter an unknown field is challenging. I started exploring the field while still in Oslo, and managed to establish a contact with the Durban Chamber of Commerce. He introduced me, by email, to a consultant for the textile and clothing companies with more than 30 years of experience from the clothing industry. These were the only two contacts I had when leaving Oslo for Durban. The consultant had established an interview for me the day after our arrival in Durban and also gave me a great overall introduction to the local industry by email. The contact at the Chamber of Commerce also gave me several important contacts in the industry.

These contacts assisted me with new informants. This method of attaining informants can be explained as the snowball method. The method often starts with contacting a few people with the relevant characteristics for the research questions. After the interviews, one would get suggestions from them about other possible informants. A challenge with this method is that the selection of informants might come from the same network or group (Thagaard 2009). In my case, the contact from Chamber of Commerce was particularly aware of this and gave me four contacts from distinct parts of the industry, pointing out how these four would give me different perspectives on the restructuring. You can never get completely away from possible bias with this method, as one could always question if the snowball method has excluded important informants.

The informant from the Chamber of Commerce could be seen as a combination of a key informant and a gatekeeper. A key informant is an informant who gives the researcher especially good insight into the issue in question. A gatekeeper is an informant with the power to open or block access to a field or an organisation. This person could also be one the researcher discusses impressions from the fieldwork with (Thagaard 2009). I would not say that the informant from the Chamber of Commerce could have blocked access into the industry, but he made the entrance a lot easier, especially with the Bargaining Council, and it would have taken time to find the other informants on my own. We discussed some of my impressions over the phone and had two short meetings discussing the industry, which I found very helpful. The consultant also had some of the qualities of a key informant in the overview of the industry that he gave me.

I also found it very useful to have a name reference when contacting a new informant. From the initial suggestions given by the contact in the Chamber of Commerce, I got new suggestions for informants. Most of my informants were obtained using this method, but I also contacted individual companies by email and phone, after a web-based search or by getting to know the company name in an earlier interview. I found this to be more challenging, as I lacked a name reference, but it still got me a few additional interviews.

My field partner, Ana Veronica Roman, assisted me in landing an interview with the trade union, and hence functioned as a gatekeeper. She had worked closely with the union for several weeks while I was focusing on manufacturers. I did not want to be related to the union before my interviews with the manufacturers were done. It turned out to be more difficult than expected to get entrance in the union. After several phone calls and visits without luck, Roman helped me setting up an appointment for the interview.

My reflections on how contact was established with the informants show that a lot is coincidental and it is hard to plan your fieldwork from home. Many aspects of an unknown field are impossible to figure out through article reading in advance and, with the defined time span available, one must have faith in these coincidences.

4.2.4 Performing the Interviews

I used a dictaphone in all my interviews except one that was done in a public place were sound recording was impossible. Simultaneously, I took notes to be able to include reactions and body language that cannot be recorded. According to Kvale and Brinkmann (2009), a lot of the knowledge created in an interview is not actual words. None of my informants reacted negatively to the dictaphone - it seemed to be expected in the interview situation.

All the interviews, except the above mentioned, were performed in the informants' offices. Thagaard (2009) argues that it is important to reflect on how the place of the interview may affect the situation and in which situations the informant would feel free to talk about the relevant subjects. In my case, most interviews were performed during the workday, and it would have been an inconvenience for them to leave the company. At the same time, me coming to them showed respect for their time and could also make them feel more comfortable when sharing information in their own environment. As I did not ask questions about working conditions, the informants did not seem to find it uncomfortable to do the interviews inside the company. It also broadened my experience as I was often shown around the factories, met with workers, and was shown garment samples.

During the interview with the Bargaining Council, I met with two informants simultaneously. Since I did not know in advance about my informant's choice of including a colleague, I thought at first that this would lead to additional challenges in controlling the interview. It turned out to be a surprisingly good solution. With two informants, the questions turned into a discussion, they corrected each other when disagreeing and filled in on each other's answers. It also gave the situation more of a conversational feel. However, one can not be sure that the information provided from the interview would have turned out differently if only one informant had been present, even though I felt that the situation was positive for the outcome of the interview.

Most of the informants were men, significantly older than me, and company leaders. Hence, the issue of corporate interviews and control is relevant. Schoenberger (1991) states that when doing interviews based on research of e.g. firm behaviour, the power relation may turn out somewhat different than what is the case in many other types of interviews. Normally, one would be concerned if the researcher is exerting excessive control over the informant. When performing corporate interviews the researcher is at risk of losing control. This is caused by the fact that these informants are often used to be in control and exert authority over others, and might wish to impose their own agenda during the interview. During some of the interviews this was an issue, and I had to concentrate on keeping in control and steer the interview when it moved in unwanted directions. In one of the interviews I was actually shushed at for asking a new question as the informant had his own plan for how the interview was supposed to turn out. But interviewing is a learning process and it taught me how to be able to control the interview without the informant feeling I was cutting him off. I felt that I managed to keep the necessary control in most of the interviews.

Thagaard (2009) argues that gender and age are some of the features that may affect the outcome of the interviews. I found these differences to work both for and against me. It worked 'against me' in the way that I had to focus on staying in control, and that I had to prove to the informants that I had knowledge about the industry. They worked 'for me' as my informants perceived me as less of a threat and felt they could be honest and teach me a lot. If I had given the impression that I already knew everything about the industry, they would not have given me so thorough descriptions. Still, I made an effort in looking as professional as possible before the interviews so that I would be taken seriously.

4.2.5 Transcribing the Data Material

The interviews from Durban left me with many hours of sound recording. Due to the limited time span of the master thesis, I chose to categorise the material before transcribing. This methodological choice implies an early interpretation of which parts of the data material that would be of interest in the analysis. The categorisation was influenced by what the informants had made clear were the most important issues in the industry, as well as my interview guide. I made a division of eight themes: Causes for restructuring, strategies/changes, competition, outsourcing, relocation, labour regulations, institutions (government, union, bargaining council), and perceptions of the future. This categorisation allowed me to filter out the relevant information, and was also time saving as I did not transcribe all of my material. Additionally, it gave me a good overview of the material when analysing, as the information from the sound recordings was placed in the relevant category. One might argue that the categorisation excluded new approaches in the analysis, but the categorisation was made after finishing the fieldwork, and was a necessary choice to be able to finish my thesis at standard time. I listened through all of my material before deciding what to transcribe.

4.3 Reliability and Validity

The concept of reliability is debated within qualitative studies, as the concept is considered related more appropriately to quantitative studies than qualitative. This has made researchers in qualitative studies fill the concept with different meaning, making it hard to give a short answer to a project's reliability (Golafshani 2003). Reliability originally questions whether another researcher using the same methods would end up with the same result, if it is possible to replicate the research project. As the method of qualitative research interviews is based on the premise that the data is a result of an interaction between the researcher and the informant in the interview situation, the question of replicating a project is irrelevant. Hence, the question of reliability in qualitative studies is better connected with whether or not the researcher is clear and thorough in his/her explanations about the methodological choices (Thagaard 2009). Throughout the process I have been conscious about the context in which my data has been collected, as well as having different types of informants to support or reject information from others. I believe my reflections in the presented methodological chapter would give a clear description of my methodological choices and thus answer the question of reliability.

Validity is linked to interpretation of the data material, and whether or not the researcher's interpretations are representative for the studied reality (Thagaard 2009). Seale (1999 in Thagaard 2009) differentiates between internal and external validity. The internal validity refers to how causal relations are supported within the study. The aim of the thesis is to understand how changes in global production systems are affecting the clothing industry in Durban. By presenting a broad theoretical approach and connecting these theories with information from my informants in the analysis, I believe that I have made the causal relations within the study clear and comprehensible for the reader. This is also done through the structure of the analysis, with one part analysing constraints to competitiveness and the other analysing the response in Durban. Additionally, I have been thorough in demonstrating which parts of my analysis that are based on empirical data and which are grounded on theory and secondary sources. The aim of the conclusion is to further clarify the basis of my interpretations.

External validity is connected to transferability, meaning if and how the understanding developed in a study can have relevance for similar studies in other contexts (Thagaard 2009). One could argue that the understandings from this thesis might be transferable to other studies, as it comprises an interpretation of competitiveness and local responses in labour-intensive production. The challenges in competitiveness are likely to be present in other geographical contexts as well as other labour-intensive industries, but the response from manufacturers might differ as the possibilities for restructuring are more contextually defined. The concept of transferability will also be highlighted in my conclusion.

4.4 Ethical Reflections

Ethical reflections should be integrated in all phases of the research project as the interplay affects the persons involved and the knowledge created in the interviews. Kvale and Brinkman (2009) argue that the most important issues are informed consent, confidentiality, consequences and the role of the researcher. These are to be reflected on before, during and after the research interview.

4.4.1 Informed Consent

According to Thagaard (2009), informed consent must be obtained from all the informants before starting the project. They should also be informed of the right to withdraw from the project at any stage of the research, and know of possible benefits or disadvantages that could appear from contributing to the project (Kvale & Brinkmann 2009).

I contacted my informants on the phone beforehand to inform about the project, who I was, and what kind of information they could assist me with. At the actual interview I would emphasize that participation was voluntary. Fortunately, the informants were helpful and appeared to view the interview as a positive experience. As the interviews did not ask for any personal information, but had a theme related approach, none of the informants felt that the interview situation was intimidating or very challenging. My questions evolved around their business, possibilities and challenges in the environment they operate in. As the industry is very well aware of its own struggle, the informants did not consider my questions sensitive. It was clear to me that they understood their role in the project.

4.4.2 Confidentiality

All informants participating in a project have the right to be sure that all given information is treated with confidentiality (Thagaard 2009). According to Kvale and Brinkmann (2009) private data that can reveal the identity of informants should not be included in the project. Even if the informants agree on using their own identity in the research, the researcher must reflect on what consequences this could bring upon the informant.

In the project, it was never problematic to keep my informants anonymous. Again this relates to the aim of the research - to understand the dynamics of the industry. In presenting the views of the industry, I refer to my informants according to what kind of manufacturer they are or what kind of institution they represent. The informants were not informed about whom else I was interviewing, but most of the time they knew about some of the others because of the snowball method applied. I also met several informants when participating at a workshop led by the Bargaining Council. At the same time, the struggles of the industry and the challenges they are experiencing are mostly out in the open, so that knowing of other informants would not lead to any disadvantages.

4.4.3 Consequences

It is the responsibility of the researcher to make sure that there are no negative consequences of participating in the project, hence this should be reflected on before pursuing the interview (Thagaard 2009). The informants did not see any negative consequences of being involved in the project, and they were all extremely helpful both in providing information and by assisting me in contacting other relevant informants. When I was denied assistance, it was due to time constraints, and not because they did not want to participate. One could also say that some of the informants found it relieving to talk freely about the difficulties they felt in the industry, and use their own experiences to illustrate the situation.

One potential informant refused to do the interview because he was on the verge of being shut down by the Bargaining Council. Therefore, he did not want to attract negative attention to the factory or talk to anybody about his situation. In these situations it could be tempting to persuade an informant to do the interview regardless of his concerns, because it could reveal interesting information about why the company is being forced to shut down. But as it is the researcher's responsibility to protect the informants, it would not have been an option to ask him to do the interview without knowing what consequences this could have for his business. The informant was still very helpful and gave me the phone number of another informant in the same type of company.

4.4.4 The Role of the Researcher

Thagaard (2009) claims that if the researcher is associated with a category already known by the informant, such as social worker, journalist or a leader, this can disturb the interview and lead to the informant having expectations to the researcher that he/she is not competent to fulfil. These complications can be avoided by making sure the informant knows your, and his, role in the interview. It was important for me to be clear about who I was and what my project was about; a student writing a master thesis, and not somebody who could change their world. Some asked if I was a journalist, and others thought I wanted to work in the clothing industry after finalising the project. To avoid such misunderstandings I always started the interview by explaining my project, what university I came from and the field of human geography. My last question in the interview would also be if they wanted to ask me something, so that if there still were some ambiguity about the project or my status, we would clear that off before finishing. They often wanted to know more about my studies, human geography and why I had chosen to study this particular industry. Some of them also expressed interest in where my results would be published, and I had to explain to them that my thesis would be published on the university website DUO, and that I hoped to write some articles on the theme as a spin-off but that this was not guaranteed. When one informant said: 'Go get them', after the interview, it was clear that I had to explain my purpose and the project again. One can never be completely sure that the informants have understood where you as a researcher are coming from, but it is important to make this information as clear as possible and an integrated part of the interview. If not, you might end up disappointing your informants at a later stage.

5 CONSTRAINTS TO COMPETITIVENESS

The chapter is related to the first research question: *What are the factors that deteriorate competitiveness of the manufacturers in the industry, and how do these affect their position in the value chain?* The chapter is subdivided into two, though highly interrelated, parts; 'External Factors' and 'Internal Factors'.

5.1 External factors

As explored in the theoretical chapter, changes in production and sourcing patterns altered international trade extensively. Not only did it open up for a spread of production sites, but brought additional links in the value chain of clothing. These changes in the global environment of trade and manufacturing are experienced in Durban through loss of employment and heavy restructuring. Many Western, former manufacturing, countries have progressed to post-manufacturing societies as new sourcing strategies have developed. It is argued that industrialisation often begins with labour-intensive industries, because of low entry barriers that absorb unemployed labour and contribute in economic development (Jauch & Traub-Mertz 2006). When the economy advances, so does the industrial focus. As labour costs and competence enhance, the economy will move towards production and services of higher value and more advanced technology, while the labour intensive industries will move to other low-cost areas. South Africa, still in transition, finds itself slipping between two chairs. On the one hand, the growing economy is advancing to more capital-intensive industries, but on the other hand, a large part of the labour force is low- or semi-skilled and therefore in desperate need of the positions offered by the industry (Nattrass 1998). Hence, one can observe that South Africa is becoming highly segmented, both the economy and the labour market. The government is struggling to satisfy the total of South African needs, and especially to continue the creation of low- and semi-skilled employment in the advancing economy.

5.1.1 From Isolation to Globalisation

Durban has a long tradition in clothing production, which developed and grew in a protected market. As other countries and regions were gradually exposed to increased trade and functional global integration, South Africa was thrown into global competition decades later. The massive shifts in trade and competition occurred faster than what had happened with clothing production in a large part of the developed world. One can observe the same dynamics of industrial restructuring in e.g. Europe, but to understand the South African context, the time-perspective should be considered. South African production had been protected and isolated through the apartheid era and, when opening up to free trade, flexible production and sourcing patterns were already the norm in global trade. As highlighted through theories of Fordism and post-Fordism, this development started more than 15 years earlier in the Western world. A clothing producer explains the dynamic in the closed economy as follows:

> *Before 1994 it was a closed economy with high protection to imports. So the duty level was in excess of 120 % on ready-made garment if you wanted to import. And because it was a closed economy you were able to offset your writing costs to your import cost immediately to the retailer who was a silent buyer. And the retailer was in turn able to put it on to the customer that was a silent customer. That was the closed economy (Large manufacturer 24.05.10).*

The manufacturer refers to retail as *silent buyers*; in the way that they did not state demand upon production, but the cost of production was reflected in the prices offered to consumers. Because the industry was built up under isolation, and with the domestic manufacturers driving production and prices, it was never able to achieve economies of scale (Barnes 2005). Durban was therefore less competitive when opening up to free trade, as it did not fit within the local industrial frame. For the South African context, not only did the country experience trade liberalisation but, as explained in the background chapter, simultaneously a complete turn-around of the political *and* the economic system.

As imports had been heavily restricted through both national tariff policy and trade sanctions through the years of Apartheid, manufacturers had enjoyed high bargaining power and governed the value chain. The South African market was a product of supply and demand nationally, and retail was reduced to simple middlemen between consumers and manufacturers (Gibbon 2002). Manufacturers could demand a price, which retail then had to pass on to consumers as they were forced to source goods locally:

> *In the past they could only import about 5%, because up until 1990, we had import restrictions so you had to apply for an import permit. Up till 1990 we had much of a financially precarious position so we didn't have a lot of foreign exchange. So there was a whole clamp on imports, and to import anything you needed a permit. Good for the national industry because they came on shore. But it wasn't good, because it wouldn't make them productive. But the retailers had to buy locally because they couldn't import, or they could import maybe 5% (NCMA official 11.05.10).*

The strict import rules in South Africa explained above shows how manufacturers were relatively well protected from global competition and a low level of imports permitted to the domestic market. This left manufacturers with power to demand favourable conditions from retail, and production was a profitable operation. Thus, it did not prepare the manufacturers for global competition, and hampered productivity in the region. WTO membership from 1995 restricted protection on free trade and the government responded with an aggressive liberalisation of the economy through GEAR from 1996. The belief was that strong economic growth would lay the basis for reduction of unemployment and a more equitable distribution of income and wealth (Weeks 1999). This has not been the case, and unemployment continued to rise.

The labour-intensive industries did not get a period of step-by-step exposure to global competition, but experienced a total turn-around of the external framework without having the time or capacity to simultaneously change the internal structure. According to Barnes (2005), the tariffs on apparel dropped from 100% to 40% in a period of 10 years. This means that the clothing industry is still a protected industry, but because they were used to the dynamics in the closed economy, the industry did not manage to adapt quickly to the changes. The negative effects of rapid tariff reductions were further enhanced by the phase out of the MFA, gradually opening to free trade in clothing from 2005. The MFA had spread clothing production throughout the world, and competition was now stiff in attracting orders. While flexible sourcing patterns had become the norm in global clothing industry, even under the agreement, South Africa was used to a producer-driven value chain. Kaplinsky and Morris (1999) are questioning whether this, in combination with earlier import substituting policies, led to the fact that companies are not 'hearing' the demands from changing markets. The industry had covered the whole field of domestic demand in the earlier period, and now they had the increase in imports as well as an alteration in the industry's power structure. Their research (Kaplinsky & Morris 1999) shows that manufacturers rank their own performance levels as being relatively close to market requirements, while the buyers see a gap between customer demand and supplier performance.

> *Progressively with the lifting of the MFA and the removal of quota on China, obviously the competition became stiffer in turning. There's a whole range of factors that caused it, but essentially clothing manufacturing in South Africa was becoming progressively more expensive, the economy here was opening up, obviously, after Apartheid, everything happened very, very quickly. The rand strengthen at the same time, so you've got a strong currency, you've got globalisation, you've got the lifting of the MFA and you've got basically high costs relatively speaking, not just labour but high costs generally, although labour is certainly too high. And that caused pressure on clothing manufacturing certainly from, well it was affected before that, maybe from 2002-2003, but certainly from 2005 (Large manufacturer 20.06.10).*

The citation above describes how manufacturers were facing multiple changes over a short period of time. The manufacturer is here pointing out what he sees as the main challenges; increased competition through exposure to globalisation and the MFA phase out, a strengthening of the Rand caused by changes in national policy, and high production costs compared to their competitors. The industry was earlier structured by confidence-based business relationships where the manufacturers had the upper hand. Now they increasingly have to form business relationship based on competition and adapt to the fact that retailers are not forced to source from local manufacturers (Weeks 1999). This could signify how the pursued neo-liberal policies in building down barriers to trade have resulted in a fierce competition amongst independent capitalists, in the form of companies, to secure further accumulation.

5.1.2 Changing Production and Sourcing Patterns

> *...the world became one big shopping basket with technology improvements and people are not afraid to get on a plane to China and see that they can shop from there. And it is far cheaper (CMT manufacturer 18.05.10).*

The informant cited above describes how suppliers in Durban experienced their customers changed sourcing strategies after trade was liberalised. The retailers determine the price on garment as they have the opportunity to import instead of using their local suppliers. Knowing that they have a broad sourcing option, while manufacturers depend on local orders, retailers push the local prices down with the constant threat of moving their order elsewhere. South

African retailers have adapted the flexible sourcing patterns dominating global trade, while manufacturers are more locally restricted when relying on production sites and labour. This is felt on the manufacturing level, where the prices offered are not compared with local production costs, but where you can bring in the cheapest garments globally. Interviews with different companies in the industry reveal that the communication between retailers and manufacturers is close to non-existent, especially when it comes to smaller manufacturers. The lack of communication creates a bias in the industry as the costs and fees developed in the BC do not correspond to the prices that manufacturers receive (Bargaining Council official 15.05.10). Because manufacturers earlier held the bargaining power, manufacturers and retail never perceived themselves as mutually dependent on one another. Retail depended on manufacturers because tariffs prevented high import levels. The tables are now turned, and manufacturers depend on retail for orders. The skewed power relation is enhanced by the fact that manufacturers struggle in taking advantage of trade liberalisation on the export side, due to complex export premises (Barnes 2005). A manufacturer explains the challenge of retail power as follows:

> *The biggest challenge is the retailers. Their sourcing strategies are dictating the survival ... The increase in imports was directly related to the retailers importing strategies. I think they realised that once the apartheid era changed and people were allowed to import they started moving into that mode. I think about 10-12 years ago it came out a real benefit to that. The retailers realised that the clothing manufacturers have had a huge monopoly and that had changed (Large manufacturer 08.06.10).*

When tariffs were lifted from the industry, retail experienced that they could optimise profits by complementing their stock with imported goods, and pit production sites against each other to push the prices down. Retail is seen as the most powerful agent in the value chain for clothing as they can decide on what to market and sell in their retail stores. This decision power involves what ranges and brands to include, as well as volume, cost margins and duration of orders (Palmi 2007).

Asian countries, such as China and India, have taken over extensive parts of the market share globally, and to some extent squeezed smaller producers out to the periphery of the global market. Nordås (2004) argued that the African countries benefiting from the MFA would be loosing market share after the phase out. While especially China built up a large productive capacity during the quota agreement (Nordås 2004), South Africa did not manage to build up an export base and flexible labour relations (Gibbon 2002). To illustrate the significance of China on the global market; US apparel imports from China increased by an overall of 85% the first eight months of 2005, and in some categories by 250% of the levels in 2004 (Abernathy et al. 2006). Exposure to economic globalisation, through neo-liberal policies, can explain the escalation of competition and rapid decrease in market share of local production, as highlighted by Taylor and Bryson (2010) when explaining similar changes in the heavy industry in the West Midlands, Britain. One important aspect for the Durban industry is how the increased use of imports from retailers and trading houses not only made the manufacturers having to compete for international markets, but also for a share in the domestic market. This was pointed out by Nordås (2004) as a possible outcome for smaller countries that had benefited from the MFA.

Price is the toughest competition point globally. If a manufacturer cannot find an additional aspect to provide the customers, this can lead to a so-called race to the bottom between manufacturers. This race to the bottom implies a skewed power relation in the production and distribution system. When retail and large manufacturers can place their orders where they choose globally, their suppliers are turned into *"powerless price-takers rather than partners and deal makers"* (Appelbaum et al. 2005:2). Suppliers are then competing against each other by forcing prices (and wages) down, and destroying unionizing. In Durban, manufacturers are prevented from racing to the bottom through labour law negotiations in the BC and the way the council is prosecuting non-compliant manufacturers. In the past, the employer body did not demand the BC to maintain and follow-up on the wage rates as long as the social benefits were paid, but recently they have taken a new stance in terms of this issue. The current stand is that they want all manufacturers to be compliant, or shut down. For Durban, the non-compliant companies will involve about three quarters of the industry (Bargaining Council official 13.05.10). The issue is further discussed in the next chapter.

5.1.3 Altered Power Relations in the Value Chain

The aggressive sourcing from overseas by retail is forcing price competition on local manufacturers (Rogerson 2005). Nordås (2004) argues that the sourcing strategies of retailers in the industry have imposed a number of requirements on manufacturers, by pushing work and costs down the value chain and on to the production level. Manufacturers can absorb the costs by lowering margins, reduce the cost through increased productivity, or pass the costs further down the value chain. Hence, Durban's value chain of clothing can be said to fit the description of Gereffi's (1999) buyer-driven value chain. The retailers dictate the terms in the value chain, and govern the operation of manufacturers with low bargaining power.

Price is the least profitable competitive advantage, and where Durban manufacturers are not competitive globally. Since production is aimed mainly towards the lower market segments in Durban, they have few options to move upwards in the value chain and into operations that generate higher profit. The difficulty of finding another competitive advantage than price is further enhanced by the fact that the CMTs in the industry do not have any choice regarding what they want to produce. Most CMT manufacturers are not involved in the process of product development and distribution; hence their measures to keep costs down are limited. When given the design, the fabric, and the price from their customers, their action space is extremely limited: *"All of the design operations are done by retailers nowadays. So the retailers go overseas and say; give me a price on this"* (NCMA official 11.05.10). According to Kaplinsky and Morris (1999), value chain management has low priority for the final users in KwaZulu-Natal and retail do not see themselves mutually dependent on domestic suppliers. Nearly two-thirds of CMTs never visit their customers and when firms claim they are consulting with suppliers, they are basically inspecting whether suppliers have the capacity to produce the order rather than how the production is done. Companies report that instead of focusing on value chain development and helping suppliers to upgrade their operations to meet customer demands, they are dropped on short notice. This is confirmed by Gibbon's (2002) study of the clothing sector in South Africa where the relations were seen as arms' length, and the notion of partnership with suppliers were rejected. An informant from his study had the following to say about these changes:

> *As recently as five years ago we tried to develop close relations with local suppliers. We even discussed common interests in relation to the DTI[Department of Trade and Industry]...But now we're looking for value. There's no more schmoozing. We're simply looking for value and relations have become arms' length...* (Gibbon 2002:27).

As pointed out by manufacturers in Durban, the pressure to keep prices down is immense. The price offered by a local manufacturer is compared firstly with the price of other manufacturers in the Durban area; secondly the price of production in non-metro areas; thirdly the price of outsourcing to or importing from neighbouring countries; and finally the price of imports from Asia. If the local manufacturers cannot 'come into price', orders move elsewhere (CMT manufacturer 18.05.10). Since the manufacturers that are not paying the negotiated rates will be prosecuted by the BC, wages cannot fall freely as could have been the outcome of heavy price pressure. Manufacturers find themselves squeezed between the global price competition caused by global sourcing strategies and the wage floor set by the Bargaining Council. This is pushing them out of competition and therefore out of the industry:

> *The problem is that the playing field for garment manufacturers globally are not levelled. Although we get assistance to the extent ... it still doesn't compensate sufficiently for the unfair, let's call it uneven, playing fields that exists between here and again for example China. It's globalisation but you're not playing by the same set of rules (Large manufacturer 20.06.10).*

With flexible sourcing patterns, former manufacturers find that they can extract themselves completely from employing and use their customer base and other middlemen to continue operating and profiting in the industry. The increased importance of middlemen in the Durban industry reveals signs of a trader-driven value chain. This term has been requested in the value chain analysis because the dichotomy of producer- and buyer-driven chains does not reveal the whole picture (Scott 2006). In Durban, one can propose a combination of a buyer- and trader-driven value chain. Trading houses can connect retail with local production or import the garments ordered by retail. When importing, trading houses often do not engage with production at all. A trading house executive describes the dynamic when talking about his absent relationship with the production level: *"I don't know who they are. We're dealing through trading houses in China as well. We don't have any actual factory that we deal with at all"* (Interview 26.06.10). This can explain how broken down the value chain in clothing has become. Retail and trading houses have different middlemen and suppliers, and source from various locations depending on where they can profit the most. They do not need to know who they are dealing with in production, because they enjoy the value chain power and suppliers depend on them to uphold production. The production level has to adapt to decisions made at the buyer level.

Neither in trader- or buyer-driven value chains do the sources to profit involve production and labour. This is in direct link with Kalantaridis et al.'s (2008) perception that successful restructuring strategies are moving away from actual production and towards the retail end of the value chain, where you find the more viable ways of profiting. This leaves the remaining manufacturers in Durban struggling for the orders that end up on the local market, and they very well know the reason for orders being directed elsewhere:

> *South African manufacturers cannot offer any significant and tangible reason why they would be more expensive when their lead times are only two weeks difference ... with the best will in the world, I don't think retail has a choice when there is a 40 or 50 % price differential... (Producer of interlining for the clothing industry 09.06.10).*

The citation shows that Durban manufacturers have not managed to find a competitive advantage in clothing that attract orders locally. When price differs extensively to what retail and trading houses can receive through imports, they are basically cut out of the value chain.

What is interesting in the South African context is that you find most of the global operations of 'triangle manufacturing', a concept outlined by Gereffi (1994, 1996 in Hassler 2003), inside the same country. He draws a typical example of the clothing industry's global dimension where clothing companies from first generation NICs fulfil the role as middlemen between buyers in advanced countries and producers in East and Southeast Asian developing countries. South Africa differs from the concept, when both buyers and middlemen are largely domestic and their distribution is mainly directed at the domestic market. Thus, the South African clothing industry does not reflect the global pattern of clothing production, as the domestic economy contains advanced, semi-peripheral and peripheral segments. South African retailers are sourcing both directly from producers and through other South African middlemen, and their products derive from both national low-cost areas, low-cost areas within the Southern African region or imported from Asian low-cost countries. This has led to an instability in the South African industry, making manufacturers uncertain as to when, or if, they will receive the next order. This in turn has made the South African manufacturers come to a point where their struggle to stay competitive and keep orders make trading houses and retailers uncertain of finding the predictability *they* need from local manufacturers:

> *They have closed down and opened up here under a different name. Every time adjust the buy, shop and change. And their reliability is very bad; they don't always stick to what they say. You're dealing with constantly trying to find better factories here, and they are all struggling (Trading House executive 26.06.10).*

The dynamic culminates in a vicious and unstable circle where the manufacturers lose if they are depending on local orders and do not have additional restructuring strategies as those of retailers and trading houses.

5.1.4 Global competition

> *You can't compete and pay the full rights of pay unless you're not a small niche operator, ties, chamber bands, things like that, in short runs, in which retail in fact can't get them overseas (NCMA official 11.05.10).*

Manufacturers find that when producing garments for the mass market, they are intensively challenged by the fact that these goods can be imported at lower prices from low-cost areas. If they cannot move into other market segments or upgrade their operations in the value chain, the enhanced competition will ultimately force them out of the industry. As outlined by Taylor and Bryson (2010), alterations in production patterns are making manufacturers try to shift away from mass-production and steer towards production of higher value, niche production strategies, to avoid having to compete on price. They compete by design in terms of expertise, specialisation and functionality, which can limit their exposure to competition from low-cost areas. This has not been, and cannot be, the case for smaller manufacturers depending on outsourced work in Durban (Gibbon 2002). The largest retail market in South Africa is for lower market segments, due to customer demand and purchase power, which means that these are the orders received from retail. As pointed out by Palmi (2007), even if companies were to change production and focus on the high-end of fashion, price will still determine the buying behaviour of many South Africans. Due to the high levels of poverty, a large part of the population is unable to afford high fashion garments.

China is now heavily involved in the South African market, again exemplifying the dual dynamic of the Durban industry. One part of the value chain is struggling to keep both orders and employment in the producing part of the industry, while the other part has cut itself loose from national involvement except market share for sale. According to Jauch and Traub-Merz (2006), local manufacturers are struggling to keep any market share at all, as a result of the outward orientation of the retailers. This has further increased pressure and competition for manufacturers in Durban:

> *The amount of work that is going around these days from the retailers and buying houses to the local market, everyone is having to compete with that now. The retailers are outsourcing elsewhere, from overseas, from Lesotho or whatever the case might be. And the percentage of the production that is coming local is dropping and I think it's continuing to drop (Bargaining Council official 13.05.10).*

When local orders are reduced, as described above, competition between manufacturers escalates. A study from 2003 suggests that retailers were already importing between 45-47% of their orders (Skinner & Valodia 2002). This continued to rise after the phase out of the MFA. Research done for NEDLAC (Barnes 2005) shows that imports in clothing grew in value from 703.206 R million in 1995 to 4571.93 R million in 2004. Even for the larger manufacturers, imports from Asia or neighbouring countries are emerging as a strategy to continue in the clothing industry, instead of using local manufacturers. These aspects have put an enormous downward pressure on price (Skinner & Valodia 2002).

Because of the widespread capacities of clothing production in low-cost areas, manufacturers in Durban have the choice of competing on price or productivity, if not being able to advance from production to the more profit generating parts of the value chain.

> *Unfortunately clothing always chases the low labour-cost areas and that's what happens. And labour is such a large percentage of your overall bearable costs (Large manufacturer 08.06.10).*

A large part of clothing production cannot be mechanised through technological upgrading, as could be a restructuring alternative for capital if the labour force is not 'suitable' for capitalist production processes. Hence, the issue of labour and labour costs will determine profit, and production will 'chase low-cost areas'. As argued by Kalantaridis et al. (2008), successful restructuring strategies are moving away from production, and the Durban region is no exception:

> *I think our marketing businesses have a good future; it just depends on where it is going to be made. We are set up in Lesotho and Ladysmith, but if we can't make it there we'll import it and just have the headquarters here (Large manufacturer 08.06.10).*

The informant explains how he perceives the future of the company. Since production from the Durban area cannot compete price-wise, they are lowering production costs in non-metro areas (Ladysmith) or neighbouring countries (Lesotho). The final option is to keep headquarters in Durban – sales, marketing, design – and import all garment.

As the Durban region has focussed on mass-production for lower market segments, they are now in direct competition with other low-cost areas. But the playing fields are not levelled globally, as e.g. China has both lower wages and higher productivity (Jauch & Traub-Merz 2006). While competition has heightened in lower income segments globally, imports in these segments have increased in South Africa (Velia et al. 2006). This has intensified competition for orders on the Durban market.

> *I think it is totally unfair for local manufacturers that we're now forced to compete with the Far East and the world... And why I say unfair is pretty straight forward, and more so for the CMTs because they pay labour. China is paying less than a third of what we're paying... All manufacturers are asking for in this country is: Please allow us or afford us the opportunity to compete on a fair and equitable basis with China. But no, in this country that's not allowed* (CMT manufacturer 20.05.10).

The CMT manufacturer above describes a frustration among many of the producing companies in Durban. They are well aware of what is available in other countries, and see their own high input-costs as hampering competitiveness.

The Durban area has not managed to build up a sufficient export-capacity. Only some of the larger manufacturers are exporting, but they are also experiencing a decline as export orders are directed towards other low-cost areas in the Southern African region. A study on South African trade from 1998 showed that exports were moving away from labour-intensive industries with high use of unskilled labour, while imports were increasing in the same sectors (Nattrass 1998). This leads to manufacturers increasingly loosing market share and they are being squeezed out of the domestic market. For one of the largest clothing manufacturers in Southern Africa, the SEARDEL-group, exports dropped by 53,5% from 2003-2004, and only 150 out of 2000 clothing manufacturers registered within the Sector Training Authority (SETA) have managed to export (Van der Westhuizen 2009). Both producers and retailers in the Durban area are still largely South African owned and production is aimed mainly at the domestic market (Gibbon 2002). This could signify that while being exposed to an increased international competition in domestic markets, the Durban manufacturers are holding on to the existing structures of selling, while the industrial environment for sourcing is changing.

5.1.5 South Africa's Regional Position

South Africa, as the largest producer on the African continent, had to follow WTO demands on tariff-reduction that led them to a less favourable position in the region compared with their neighbouring countries. This has especially affected the export market. As mentioned, members within SADC began implementing a free trade area in 2000 (Kirk & Stern 2005). South Africa was, as the only country in the trade-agreement, defined as a first world producer in the WTO round, meaning that goods from South Africa have to fulfil several requirements that are not imposed on their neighbouring countries (Barnes 2005). This can also have affected the restructuring the industry is going through, as trading from neighbouring countries means less requirements and therefore could have encouraged a relocation of industry to e.g. Lesotho and Swaziland. Voices from the industry argue there has been a misinterpretation of the actual state of the country, and a disregard of the segmented economy:

> *Many years ago, South Africa was considered a first world producer. And when they were rated as such, the government was like; wow, we're a first world producer. That was nowhere near the truth at the time...In fact, this is very much a third world country, but because we were ranked that way, it affects how much tariffs can be charged on imported goods...And because as a third world country the feeling is that we should be getting a far better dispensation from the WTO to allow us to apply higher tariffs (Bargaining Council official 13.05.10).*

This is further confirmed by Theron et al. (2007) arguing that when the new government came to power in 1994, the country had already agreed on extensive tariff reductions based on South Africa as a 'developed' rather than a 'developing' country.

A constraint on the clothing industry is the shortage of domestically produced fabrics, as well as the limited variety of fabrics produced locally. These factors inhibit the ability of companies to meet the requirements regarding rules of origin for exports under preferential trade agreements, and forces companies to import fabrics (Barnes 2005). The fact that the supply chain in South Africa is disrupted may have played a role in determining how South Africa can make use of both the AGOA-agreement and trade agreements within the WTO, and could partly explain the low export abilities of the country. As presented in the background chapter, the AGOA-agreement differentiate between developing and less developed countries, with the latter not having as strict rules of origin as the ones concerning South Africa. After Mauritius was redefined in 2004, South Africa is the only of the 19 AGOA-beneficiary countries that does not qualify as less developed, leaving them with a competitive disadvantage in the Southern African region (Barnes 2005). South Africa has not been able to take advantage of the AGOA-agreement, which could also explain why companies are eager to set up factories outside of South Africa where they can benefit from the 'less developed'-status in export production. A manufacturer of interlining for the clothing industry highlights the issue regarding lack of textile-supply:

And a lot of retailer now have sort of adopted the strategy where, you know, x % of our merchandise for whatever department it is will be imported. And that's working for them, because we don't have mills, Africa is not vertical...generally Africa has the cotton, has the raw material, has the resource, but the supply chain is not here for the industry"(Interview 09.06.10).

The informant points out an important aspect when highlighting the fact that the industry has difficulties in sourcing textiles and fabrics locally. With the disrupted supply chain in South Africa, retail and larger manufacturers have been forced to import textiles. This may have had the extended effect of facilitating an enhanced use of imports. If import relationships with companies in neighbouring countries and Asia were already well established, there is a short step from importing only inputs to start importing finished goods when struggling to produce locally. Because the rules of origin in AGOA tie the national textile industry to the clothing production process, any weakness in the textiles has a marked impact on the success of clothing exports (Barnes 2005). There is also an opinion in the industry that South Africa is not receiving the benefits they should in the WTO and that this in turn affects the balance between imports and exports (interview 13.05.10, 18.05.10).

5.2 Internal Factors

While the external factors affecting the clothing industry in Durban are, as we have seen, related to trade liberalisation and global, flexible sourcing patterns, it is important to explore the interplay of these with local factors. The internal factors in Durban will involve how the relevant institutions are responding to the changed industrial framework, the impact of labour regulations and illegal imports.

5.2.1 The Institutional Framework

It is expressed strongly in government documents that creating employment is highly prioritized in the formation of South African policy (Patel 2010). In 2006, the policy document 'Accelerated and Shared Growth Initiative for South Africa' set a goal in halving unemployment and poverty by 2014 (Makino 2008). Still, many of the policies from the government continue to promote resource and capital-intensive activities, which is creating an anti-labour bias (Flatters & Stern 2008). The government has been accused of neglecting the industry's role in the South African economy (Gibbon 2002). Manufacturers express the same complaints:

> *...any funding from the government was not passed on to CMT companies; they were only for the vertical companies. So there was no financial assistance. So as far as I'm concerned, the government hardly recognises our industry although we employ more people than the vertical corporations do (CMT manufacturer 02.06.10).*

The smaller manufacturers experience that they are not seen as significant for job creation or industrial development. When CMT manufacturers are such a large percentage of the total industry in Durban, this is regarded as unfair, and contributing to their loss of faith in industrial policy. Flatters and Stern (2008) explain how recent policy proposals for the industry has done little or nothing to develop a more competitive and sustainable industry. The implemented policies are:

> *...costly, they lack supporting evidence, they are biased towards particular producers, often those that are the least competitive, and without any recognition of fundamental differences and conflicts in the interests of different groups in the industry…*
> *(Flatters & Stern 2008:55).*

Roberts (2000) shows that when comparing the trends in employment and production, it is clear that those sectors with large increases in production are not the same as those with an increase in net job creation. This could signify that where production has increased, employment is lost, either due to technological change, downsizing or an enhanced use of imports.

The government has developed supporting schemes for the industry through cluster building and training programs (Palmi 2007). In that sense they are trying to support the industry and find a sustainable structure. This might have been the result if it was not for the fact that the majority of Durban manufacturers are not compliant, and hence cannot get the support offered through government initiatives. These non-compliant companies are often major employers, and the companies that need support to prevent further shedding of labour (Gibbon 2002). A government official in the EThekwini Municipality, the metropolitan municipality of Durban and its surroundings, further explains the issue:

> *If you look on the DTI website you will see the 'Clothing and Textile Competitiveness Program', the 'Production Incentives Program' and one or two others. Basically they are trying to help the industry to drag itself up. One of the problems is that if you're not compliant you can't get the help...It is such a skewed relationship because the CMTs tend*

> *to employ quite a huge number of people. We need to concentrate a lot more on them (EThekwini Municipality official 15.06.10).*

The information provided above shows that they are well aware of the situation and the gap created between those who need and those who can receive support. The larger, compliant companies are also increasingly the ones moving away from South African labour and enhancing their use of imports and outsourcing, as will be discussed in the next chapter. It is argued by smaller companies that the funding will not fulfil its original goal when received only by compliant companies in Durban:

> *Only the big companies have access to these funds, and what do they do? They are not employing like we do or holding the employment base. They have actually gone across the border and they have a tiny employment base here. And what we are frightened of is that they will utilise the government funds on machinery etc. and it will go out across the border. It will not benefit any South Africans* (CMT manufacturer 18.05.10).

The informant expresses the frustration many smaller manufacturers feel about the way their struggles are met by the government. If the companies receiving support are using the funding for a restructuring strategy that will not benefit the industry or employment locally, the support schemes will lose their objective and become additional profit in the company pocket. This could also increase the already great conflict of interests between them and the smaller CMT manufacturers. How these conflicting interests affect negotiations in the BC will be discussed in the next chapter.

Specific national policies can also partly explain the low export capacity. One of these would be the Duty Credit Certificate Scheme (DCCS). The DCCSs were implemented to increase and encourage the outward orientation of companies by allowing them to claim a reduction on duty on their exports. The credits could also be sold to any other importer of clothing and textiles. The policy resulted in an unplanned outcome when the bulk of credits were sold to retailers who used the credits to import garments. The policy tool therefore reduced the demand for domestically produced garments and damaged domestically oriented clothing companies (Barnes 2005). The strengthening of the Rand in 2003 also contributed to the challenges with export performance in clothing. As highlighted by Culpeper (2005 in Van der Westhuizen 2006:15) *"greater openness may be associated with greater volatility and economic shocks, for example, through capital surges or shifts in the terms of trade".* Especially when developing countries are pursuing policies of economic openness, as that of

South Africa, they become increasingly vulnerable to such volatility. The changes in the Rand value led to an exchange rate that favoured imports and hampered export production (Gibbon 2002).

In South Africa, lack of employment is a burning issue, and the government has stated that they are working towards decent work, reduction of inequality and defeating poverty. The government's rhetoric says that they are investing in employment for the future (Patel 2010), but in reality, in combination with the neo-liberal turn national policy took from the mid-90s, an intervention to prevent more jobs from being shed in the industry has yet to be seen. According to Theron et al. (2007), the government's emphasis on workers rights and growth through redistribution is difficult to bring together with its commitment to trade liberalisation.

The union SACTWU is an affiliate of the largest union in South Africa, COSATU, which again is loosely allied to ANC. Agents in the industry argue that this has created difficulties in making their voices heard. The blurred lines between union and governmental politics in South Africa make the functioning of co-operation between state, capital and labour subject to debate. Many government officials were recruited from the unions after democratisation (Wood 2001). This is still the case as e.g. the Minister of Economic Development in president Zuma's cabinet from 2009, Ebrahim Patel, was the former General Secretary of SACTWU[8].

> *This is an industry in dire strait. People know what needs to be done I feel. It's out there. I think it is also a power thing. Because they are part of the alliance with the ANC it becomes also like a power play where they got the power to do this within their sector. Where they can bring the country to a standstill if they want to. And while they might get higher wages for their members, they are loosing tons of jobs in the urban areas where the CMT can't pay the rates because there is just not enough work*
> *(EThekwini Municipality official 15.06.10).*

The informant expresses that the alliance between the union and ANC might create further difficulties in planning a sustainable structure for the industry. She sees the union as strong, and with the capability of getting their voices heard in policy making. But at the same time the government has chosen to overlook suggestions both from the union and the industry when addressing industrial policy, which was most apparent in the formation of the GEAR policies (Pretorius 2000, Wood 2001), and the formation of labour legislations like the LRA (Makino 2008). It appears that since there is an alliance between unions and the government,

[8] http://www.sactwu.org.za/index.php?option=com_content&view=article&id=101:sactwu-welcomes-swearing-in-of-ebrahim-patel&catid=54:2009&Itemid=76

union fails to take a clear stance on behalf of South African workers on the one hand, while government fails to intervene in Bargaining Council negotiations to assure the survival of the industry on the other. This has lead to policymaking without a clear strategy, where rhetoric fails to translate into action and they are watching the industry suffocate without interfering. Morris et al. (2001) confirm this by arguing that there is a gap between policy formulation and implementation. While efficiency and competitiveness of the sector is crucial for output and employment, they continue with tariff reductions in a more rapid pace than implementation of support programmes.

Furthermore, smaller companies are left out when policies are put in place to support the industry in the BC. Because of the struggles regarding the restructuring of the industry, the BC has an alternative of granting companies an exemption from wage rates if they can provide information on their financial status and why they have the need for it. They will then be able to pay lower wages for a period of time, as to get their company back on track and avoid turning non-compliant (SACTWU official 17.06.10). There is a widespread understanding amongst the smaller manufacturers that these exemptions are not granted those needing it, but only larger manufacturers:

> *What has happened [with industrial policy] is to protect the big manufacturers and I can use a classic example; there's a company called [company name][9] that has had an exemption from council for a good couple of years and that exemption doesn't apply to anyone else... (CMT manufacturer 02.06.10).*

The citation above concerns a general perception of the skewed relationship between small and large manufacturers in the Durban industry. Since many of the smaller are left out of both negotiations in BC and support from government, due to non-compliance, the larger manufacturers are more likely to get their voices heard and lobby their interests.

> *...I would take the compliant order, give it to the shop steward on the union and say; take this, go to the union's council with all the staff. Take all 100 people, go to them and say; [company name] is closing down, what are you going to do with all of us?*
> *(CMT manufacturer 02.06.10).*

The manufacturer describes the extended effects of BC's prosecuting of non-compliant companies. He had just received a compliance order from the BC and was frustrated about the short-term solution on which they are embarking. There are limited employment opportunities

[9] One of the largest clothing and textile companies in South Africa

for the labour force after their workplace has been shut down, and he calls for a long-term strategy from the union and the council to uphold local production. To close two-thirds of the companies down is not a solution to the challenge of unemployment in the country.

Kaplinsky and Morris (1999) argue that as leadership of trade unions played a critical role under Apartheid and towards democracy, they are now left with few resources for non-factory bargaining issues. They claim that the reason is that many of the great leaders were absorbed into government after the transition, leaving the trade unions with an inexperienced management.

> *The union doesn't understand globalisation or doesn't want to understand how easy it is to move production around the world. And that's very difficult*
> *(Large manufacturer 06.06.10).*

Manufacturers also express that they lack confidence in the union. They argue that if SACTWU does not change its approach, the production part of the industry will disappear from the country, leaving all its workers unemployed or in unregulated business. Any strategy from the union to organise unregulated workers has yet to be seen.

According to Kaplinsky and Morris (1999), liberalisation has forced great adjustments on various institutions (government and parastatal, business associations, private consultants and trade unions). The institutional structure needed a complete turn-around, but had little success in doing so. The authors see these struggles to adapt to new demands as a result of previous cultural and strategic orientation in combination with insufficiently trained personnel for handling industrial restructuring. Their research states the following:

> *Although regional business associations mouth the need to move away from lobbying, they have little experience of playing an industrial restructuring and development role for their constituencies. In the clothing sector for example, 57% full manufacturers perceive the role of NCMA as being of purely lobbying nature, while 37% of CMT manufacturers do not believe that NCMA is representative of their interests*
> *(Kaplinsky & Morris 1999:731).*

As mentioned, NEDLAC was established after democratisation as a forum for negotiation between state, capital and labour (Pretorius 2000). Manufacturers claim that they have close to no arenas where they can affect national trade policy, so the functioning of the so-called corporatism can be questioned. An official from the NCMA in Durban had the following to say about their relationship with NEDLAC:

To influence national government they would have to go through NEDLAC, which is the largest business community. NEDLAC can negotiate issues, at least we have direct lines nowadays, which is actually quite good. We have had several plans the last 15 years, and none of it has come to anything… Now we can talk to the ministry. But we haven't had any affect on the national policy. They consult with us nowadays. They just introduced a huge new policy, and they showed it to us. We said; that's not going to work. And we redesigned it, gave them two different options to help the industry. They go; no, we don't like that, we go with the original one (NCMA official 11.05.10).

What the citation describes is that NEDLAC is the only forum that they can address, but it stops there. The distance between being able to address the forum and actually affect policy is great. The smaller manufacturers do not even see NEDLAC as a forum to approach (CMT manufacturers 18.05.10, 02.06.10).

5.2.2 Labour Regulations

But you have got to start at some point, in becoming a global manufacturer, you've got to look at the prices globally and the labour rates globally as opposed to being insular in South Africa. And that is where the unions have, unfortunately, reduced the jobs in this country. They have pushed the price way beyond. You know economics always win (CMT manufacturer 10.06.10).

The manufacturer above argues that the wage rates in the industry are set with no relation to the competitive level in clothing production globally. By agreeing on higher rates, the competitiveness of companies is deteriorating and more jobs are lost. This displays a great conflict between what national policies are pursuing, and what is possible to maintain production in a labour-intensive industry, again demonstrating the difficulties in trying to make trade liberalisation and labour protection compatible (Theron et al. 2007). As shown in the theoretical chapter, the expansion of neo-liberal policies in multilateral trade agreements, as well as nationally, has made labour costs subject to competition. Places and workers are pit against each other to attract investments (Lier 2007), and when retail and trading houses are not tied down locally to source their order Durban's high costs place manufacturers on the risk of being pushed out of the industry. Cheap imports from overseas are outcompeting Durban production in their domestic market.

It is if the trade unions recognise that the industry is going to destroy itself. That it cannot sustain the wages that it's own people are paid, have to have a drastic movement downwards because in order to survive in the industry we have to be competitive. To be

> *competitive in South Africa we have to be able to offer wages that give our good a price that is nearly the same price as imports (CMT manufacturer 18.05.10).*

The informant describes the incompatibility between competitiveness and the strict labour regulations in the industry. For the industry to survive, the wage rates must relate to the market and the price on imported goods. The balance is difficult, as you would *need* a wage floor to avoid that manufacturers start undercutting each other. A race to the bottom, as such, is directing the pressure downwards, leading to degrading conditions for the workers (Appelbaum et al. 2005). A problematic aspect in Durban is the fact that wages have increased annually with no correspondence in price increase. The retailers continue to push prices down because they compare it to what is available on the global market. The lack of correspondence between what retail demands and what production can offer while staying compliant, makes output increase while input stays the same or decreases. NCMA claims that in 2000 the production price demanded for a standard garment was R9.50, while the same garment was produced at R4.50 in 2009[10]. This means that the manufacturers are already experiencing a decrease in input, before having to deal with additional increases in labour costs.

According to Lipietz (1997), the competition between NICs has globalised a single mode of production with continually lowering the wage rates. In Durban, one can argue that the industry is holding on to a Fordist wage relation of labour protection in combination with specialisation of tasks. In combination with the low skills in the industry, the industry will be outcompeted from above and below (Lipietz 1997).

> *I've said to them [the union]; that rate of pay, are you comparing it to Port Shepstone down the South Coast? What are you comparing it to? So we want one rate of pay in South Africa. I say that's a mistake. You need to look at China and say: Can we compete? (CMT manufacturer 02.06.10).*

As pointed out by the informant, wage rates can no longer be isolated nationally, but must be compared to what is available globally. In that sense, the labour regulations in Durban place wage rates above the level of competitively determined market wages (Kingdon & Knight 2007). According to Cook et al. (2004), successful industrial regulations have to pre-access information about costs, income, capital investments, consumer demand and the costs of raising capital of the regulated firms. Furthermore, information about the market and

[10] http://www.ifashion.co.za/index.php?option=com_myblog&show=Where-next-for-KwaZulu-Natals-CTLF-Sector-.html&Itemid=75

macroeconomic events that might affect the regulated firms must be obtained. They also point out how this information tends to be incomplete in most regulative bodies. In Durban, one can observe that the regulations implemented do not correspond to the competitive environment or the income of companies in the industry. Additionally, they are not sensitive to the different cost structure of competing firms in the industry. As explained by a Bargaining Council official (13.05.10), there is no cooperation with the South African retail sector in developing sustainable labour regulations. How the labour regulations affect employment will be explored in the next chapter.

5.2.3 Illegal Imports

While trade was rapidly liberalised, additional challenges emerged. Trade liberalisation put large pressures on borders, and logically also the custom service. As trade in textiles and clothing enhanced, so did the illegal imports. Not only did the industry have to deal with an enormous increase of imports, but they also lacked a sufficient custom service to prevent an additional flow of illegal goods across the border. This is a clear symptom of the extended effects a rapid liberalisation may have on a country. An NCMA official describes the situation as follows:

> *They can only inspect 5-10% of what's coming through, and they must take a chance with it. And they bribe them hugely for a container. Or they send it to Mozambique and then Botswana, which is a part of the custom union, and it just slips across the border. That is one of our biggest problems. If we could stop that we'd come a long way. They don't have good enough manpower in the custom (interview 11.05.10).*

The illegal imports are coming in through dumping and under-invoicing and it is argued that because of the inability of the custom service to police clothing imports, the tariff rates that are set to protect the domestic industry is half the advertised level (Gibbon 2002, Barnes 2005). A consultant of the textile and clothing industry describes the situation as leaning towards free authorisation when explaining how easy it is to bring goods across the border with false invoices in combination with high levels of corruption (interview 12.05.10).

5.3 Summary

The chapter has analysed constraints to competitiveness in Durban, divided into external and internal factors. It is evident that the rapid shift from a protected industry with high tariffs to integration with global trade has market the productive domain. The industry has to compete with production in other low-cost areas which has led to immense pressure on price in Durban. Manufacturers are struggling to keep domestic market share, as retail and trading houses have increased their use of imports after trade liberalisation. Retail is holding the bargaining power in the value chain, comparing production prices locally with imported goods. The competitive pressure is further enhanced by South Africa having an unfavourable position regionally. Both in the WTO and AGOA, several requirements are placed on South African production that their neighbouring countries do not have to comply with, along with the lower production costs in the neighbouring countries.

The internal constraints are the functioning of the institutional framework, labour regulations and illegal imports. In the institutional framework, governmental policies have implemented policies that have created an anti-labour bias in contrast to the stated priority of employment creation. Support schemes from both government and the BC are directed mainly at larger manufacturers, while the non-compliant companies are left out of any support policies. There is an overall lack of confidence in the industry's institutional framework. The manufacturers perceive the labour regulations as a major contributor to the deteriorating competitiveness in the industry as they make retail and trading houses use other sourcing channels than Durban. Additionally, illegal imports have put large pressure on the custom service, adding to the flow of cheap imports on the domestic market.

6 THE DURBAN RESPONSE

What is the response to deteriorating competitiveness from manufacturers in the Durban industry? The chapter will answer the following research questions presented in the introduction: *What strategies are manufacturers in Durban using to stay competitive? How do these strategies affect employment opportunities in the Durban labour market?* The chapter is subdivided into three sections; 'Responses at the Industry Level', 'Responses at the Company Level' and 'Labour Market Response'.

6.1 Responses at the Industry Level

> *To close the industry down by having first of all competition from China which is squeezing down the prices on garment, and secondly having the union push the prices up on the wages ends up by just bottlenecking the industry into an area where there is just nowhere to go. You're caught between a rock and a hard place, and at the end of the day there is nothing that can really change it unless you go underground…*
> *(Trading house executive, 26.06.10).*

As the citation highlights, manufacturers in the Durban clothing industry find themselves in a squeeze. The trading house executive admits that smaller manufacturers have limited space for action in the current industrial frame. Trade in clothing opened up through both national interventions with neo-liberal policies after democratisation, and alterations internationally with the ending of the MFA. This left manufacturers in a struggle to keep up with the flexible work relations demanded in international trade. An increase of imports caused by new sourcing strategies is forcing price pressure on local rates. Lipietz (1997) argues that there is a limited compatibility between flexibility and negotiated employment. As this is the environment the Durban industry is operating in, signs of this contradiction are brought to the surface. National policies through GEAR liberalised and restructured the industrial environment, but simultaneously passed various legislations (see background chapter) that have increased the cost of employing labour and extended minimum wage floors (Naidoo 2003).

The industry in Durban is built up after a flexible pattern referring to how different companies are devoted to separate tasks in production and distribution. Trading houses are only sourcing; large companies are sourcing and producing, while CMTs are only taking outsourced orders. All goods are at the final stance left with retail, dictating the prices and choosing the suppliers. This enhances the conflict in the industry when the flexible structure meets the labour regulations. Nattrass (2000) refers to a review of reforms in OECD countries, finding those countries that tightened their fiscal policies without also reforming their labour markets have experienced great losses in employment. As firms are dreading the consequences, such as high labour costs, they are instead shifting away from labour-intensive production.

The Durban manufacturers are experiencing that profit is no longer to be found in their part of the value chain. The retailers and trading houses are growing immensely, while the number of registered factories and South African employment is shrinking weekly. This coincides with Kaplinsky's (2001) analysis of global competitive processes: As more countries have developed their capabilities in industrial activities, the barriers to entry have fallen and competitive pressure has increased. The process of competition leads to a search for new combinations to heighten profit and improve competitiveness, which in turn has led to the fact that primary economic rents in the value chain of clothing are increasingly to be found outside of production.

> *When the imports started coming in we got less and less work. The main manufacturers had to compete against each other and buy cheaper. So they did. They went to China* (CMT manufacturer 18.05.10).

The citation outlines how CMT manufacturers find themselves 'left behind' in Durban when the production patterns altered. First, retail changed their sourcing strategies. Then, large manufacturers found that they lost orders to Asia. As a restructuring strategy, the manufacturers followed retail's lead and started to import themselves. Both global and national buyers less and less choose Durban as a sourcing channel. The price on production is not competitive if compared with the price in other clothing producing countries. This has lead to massive downsizing and closures (Jauch & Traub-Merz 2006), especially among the smaller manufacturers.

> *I think what made it worse, as I said earlier, [company name] when they moved out. You know they gave a lot of work out in the Durban area; they were one of the biggest outsourcing company. Now that was a big knock for our guys in Durban. They've just taken out all the work putting it in neighbouring countries*
> *(CMT manufacturer 14.05.10).*

The CMT manufacturer above explains the circle effects that emerge when large manufacturers are changing their company structure and sourcing strategies. Since the great amount of CMTs is depending on orders from larger companies, trading houses, and retail, the outcome is costly when orders are placed elsewhere.

> *...but the volumes are getting less and less due to imports and cheaper pricing... When you can bring in a blouse made up cheaper than you can bring in the fabric, something is wrong (CMT manufacturer 10.06.10).*

The CMT manufacturer sees local orders shrinking, and that it can be cheaper to import a ready-made garment than for local manufacturers to buy the fabrics. Many of the informants are experiencing that earlier customers, such as Woolworths, Truworth, Foschini[11], have started to import heavily. These are large retail chains with which the manufacturers have had long trade relations. Most of them say that their previous customers have set up production facilities in China for price reasons (CMT manufacturer 18.05.10, Clothing manufacturer 08.06.10).

6.1.1 Combining Weak Institutions with Local Competition

> *Now who agreed to that [the wage rates] was the NCMA, the big guys. ... Where are these big companies today? ... They've either closed or they are trading in neighbouring countries ... They set the high standards, social benefits, provident fund, sick fund whatever but why did they move away from this country? Is it not because of affordability, the cheap labour that they got? So they couldn't afford it themselves. So how can they now throw that responsibility on to us? We are CMT; we get ripped off by the big guys... (CMT manufacturer 14.05.10).*

The citation above describes an interesting dynamic of the negotiations in the Bargaining Council, which makes it possible for the industry to contribute to its own struggles. When opening up to free trade, clothing imports from other low-cost areas penetrated the South African market. This in turn has intensified local competition, as companies have to compete for the decreased amount of orders directed to local producers (Jauch & Traub-Merz 2006). After the mentioned decline in membership, the remaining members in the employer body are basically larger and more capital-intensive firms, which negotiate on behalf of all the employers in the region (NCMA official 11.05.10). The wage rate set in the Bargaining

[11] South African retail companies

Council will apply to all clothing manufacturers that employ more than 5 people, even those without membership with an employer organisation (NBC 2010). When an employer body is only represented through larger companies, it is said to have adverse affect on employment in smaller, more labour intensive companies that do not take part in the negotiations (Nattrass 1998). The skewed participation in the negotiations has obvious consequences in the Durban industry, which is mainly made up by smaller CMT manufacturers (Barnes 2005). Their voices are not heard in the negotiations, even though the reasons for their deteriorating competitiveness may differ extensively from those of larger firms. Hence, the outcome of Bargaining Council negotiations will reflect the interests of big business and not the industry in total.

As mentioned, the current stand from NCMA is to prosecute all non-compliant manufacturers. When about three quarters of the Durban industry is non-compliant (Bargaining Council official 13.05.10), a large part of local competition will be cleared away. The reason why they are agreeing to increase the wages in the industry could then be a way of dealing with local competition. Nattrass (2000) argue that if a minimum rate is set above the level of what is manageable for smaller manufacturers, this can force them out of business. Even some of the larger clothing manufacturers see this dynamic as apparent:

> *I said to them; guys, you are determined to silent competition. They are pushing for compliance right? They have a reason because they don't want to adapt to the needs of the time. They have got it in their minds that should they close all the CMTs, they would have the market to themselves (Large manufacturer 24.05.10).*

The informant believes that the employers in the negotiations are pushing for higher wages and compliance from all manufacturers to wipe out the CMT segment. The need for CMTs in Durban is no longer crucial, as manufacturers are setting up production units in other areas or use imports to balance their costs.

Companies are frequently using relocation as a possible restructuring strategy to lower production costs (Gibbon 2002), which will be discussed below. The larger firms included in the NCMA, and thus with mandate in the Bargaining Council, are often the firms that have the capabilities to relocate production to low-cost areas.

> *Today it is a very unfortunate situation that the employer body has agreed to start shutting down the non-compliant factories. But what is so terrible about it is that the manufacturers in the employer body are the mainline manufacturers that have relocated the manufacturing outside of the borders of SA. They have some manufacturing facilities here, don't get me wrong, but they have relocated the bulk. So they manufacture at a 28*

> *USD a week rate outside of the country and they pay the rag-tag staff that is left here the 100 USD. And you balance it. That is what is destroying the industry right now (CMT manufacturer 18.05.10).*

What the CMT manufacturer explains is that the companies that are part of the employer body and have determined to prosecute non-compliant, are the same ones that are relocating. Companies can move their production out, but keep a small number of workers in Durban. Hence, they keep their seat in the Bargaining Council. They are setting the wage rates for the rest of the companies in the region, but balance their own costs by having the majority of their production done in low-cost areas (either non-metro areas or neighbouring countries), or import what they cannot produce in-house. They can also take local orders and outsource what they are unable to produce themselves to other Durban companies. That way they can offer the suppliers a price that forces them to be non-compliant, but they themselves stay compliant as the production is not done within their own production facilities. It is stated in the National Main Collective Agreement (NBC 2010) that outsourcing to non-compliant companies is not permitted and that the outsourcing company have to make sure that their suppliers are holding a valid certificate of compliance from the Bargaining Council. Still, information from different companies in the industry shows that this has yet to come into practice. A trading house executive had the following to say when asked if they made sure of compliance in the companies they were outsourcing to: *"No, it's basically up to them. We don't get involved with them, there is no law of what I know that stipulates that we check"* (Interview 26.06.10). This again exemplifies the gap between theory and practise in industrial policy. At the same time, this approach would only lead to more companies being forced to shut down and therefore not bring about a final solution.

By pushing for a wage increase, larger manufacturers squeeze out local competition for orders, as smaller manufacturers are unable to cope with the regulations and at the same time do not have the cost structure to relocate. This way, not even the orders directed towards the local market will benefit Durban employment. This can relate to struggles between independent capitalists when accumulation processes are hampered. As outlined by Marx (in Harvey 1982), independent capitalists will try to minimize their own loss by pushing it on to others.

> *They are the very big guys that first set high standards for minimum wage and all sorts of social benefits. They reached a point where they said it was too expensive, they had a lot of fights with the union, and they decided to go and open these plants in foreign areas in*

neighbouring countries. So they reached a point where affordability became critical, so how on earth are we going to afford it? (CMT manufacturer 14.05.10).

The citation describes how the large manufacturers first agreed upon the negotiated regulations in the BC, until they started feeling the competitive pressure and no longer could continue profiting under the regulations. Instead of adjusting the local regulations to the changed framework of trade, they withdrew production from Durban. In a feature on the crisis in the clothing industry, CMTs argue that the larger manufacturers have priced themselves out of the market by agreeing to unrealistic wages, and are then trying to survive by squeezing out local competition (Terblanche 2010). Neither the Bargaining Council, the union or national government follow up on this dynamic. The latter claims that the only way they can be assured that decent living wages are paid in the industry is through demands of compliance, even though they are aware of what is going on. A Bargaining Council official had the following to say about the negotiations:

We as the Bargaining Council, and I'll say this openly, are strangling employers. Companies can't afford to pay what they are entitled to pay of social benefits and wages. And we task with prosecuting them, we carry out mandates, and it certainly is a huge contributor to the decrease (Bargaining Council official, 13.05.10).

The Bargaining Council is prosecuting companies that are not compliant by delivering compliance orders and, in the last instance, forcing the companies to shut down. The rates set are a result of negotiations between the employer body and the union. One of my informants, a relatively big CMT manufacturer, had recently received a compliance order and shared some conflicting information about the process:

The union is so upset that we got compliance orders yesterday. They are creating such a fuzz. They want to fight the council on [company name]'s behalf. I just said I'm not getting involved, you guys can do what you want to do...They don't understand it. When the guy from the council came to present the compliant order yesterday he said; I can't believe this company is getting this. He said; your wage rate is double of what a lot of the other companies are paying. But that's the way it works (CMT-manufacturer 02.06.10).

The union wants to fight the compliance order on behalf of a company that is not paying the official rates. These rates are a result of negotiations between that same union and the employer body. This implies that not even the union believes that the industry can operate within the current labour regulations. So if the union is opposing to the rules, who are then determining the wage increase? SACTWU is said to be one of the unions with the highest industry penetration in the country (Wood 2001), which makes it difficult to believe that the employer body is dictating the terms in the BC. Still, a report presented at the TexCon TwentyTen in September 2010 states that some of the largest importers in the industry are also ranked as manufacturers. The report expresses worries that when such stakeholders lobby for their interests, it may skew the outcome in favour of the import roles that have been assumed rather than the manufacturing one (Matlotski 2010). This could be the case of the dynamics in Bargaining Council negotiations.

6.2 Responses at the Company Level

Naidoo (2003) identifies a general trend in South Africa where the market has found a way to reassert its power over workers by avoiding direct employment. There has been a greater use of so-called atypical employment, including independent contractors and labour brokers. An interview with the NCMA expresses the same impression:

> *But there is a large use of contract labour nowadays. That is a similar thing to labour brokers, but the manufacturers do it themselves. They employ contract labour. Same conditions of service, but the labour will be under 3, 6 or 9 month. And our production is cyclic; we are at a low point at the moment, from June till October it starts taking on for the upturn. So there is some staff for the low level, and they take in on contract for high season. Some of the production gets almost twice as big... That's the only way to remain flexible in the industry (NCMA representative 11.05.10).*

Clothing production has always been cyclic because of the seasonal divide, but it is the increase in use of contract labour that is significant. Due to the decline in local orders, manufacturers cannot afford to keep a large labour force on full-time contracts. This is a part of the new restructuring strategies, where the group of core workers is kept to a minimum to be able to uphold production.

> *... You're not fussy on what you do, if somebody gives you a pair of trousers, you'd make trousers. You take what you get and you are told the prices and by the end of the day you are forced to pay (CMT manufacturer 20.05.10).*

The manufacturer above points out how little influence the smaller manufacturers have in the value chain when locked at the production level. Several informants pointed out that they have to take all the offered orders, or lose their customers. There is not sufficient action space for manufacturers to place any demands on retail. As local competition is stiff because of the high level of import penetration, manufacturers usually have to take anything that comes their way.

There are signs of the so-called race to the bottom in Durban as manufacturers that have not relocated or shut down are fighting over the remaining orders by going underground to circumvent labour regulations from the BC to cut costs. They are undercutting each other and try to make the most profit out of the orders they receive. A well-known term in the industry is 'cabbages'. These are extra pieces of clothing that the CMT manufacturers have squeezed out of the textiles they receive with the orders, and sold at multiple factory outlets throughout the city as a way of trying to make some additional profit (Bargaining Council official 15.05.10). This is one of the few strategies CMT manufacturers have to circumvent retail's power over the market for clothing in general, if not targeting labour costs.

One can divide the specific restructuring strategies at the company level into four groups: Alteration of the company format, relocation, unregulated business, and closure. The categories are not fixed, and may overlap in some cases. What is interesting about these four groups is that the outcome is very similar – jobs in regulated business are disappearing in Durban. Manufacturers are aiming to avoid local labour regulation or abandon the responsibility of labour.

6.2.1 Altering the Company Format

Several manufacturers have chosen to change the format of their company as a way to adapt to the constraints to competitiveness in the industry. Two distinct strategies are to be presented in this section; trading houses and co-operatives.

As a consequence of the increased competition and strict labour laws, a restructuring strategy of former manufacturers has been to reorganise their company into trading houses. This means that they have taken out the production part of the factory, and are working as middlemen between production and retail. Because they are previous manufacturers, they have built up business connections with both retail and suppliers. Hence they can keep their customer base and suppliers while moving towards the retail end of the value chain. This leaves them with a broader spectrum of sourcing options, as they are not tied down locally by production facilities. They only produce samples to be used in presentation to retailers.

Every company that has downsized and becoming a trading house and they operate through the CMTs are very successful today. There are a lot of companies that were formal before and have become trading houses. There are a whole lot of them in South Africa. What they do is that they out the client base. They would go to Truworth or Foschini and talk with the buyer or tour with the buyer to Europe or Far East, find out what the buyer is interested in and they produce a sample
(Large manufacturer 24.05.10).

As orders are scarce and the local competition is stiff in Durban, it is easy to find factories to do the work. This means that trading houses can move into areas of design and marketing instead of production, which are seen as the more profiting areas in the clothing industry. This is in direct link with the findings of Klein (2002), where the value of the production process has been reduced substantially. Surplus value in clothing has shifted towards branding and marketing. As stated by Phil Knight (in Klein 2002:197, own translation); *"there is no value in making things anymore. The value is added through thorough research, through innovation and through marketing".* Production is reduced to tedious routine work of marginal importance. When companies are avoiding production, they free themselves from the struggle between labour and capital, wages and profits. This struggle is left with the supplying companies down the value chain. They can also choose to import parts or all of the production, as the following citation describes:

…about 15 years ago where we had anything up until about 25 factories doing local CMT, and things were working very well… we do a 100% import at the moment, everything comes out of China (Trading house executive 26.06.10).

The citation above shows the extent of redirected orders. This trading house was not a newly converted one, but gone through massive changes in sourcing strategies as the industry started feeling the competitive pressure. If production in Durban is not predictable or cheap enough, trading houses will choose to import. There are also examples of the trading houses taking advantage of the local competition, and use their wide sourcing option to pressure manufacturers to produce cheaper. Because of the option of using e.g. Asian suppliers, many CMTs go a long way to land the orders. A CMT manufacturer explains how pressure from trading houses and retail is pressuring factories to non-compliance, basically because labour is the only cost where it is possible to cut for the CMTs:

Some of these factories or design centres (same as trading houses) have grown to where they have no labour... They will give you the work, they will give you the price that forces

> *you to be non-compliant. Your workforce will be paid non-compliant wages because you are trying to get the wheels to turn (CMT manufacturer 18.05.10).*

Hence, price competition puts a large pressure on Durban manufacturers to produce cheaper, and can push them out of the industry at the last stance.

A strategy that upholds employment, but which bypass the labour laws is the strategy of turning the factory into a co-operative (Gibbon 2002). After legislation from the government, as a way of trying to create employment, a clothing factory will fall outside of the labour laws set in the Bargaining Council if the company is owned and operated by the workers. The initiative is meant to encourage groups of workers to come together and create their own livelihood (DTI 2011). This should inspire entrepreneurship amongst workers and it is argued that they should therefore not be restrained by having to follow the labour regulations. One of the main arguments is that profit is to be distributed according to skills and experience within the co-operative, and it is therefore irrelevant to force co-operatives to follow the negotiated rates. What the Bargaining Council sees happening in Durban is that employers take advantage of this opportunity as a way out of the struggles and turn their factory into a co-operative on paper, without changing the company structure in regard of ownership or distribution of profit:

> *They're setting up these co-ops and register them and essentially nothing changes in the factory. They're still run by a director, an owner, and the workers are made to sign something they don't really know what they are signing and they become a co-operative. And because of that they fall out of our jurisdiction, and they can basically do whatever they want; there's no protection for employees, there's no benefits provided, and really it's just a facade and the company keeps running as it always has... And when they do, they pay lower wages, they can take work at lower prices and it continually leads to almost down spiral (Bargaining Council Official 13.05.10).*

This has been facilitated by the employer union the Confederation of Employers South Africa's (COFESA) assistance in restructuring workforces into co-operatives and 'independent contractors'. The workforce is then redefined and will no longer count as employees. An employee is, stated in the Labour Relation Act, *"any person, excluding an independent contractor, who works for another person or for the State and who receives, or entitled to receive, any remuneration"* (Skinner & Valodia 2002:64). The work of COFESA in encouraging the formation of co-operatives can be seen as an institutionalisation of a circumvention of labour regulations. None of the provisions of the Labour Relation Act or other labour legislation will then apply. One of the informants explains the approach of COFESA as follows:

> *We joined COFESA when we opened and said; look, we don't have a problem with the BC, but we cannot match the minimum rate, we cannot afford social benefits. COFESA said; you don't have to, there are loopholes in the system, come join us*
> *(CMT manufacturer 14.05.10).*

One of my informants had to downsize his company when struggling to stay compliant with the Bargaining Council, but told his workers that a possibility was to establish a co-operative that he would supply with work. They hired factory space and machines from him, and he stayed registered with 5 workers. Hence, he did not have to follow the labour regulations, but could keep his customer base due to the supplying arrangement with the co-operative next door (CMT-producer 20.05.10). An informant from a trading house also explained how they used to have a ship-off and delivery section incorporated in the company, but they turned it into a co-operative for cost reductions: *"So they charge us and we pay them, but essentially I set them up and now they have gone on their own"* (Trading house executive 26.06.10). Such further fragmenting of the value chain in clothing, as the two strategies are examples of, makes it possible for the agents at higher levels to avoid regulations and the responsibility of labour. For more information on the legislation and formation of co-operatives in Durban, see Roman (2011). Her master thesis on the formation of co-operatives in Durban, based on fieldwork in Durban from May-July 2010, analyses the interplay of theory and practice in the formation of co-operatives.

6.2.2 Relocation

> *Just a small amount of production is left in Durban. Less than 10%. We used to employ 12 000 people in Durban, now we employ 4 200 [including administrative staff]. We have grown tremendously, but by manufacturing in low-cost areas (Large manufacturer 08.06.10).*

The citation above exemplifies an alarming trend in Durban, where companies are increasingly relocating their production out of the area. This could either be to non-metro areas, where wages are significantly lower, or to neighbouring countries - mainly Lesotho or Swaziland. Because of the differentiation of wage rates in metro- and non-metro areas, as explained in the background chapter, companies see an opportunity to use the lower rates to enhance profit. If the non-metro areas are not suitable, companies move their production out of South Africa. Both Lesotho and Swaziland already have an established clothing industry and a large labour pool. Even when including the obvious transportation costs, companies fin that they can decrease their overall production costs through relocation.

A range of companies is also performing a combination of relocation and outsourcing, mainly to avoid the responsibility of employing. This would mean that they are supplying their own production with outsourced production, either locally or from neighbouring countries. Additionally, large manufacturers have started to import from Asia themselves (Gibbon 2002). Skinner and Valodia (2002) argue that when companies relocate, they often keep certain operations in Durban; especially the ones requiring skilled workers and where quality is more decisive than price. For the orders that have to be produced at low prices, manufacturing in neighbouring countries is viewed as a better option. Interviews with large manufacturers confirm the trend of moving away from employing and reducing local orders:

> *...[The company] essentially did three things; reduced it's own manufacturing in South Africa to the extent, sourced garments directly through imports to complement it's ranges and … opened a manufacturing capability in Lesotho*
> *(Large manufacturer 20.06.10).*

As a result, they are leaving other companies with the employment responsibility, or rejecting the use of Durban labour in production. The relocation process is likely to continue because of the negative circle-effects on supplying companies in Durban. As the pressure from global competition forces some to move out, this enhances local competition between larger manufacturers and trading houses to get the garments produced at the lowest possible price. If your competitors are relocating, and benefiting from it, other companies follow their lead to maximise profit. Fewer and fewer companies are managing to cope within the existing regulations while simultaneously staying competitive globally.

> *I would relocate all my factories to Obsila*[12]*. You see, we're in negotiations at the moment. In negotiations what we have tabled is that we want a 30% differentiation between metro- and non-metro areas in the long term. If we get that I will move everybody to Obsila. If we do not get that, I have already started to get my CMTs relocating to Swaziland or Lesotho. So we are prepared for the challenge (Large manufacturer 24.05.10).*

[12] Located in the non-metro area.

The clothing manufacturer above has his own design centre, several retail stores and is outsourcing production to 75-120 different CMTs (interview 24.05.10). They are following the path of other clothing manufacturers before them; first trying out the non-metro areas, before relocating or outsourcing to neighbouring countries. If the company moves out, many orders will be lost for the local CMTs. The informant states that he will get his CMTs to relocate, but this is seldom an option for small companies with low profit margins.

6.2.3 The Sector of Unregulated Business

Devey et al. (2003) state that there is no clear line between regulated and unregulated business, and the Durban industry is no exception. Apart from some illegal activities, there are few examples of unregulated activities operating without links to regulated activities. In Durban there are regulated, semi-regulated and unregulated clothing companies, with the latter being the ones not registered by the BC. Semi-regulated companies are registered, but they do not follow some or all the labour regulations. Theron et al. (2007) argue that a large part of the clothing industry has been pushed over to the unregulated sector because of no other viable way to restructure and still stay in the industry. They find that there has been a displacement of jobs from the regulated to the unregulated part of the sector, where they can lower the labour costs in an attempt to stay competitive. As we have seen, many of the larger manufacturers in the industry are making regulation avoidance close to the only option for smaller manufacturers to continue production. The price pressure from retail and trading houses is immense, and to avoid regulation is regarded as a way to make ends meet. This does not imply that the regulated companies do not outsource to unregulated companies, as the links are normally tight between the two sectors.

The mentioned unregulated companies are continuing to operate as usual, but have gone underground to avoid having to follow the negotiated labour regulations from the BC. According to the NCMA (in Skinner & Valodia 2002), the number of registered firms went down from 450 in 1990 to 65 in 2001. They estimate that around 300 employers with about 20 000 employees are not complying with some or all of the collective agreements.

Home-based working is one of the formats that avoid regulation. Skinner and Valodia (2002) argue that this form of manufacturing is emerging in both the neighbourhoods of many formerly registered workers, such as Chatsworth, as well as the inner city of Durban. This is confirmed in interviews with manufacturers:

And with the BC forcing so many people to become compliant and the huge retrenchments in the industry two other industries have sprung up. One is the garage industry where people work 4 or 5 in a garage or at home, near their homes, probably earning 200-250 rand a week. They would manufacture small orders of the price
(CMT manufacturer 10.06.10).

The informant acknowledges that the home-based industry has been around for many years, but highlights that the size of it has increased considerably. Because of the small amount of workers, they will fall outside of BC regulations (NBC 2010). A reduction of the company size will thus serve as a way to circumvent the regulative framework. As he points out; the wage rate is around one third of what is demanded in the formal industry. He also mentions a second new industry, which is in direct link to the increase of imports:

The second industry that has sprung up, and is now big, is the 'inspect, repair and dispatch of imports'. Those companies are not registered with the BC and the machinist work for them, in some instances would be up to 20 machinists. They work for around 350 rand a week, they work nights, they work whenever, because if a container comes in today and has delivery on Friday they will work 24 hours a day inspecting, repairing, tagging, pressing and dispatching. It is legal, but not in the garment industry. It falls under another sector, I don't know where, but it is not a sector that SACTWU is involved in. The BC doesn't seem to know too much about it and what they know they're incorrect (CMT manufacturer and cooperative 10.06.10).

What the informant describes in the citation above is a new part of the clothing industry that has emerged from the fact that imported goods are increasingly penetrating the domestic market. He claims that former manufacturers of different size have transformed into this type of company, relying only on imports. Since they are not producing, they fall outside of labour regulations in the clothing industry and, based on information from the interviews, they fall outside of regulations in total (CMT manufacturer 10.06.10, Bargaining Council official 13.05.10).

6.2.4 The Final Option

The council is giving us a very hard time. At the moment there are 345 compliance orders out to companies to close them down (CMT manufacturer 02.06.10).

The last, but frequent, option is to shut down production. The citation above describes how the BC is functioning to force companies to compliance. If compliance is not reached, the companies will be shut down. The industry in Durban is shrinking weekly, as the manufacturers do not manage to cope with the competitive pressure in combination with labour regulations. Skinner and Valodia (2002) presents numbers where 22 756 jobs were lost in the clothing industry in South Africa in a two year period from first of July 1999. The loss was highest in KwaZulu-Natal, and Durban had the highest number of company closures in the region. The actual number of lost jobs and closed factories is difficult to obtain, because it is argued that many of the factories have re-opened as companies unregistered by the BC (see Morris et al. 2001, Theron et al. 2007, Skinner & Valodia 2002).

6.3 Labour Market Response

6.3.1 Labour Market Disequilibrium

> *Maybe in 50 years time we'll have decent jobs, but right now we need jobs. To put food on the table you don't need a job that pays you 50 000 R a year, you need a job that pays you. And as often as possible. The union is basically taking the food out of a lot of people's mouths by their stance. Their absolute non-negotiable stance*
> *(EThekwini Municipality official 15.06.10).*

The informant expresses concern about the government's focus on decent work when the challenges in providing employment opportunities at all are so severe. If the criteria are set too high regarding what kind of work is allowed to offer, this may result in an increase in unemployment instead of improving existing working conditions. Endresen and Bergene (2006) support these findings, arguing that governments and unions are facing a dilemma when trying to improve labour standards. They see that to prevent job losses in certain industries, governments may have to accept a weakening of labour standards.

The decent work approach was expressed by the International Labour Organization (ILO) in 1999 as follows:

> *The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equality, security and human rights (Ghai 2006:1).*

The concept of decent work includes: rights at work, employment, social security and industrial relations. This implies that decent work is not just a question about the quantity of jobs, but also the quality (Ghai 2006). The difficulty with ILO's decent work approach is when competition makes the combination of the two aspects close to impossible. According to Fields (2003), various studies on labour demand elasticises have established that it exists a trade-off between wages and employment, making the demand for an increase in quality *and* quantity of jobs a difficult requirement.

Increased imports from low-cost areas have decreased the demand for low-skilled labour in many manufacturing countries. This is very much the case in Durban, and manufacturers find themselves captured between the price pressures from retailers on the one hand and wage pressure from the Bargaining Council on the other. It is difficult to increase productivity when profits are low and assistance close to non-existent. The result will often be to downsize or cut employment. Even though profiting on the way they are now operating, companies that have distanced themselves from direct employment are well aware of the social consequences:

> *It doesn't give you a good feeling. It's wrong, it's not the way it should be going, and we should be supporting our own people here. And I have tried, but it doesn't work (Trading house executive 26.06.10).*

The informant expresses concerns about the direction the industry is heading, and the destructive effects on the Durban labour market. The tendency of moving away from employing South African labour is devastating for the large amount of unskilled and semi-skilled workers in the country. From 1995 to 2003, the unemployment rate rose from 17 to 28% on a narrow definition and from 29 to 42% on a broad definition, leaving South Africa with one of the highest unemployment rates in the world (Kingdon & Knight 2007). Marais (2011) explains how the narrow or official definition does not include those who had not taken 'active steps' in finding work during the four weeks prior to the survey, leaving the definition misleading regarding the gravity of the unemployment situation in the country. The fact that 82,2% (Barnes 2005) of jobs in the clothing industry are semi- and low-skilled means that the sector could be an important creator of employment with its labour absorptive capacity and its ability to offer entry-level jobs. But, to employ is now seen as the most challenging part in manufacturing, as you are more or less bound to get in conflict with the Bargaining Council. As explained by a CMT manufacturer: *"If we weren't so worried about labour legislation we would have more employees … We are actually afraid to employ more people"* (CMT-manufacturer 18.05.10). The wage-employment elasticity outlined in the theoretical chapter indicates a difficult trade-off between labour protection and employment. This is confirmed in studies by Kingdon and Knight (2007). They argue, as mentioned, that the regulated sector in Durban pays well above the level of competitively determined market wages and that this in turn has had harmful effects on employment. The trend has been noticeable in over a decade, with wage levels continuing to rise for those with regulated jobs, while unemployment grows. Ginsberg (1998) argues that the rising labour costs represent a constraint on labour-intensive investment, in combination with the hazardous procedure of laying workers off because of the entrenched worker rights. He finds the increase of capital intensity in South African companies, as opposed to labour intensity, being a direct result of the strictly regulated labour market. The regulations lay heavy constraints on small business, as their economies do not have the magnitude to afford the wage increases agreed on by large employers and unions.

> *It is to get the trade unions to recognize the limitations to what the market dictates. And the market dictates that the wage should be 400R a week and not 691R a week. And you are forced to pay 691R a week when the answer is very simple. You get levies on top of that and are up to 800R and what do you do? You say I can't survive in this environment and you put up a factory in Lesotho (CMT manufacturer 18.05.10).*

The manufacturer argues that the negotiated rates are too high to make the Durban industry competitive. When competing with cheap imports, the regulations are pushing production out of South Africa. Leaving wage rates to market forces can be the start of a brutal race to the bottom at the expense of workers. Furthermore, the global 'race to the bottom' has turned unionising into a lose-lose situation. Unionised workers are likely to lose their jobs, as companies will place their orders with the cheapest factories, and if the workers do not unionise, their rights will continue to be violated (Appelbaum et al. 2005). In Durban, the restructuring and shedding of labour has released a large group of workers to unemployment or unregulated employment, with limited employment options outside the industry. This means that these workers will be more willing to accept lower wages and less favourable conditions to keep a job in the industry. This can relate to Marx' (in Harvey 1982) analysis of the conflict between labour and capital where capital withdraws from employment in an attempt to regain control over labour to continue the accumulation process.

In Durban there has been an annual increase of wage rates in the regulated sector through the negotiations in the Bargaining Council (Naidoo 2003). By raising the labour, firms will struggle even more to cope with a rapidly changing global environment of trade in clothing. As pointed out by Nordås (2004), competitiveness at the manufacturing level can be measured through productivity or costs. Higher productivity is difficult to obtain in Durban, as assistance is not received and productivity payment (i.e. piece rates) is not allowed (Gibbon 2002). When not being able to match the cost level of global production, a lower rate of job creation is the logical outcome of deteriorating competitiveness in Durban. When labour demand is reduced, vulnerable groups in the labour market are generally the ones affected by higher unemployment and weaker access to jobs in regulated business (Pierre & Scarpetta 2004). By refusing to pay the negotiated rates set in the BC, but remaining in the industry, manufacturers move into unregulated business. A high level of insecurity characterizes this type of business, as the companies are no longer compliant and thus run the risk of being shut down. At the same time they cannot receive training or support from the government to move their firm back into compliance.

The cuts in employment occur either through closure or restructuring, as outlined above. The trend of firms re-inventing themselves as trading houses is pushing the responsibility of employment to supplying firms. Others have relocated their production facilities to non-metro areas or out of South Africa (Gibbon 2002). This can again relate to Marx' (in Harvey 1982) understanding of the balance between wages and profit and how capital can affect supply and demand of labour. As the wage rates set by the Bargaining Council are interfering with capital accumulation, capital is recessing and creates a crisis in terms of employment. To secure the continuation of capital accumulation, business is relocating to places where the wages are lower, or forcing the remaining production to take place in unregulated business with lower wages. Informants from the sector confirm this:

> *Also what happens is that the bigger manufacturers... who really control the market, what they do is that while they are BC compliant they perpetuate the system by outsourcing to CMTs that are not BC compliant and getting their work done at a really ridiculously small price (EThekwini Municipality official 15.06.10).*

What the citation explains is how the possibility to relocate forces price pressure on local manufacturers. Because of the incompatibility between labour regulations and the low prices offered by customers, the cuts will normally hit labour costs as a way to secure profits. They do not see any other opportunity than to continue production in semi-regulated or unregulated business. The large manufacturers can then benefit at both ends; relocation to low-cost areas and taking advantage of local price competition.

As large amounts of the workforce are thrown into unemployment, they lack other alternatives than submitting to the harsh realities of the labour market. What is interesting about Marx' theory is that it makes the assumption of a closed market; after capital has created a large supply of workers adjusting to capital's retained power, capital would then again create employment, though under conditions less favourable for labour. The reason for creating an employment crisis is to regain control and discipline of the labour force (Harvey 1982). But with the global sourcing patterns in clothing production, capital does not have to return to the same pool of unemployed labour that it first created. As we have seen in Durban, capital is creating a crisis through its withdrawal from Durban employment. The strict labour regulations create unfavourable conditions for clothing production. As there are plenty of other low-cost areas suitable for capital's needs in non-metro areas, neighbouring countries or Asia, this capital might not (and frequently does not) return to Durban.

6.3.2 Labour and Security

> *In the prevailing climate, the clamour for jobs – any jobs – drowned out demands for a living wage and humane working conditions (Marais 2011:187).*

With the labour market conditions outlined in the previous section, the citation above gives a clear description on what is left for workers in Durban. One can argue that clothing is a degrading industry, as it is one of the most fragmented industries in the world and chases low production costs. To a certain extent, South Africa is following a path already laid out by other developed countries. Advancements in the economy will first affect labour-intensive industries, as the production stages are flexible and relatively mobile. According to Fröbel et al. (1980), this will raise unemployment rates in the country. The dynamics of the industry lead to a search for even more flexible working conditions and better ways to gain profit. A clothing manufacturer argues; *"It's globalisation but you're not playing by the same set of rules"* (Interview 26.06.10), referring to how the strict regulations in the industry may hamper manufacturers' global competitiveness. As pointed out by both Kaplinsky (2001) and Kalantaridis et al. (2008), companies are finding other ways to capitalize in the clothing industry. As we have seen, these include a shedding of labour as production can be done at a lower price in non-metro areas or in other countries. South Africa has the highest wages in the Southern African region. Their neighbouring countries have large supplies of cheap labour, leading to a shift of production to these areas (Gibbon 2002), if not withdrawing from production to focus on design, marketing and sale.

The South African population is unusually dependent on the labour market in the distribution of income (Nattrass and Seekings 2001), which could signify a difference from many other countries advancing from labour- to capital-intensive industries. Smallholder agriculture is close to irrelevant in South Africa. This can be traced back to the Apartheid era, where black sharecroppers and labour tenants were forced off white-owned land during industrialisation and deagrarianisation. Being excluded from towns through pass laws, a large part of the population was forced into reserves. The rural production in these areas collapsed as a result of overproduction. Waged work became the main source of income, which led to a high level of integration into the capitalist system (Nattrass & Seekings 2001). This dependence on wage work in combination with low skills, make a movement away from labour-intensive industries a serious threat to the livelihood of the population. Where one can see a shift away from labour-intensive industries in South Africa, there are signs of an economy advancing without corresponding to population needs. According to Theron et al. (2007), the recent trend in the South African labour market is pushing lesser skilled workers out of employment, while the number of skilled positions has increased.

The South African economy resembles one of a middle-income country and is thus subject to competition through NIDL. Retailers are governing the value chain, and increasingly importing from non-metro areas or other countries. At the global arena, South Africa, with the middle-income status, finds itself competing with the highly productive developed countries *and* low wage countries (Theron et al. 2007). Kingdon and Knight (2007) use the insider-outsider theory of labour economists, where regulated workers can be regarded insiders, and workers in the unregulated sector and the unemployed, as outsiders. Being a highly simplistic conceptualisation of labour market segments, it can still be used to sketch insecurity in the labour market in Durban. Insiders, through Kingdon and Knight's (2007:819) conceptualisation; *"fall within the scope of industrial relations regulations, including recognition of trade unions and collective bargaining, the right to strike, protection against dismissal, and minimum standards concerning hours of normal and overtime work, minimum wages, and minimum leave provisions".* Outsiders naturally fall outside the formal labour regulations, and generally receive much lower income (Kingdon & Knight 2007). What this conceptualisation implies is that the insiders have secure working conditions, but it can be argued that no job is currently safe in the Durban industry. Hence, even with an internal segmentation of the clothing industry with regulated, semi-regulated and unregulated parts, one can argue that the whole industry is being pushed towards the outsider category.

> *I don't see a future, to be honest. They'll always be there, but it'll not be in the formal sector that we are. You will see. Have you been to any Chatsworth or Clearwood*

> *factories? It'll be that sector that'll remain, but it'll be unofficial, I don't believe it'll be a council to control it, I believe they will manipulate the labour force, as far as wages and that's concerned. And it'll be very underhanded business, they'll compete with China. That's what I'm seeing…I don't see a formal sector producing, I see buying houses, I see marketing, but I can't see production* (CMT manufacturer 02.06.10).

The CMT manufacturer above explains how he perceives the future of the industry. He sees what is left of production is being moved to the unregulated sector, with low wages and high levels of insecurity for workers. Production is not competitive within the current labour regulations, and the consequences will ultimately hit the workers. Companies and retailers are bypassing the Durban workforce by making reduction of local labour a restructuring strategy. The remaining local manufacturers are floating back and forth on the borders of regulated and unregulated business. The workers in compliant companies are thus competing with low-wage areas in non-metro areas, other countries *and* with the unregulated and semi-regulated segments of production in Durban. As regulated business is struggling to compete with low-cost production from Asia, the workforce is increasingly being pushed over the edge to the insecure segments outside BC regulations or out of employment (Kingdon & Knight 2007). Hence, it is impossible to place any of the segments of workers in Durban in the insider category. Because of a lack of alternatives, skills and career opportunities in the industry, workers in Durban's clothing industry have an insecure future. Carnoy's (1980 in Beerepoot 2010) differentiation between a high-education segment, a unionized segment and a competitive segment seems irrelevant in the Durban clothing industry. The whole workforce in Durban can be described through his concept of a competitive segment; a large and poorly educated labour force competing for jobs with low and unstable working conditions, even though a large part of the workers in regulated business are unionised. Here, Friedman (2006 in Beerepoot 2010) could be more useful, as he includes a global aspect in the segmentation theory. Through his hypothesis, the threats of globalisation are so severe that only a small group of workers can secure long-term employment. For the majority of workers, it becomes necessary to constantly reinvest in their knowledge and skills in order to secure future employment in a globally competitive labour market. Skills deficit is a challenge in Durban, as a large part of the population is semi- or low skilled. This poses a problem when the economy is advancing without the population on board, and where strict labour regulations conflicts with trade liberalisation. A union official from SACTWU will have the final words with his envision of the industry's future:

I see a lot of unemployment... I see a lot of young women surely being unemployed whatever qualification they may have, because clothing industry was one of those basic industries. There will still be a clothing industry but in the next 20 years it will be a completely different industry. It will grow in massive in neighbouring countries. I see here in South Africa there will be design houses, stores, warehouses and so forth. Like putting labels, that's it (SACTWU official 17.06.10).

6.4 Summary

This chapter has shown that Durban manufacturers find themselves in a squeeze between competition which is pushing production costs down and labour regulations which are pushing production costs up. When there are fewer orders directed towards the local market, competition between manufacturers has increased. This is expressed in Bargaining Council negotiations where larger manufacturers are agreeing on higher wages and more protection to remove local competitors. One can divide the response at the company level into four groups: First, manufacturers are altering the company format either by converting into trading houses or co-operatives. Trading houses serve as middlemen between retail and production, and co-operatives transform their labour force into independent contractors and therefore fall out of BC's labour regulations. The second is relocation, where companies relocate production to the non-metro areas in KwaZulu-Natal or neighbouring countries to be able to produce cheaper and avoid production in Durban. The third option is continue operations in unregulated business to lower the costs, though with close links to regulated business. The final option is closure.

In the labour market one see a general shedding of jobs due to the incompatibility of global competition in production and the strict labour regulations in Durban. Companies regard employing as the most challenging part in the industry. This has led to high levels of insecurity for Durban's workers, where the workforce can be described by the competitive segment of Carnoy (1980 in Beerepoot 2010) and no job in the industry could be regarded as safe and long-term.

7 CONCLUSION

The thesis has presented a broad theoretical approach and analysed how industrial restructuring in Durban relates to the overarching theories. Before concluding, we will revisit the research questions asked in the introduction:

- *What are the factors that deteriorate competitiveness of manufacturers in the industry, and how does this affect their position in the value chain?*
- *What strategies are the manufacturers in Durban using to stay competitive?*
- *How do these strategies affect employment opportunities in the Durban labour market?*

The findings from the analysis that answer these research questions are summed up in the following chapter.

7.1 Competitiveness in Durban

According to Moody (1997), there is no such thing as a global free market or perfect competition. The only global aspect about current production systems is that they are subordinated to the capitalist economic system. As we have seen in Durban, most manufacturers are feeling the dark side of the picture, namely that they do not have the production costs required to take part in the competition. Trade liberalisation was brought upon the industry nationally with the GEAR policies, and internationally with the phase out of the MFA. This led to a complete turn-around of the competitive framework, making production costs a competitive advantage.

As we have seen in the theoretical chapter, the Fordist production mode in the post-war period slowed down the inherently expansionary drive of capitalism, as the mode of accumulation was accompanied by a mode of regulation that gave increased purchasing power to national consumers (Munck 2002). This dual dynamic was also a cause of the crisis of Fordism, when inflexible labour regulations were seen as a contributor to the slow-down of capital accumulation. The expansion of the production system in a search for new markets and areas to invest in was made possible through the spread of neo-liberal policies, with trade liberalisation being one of the most important aspects. Hence, the fussy concept of globalisation is concealing the political and ideological aspects that spread the competitive production mode globally (Van der Westhuizen 2009). The neo-liberal policies enabled the expansion of the capitalist system, as neo-liberal states seek to reduce the barriers to the movement of capital (Harvey 2006).

In the South African context, membership in the WTO and the following liberalisation of trade were seen as necessary measures for the country to take part in global trade after the Apartheid era. The GEAR program presented a shift in South African policy towards economic openness. The industry was built up under a regime of strict tariff protection, and with the changes in trade policy, the manufacturers had to cope with increased competition through heavy import penetration. The Durban industry is focused on mass-production towards the lower market segments and thus in direct competition with low-cost countries in the Southern African region as well as Asian countries. This places an enormous pressure on production costs, as output prices have to match the price of imported goods. If Durban's manufacturers cannot meet the proposed price, production is relocated to non-metro areas in KwaZulu-Natal, neighbouring countries or the garments are simply imported.

7.1.1 Labour Regulations and Global Competition

Inflexible labour regulations were seen as one of the main contributors to the breakdown of the Fordist production system (Lipietz 1997). With the introduction of neo-liberal policies the wage relation was made subject to competition. The outcome was a possibility for capital to pit places and workers against each other to make them compete in providing a business friendly environment (Lier 2007). Hence, strict labour regulations became difficult to sustain in labour-intensive industries.

The South African government introduced numerous legislations to protect labour as a way to balance the skewed labour market inherited from the Apartheid era. The changes in labour market regulations coincided with the above mentioned trade liberalisation and retailers were given new opportunities for cheaper sourcing outside of Durban. Hence, manufacturers were left in a price squeeze. Labour costs are one of the few areas where manufacturers can lower production costs, when given a fixed price, textile and design from the buyer. South Africa's strict labour regulations are thus pushing them out of the industry or into unregulated business, due to the high competitive levels. Production costs are significantly lower in non-metro areas in KwaZulu-Natal, neighbouring countries and overseas. Where transportation costs do not exceed the gains of relocation, this is seen as a profitable strategy. The result is that production in regulated business is close to impossible to maintain in Durban, revealing the antagonism between global competitiveness and strict labour regulations.

7.1.2 The Dilemma of Regulation

The changed competitive framework in the clothing industry has provoked dilemmas of regulation locally. As we have seen, the majority of Durban manufacturers are having difficulties coping with the existing labour regulations. The cheaper production in e.g. Asia has made retail, trading houses and large manufacturers move away from local orders and use foreign suppliers. The altered trade regime provokes a situation where companies cannot produce profitably as the negotiated labour costs are not globally competitive.

A reduction of labour protection can lead to a race to the bottom; manufacturers lower production costs at the expense of wages and protection for workers due to price pressure from their buyers (Appelbaum et al. 2005). The question then arise; can companies in the clothing industry secure employment opportunities while protecting labour? The answer to this dilemma is yet to be found in Durban, as the manufacturers consider the current labour legislation incompatible with competition on price from other clothing producing countries. At the same time, non-compliant companies cannot make use of the support schemes created by the government. So what is left for the non-compliant companies if there is no government support? They either have to downsize to bypass the labour laws, relocate production, avoid regulation through loopholes in the system, close down, or wait for the Bargaining Council to close them down. The companies are facing a situation where they cannot create stable and secure employment because the assistance necessary to combine protection and competitiveness is not available. In Durban, the employment possibilities for semi- and low-skilled workers dwindle down.

The weak institutional framework is visible in Bargaining Council negotiations where it is possible for larger manufacturers to suppress local competition by agreeing on higher wages and more labour protection. The smaller manufacturers do not have the cost structure to afford increasing production costs. When seen in the light of capitalist dynamics, this is a way of individual capitalists pushing the costs of capital restructuring on to each other, as outlined by Marx (in Harvey 1982). All the agents in the industry seem well aware of the fact that production in the industry cannot survive within the current industrial framework, but a strategic plan to cope with this dilemma is yet to be developed.

7.1.3 Power and Pressure in the Value Chain

As mentioned, capital accumulation is driven by competition, and individual capitalists will find strategies to push losses on to other capitalists when the accumulation process is inhibited (Harvey 1982, 2010). Value chain analysis is a viable way to understand the concept of governance and power in global trade, and to explain and understand processes of production and industrialisation (Gereffi et al. 2001). The link between the value chain perspective and dynamics of capitalist production lays in the issues of labour control and competition. By subjecting labour regulations to competition, companies are confronted with the underlying conflict between capital and labour. Strict control and discipline of labour is essential to keep labour costs at a competitive level in labour-intensive industries. Due to the high levels of competition in clothing production, this control is determining profit. Manufacturers in these industries must be able to produce at lowest costs possible to stay in business, hence control implies that the labour force must submit to the global cost structures. If the control is hampered, companies will try to push the responsibility of controlling labour on to other individual capitalists.

As the cost of labour has been subject to competition, power is accumulating at the retail end of the chain where companies search for ways to distance themselves from the competitive pressure at the manufacturing level. In Durban one can observe that the retailers and trading houses have the bargaining power as they are not dependent on local production. When manufacturers have few international buyers due to export constraints, their continued production is conditioned by the sourcing decisions from South African retail. Governance in the value chain is thus in the hands of capitalists that do not have to control the labour force directly. Alteration of the company format can be seen as a way to create new pockets of operations in the value chain. By distancing their own operations from actual production, more power is obtained, as work, responsibility and costs can be pushed further down the value chain (Nordås 2004). In Durban, manufacturers are turning their companies into trading houses to get closer to the retail end of the value chain, and further away from labour and production. Additionally, larger manufacturers are starting to distance themselves from production by increasing the use of outsourced production and imported goods.

When power accumulates at the retail end of the chain, the pressure is felt at the lower levels. At the manufacturing level, many of the smaller manufacturers do not have volume or capital to follow the path outlined above. Left with low (or no) bargaining power they are forced to take whatever order coming their way. As Durban manufacturers are not in a position to make demands on buyers, they are forced to meet the low costs offered. They are pushed out of compliance with the Bargaining Council, meaning out of regulated business, or out of the industry through closure.

7.2 Strategies of Avoidance

As a response to deteriorating competitiveness, companies in Durban are using strategies that avoid labour regulations or they try to climb the value chain ladder. Labour must either be suppressed or eliminated through technological changes. The struggle with labour regulations in Durban has made companies search for strategies to avoid labour regulations that hamper competitiveness. As we have seen, these strategies include continued production in unregistered business where companies can avoid the regulations from the BC. Secondly, an alteration of the company format to distance operations from labour because of the challenging cost structure in Durban. Thirdly, a relocation of production to non-metro areas or neighbouring countries to avoid the costs of labour in Durban. Fourthly, outsourcing of orders to other companies in Durban, non-metro areas or neighbouring countries for the same reasons as in option three. Finally, they distance the company from labour by relying completely on imports from Asia. All the strategies demonstrate that the combination of Durban's regulated business and global competition is unsustainable, and result in a shedding of Durban's regulated labour force.

7.2.1 Avoiding the Responsibility for Labour

The strategies of avoidance signify an avoidance of the responsibility of direct employment. Manufacturers are aiming at finding alternative ways to distance themselves from the responsibility placed upon them through labour regulations in the BC. Retail has distanced itself from the responsibility of direct employment, demanding a production price that does not correspond to production costs. Trading houses have removed the operations that require labour, now functioning as middlemen between retail and production. Large manufacturers continue to shrink their production base in Durban. The responsibility of labour is then shifted to other companies. The manufacturers left in Durban avoid the responsibility of labour by circumventing the labour regulations. This is done by either turning their company into co-operatives or produce in unregulated business. The labour force in unregulated production submits to lower wages and less protection because other employment opportunities are limited. As outlined by Kaplinsky (2001), profit is no longer to be found in production, as the cost of labour in Durban does not fulfil the needs of capital. According to Marx' (in Harvey 1982), capital will withdraw from employment because of a need to regain control over labour.

7.3 Effects on Labour

The competitive struggle to keep production costs down, will ultimately hit labour costs. As discussed earlier, the purpose of hiring a worker is to enhance the part of capital that belongs to the employer (Braverman 1974). For the labour force to be useful to capital, it must fulfil certain qualities to secure further capital accumulation (Harvey 2010). These qualities are not met in the regulated labour force, as it is too expensive for business to operate profitably. Therefore, there has been a displacement of jobs from the regulated sector to the unregulated parts of the industry. These jobs are characterised by a higher degree of insecurity, ultimately affecting the workers.

Segmentation theory outlines a distinction between workers as insiders (core workers, primary segment, unionised segment) and outsiders (peripheral workers, secondary segment, competitive segment) (Kingdon & Knight 2007). The distinction is meant to illustrate how different workers in different places have distinct characteristics regarding hiring criteria, working conditions, wage levels and career prospects, and to what extent workers are vulnerable to the competition enforced by globalisation (Beerepoot 2010). However, it is difficult to make this distinction within the Durban clothing industry, as competition is so harsh that none of the workers can secure stable, decent and long-term employment relations. Even though employed in regulated business and unionised, none of the jobs can be deemed secure due to the competitive business climate. In unregulated business, workers must accept lower wages, a worsening of working conditions and less protection. The alternatives outside the industry are limited for a low- or semi-skilled labour force in a country with one of the highest unemployment rates in the world (Kingdon & Knight 2007).

7.4 Contribution to the field and transferability

Several scholars have made comprehensible analyses of the dynamics and processes present in the clothing industry. Studies have had a main focus on less developed countries with low-cost production, especially in Asia, with working conditions and their extended effects being the central point. Some have also focused on competitive advantages and innovation. What this thesis brings to the table is highlighting company strategies in a defined context of clothing production, and linking these to theories on global production. The Durban context also sheds light on how the price pressure in production is not only affecting less developed countries, but also a middle-income country like South Africa. The thesis has revealed how competition manifests itself in a local context, e.g. through negotiations in the Bargaining Council, where manufacturers are pushing the losses of restructuring onto each other. The local manifestations are context specific, but the processes affecting them can illustrate global trends in clothing production and therefore be of value in other contexts. The study of a middle-income country clarifies the processes that have led to the dual division in clothing production, as mentioned in the introduction.

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Appendix: Interview guide for manufacturers

1. Informant background:
   1.1 Age?
   1.2 Origin/Nationality?
   1.3 Position?
   1.4 How long have you held your position?
   1.5 How long have you worked in the clothing industry?
   1.6 How long have you worked in the company/factory?
   1.7 What did you do before you entered the clothing industry?
   1.8 Why did you choose working in the clothing industry?
   1.9 Do you have education/professional training within clothing production/management etc. (depending on position)?

2. Company data:
   2.1 How long has the company been operative?
   2.2 What do you produce?
   2.3 Who do you produce for? Permanent vs. Cyclic clients? Production in one place?
   2.4 How many employees do you have?
   2.5 What kind of ownership does this company hold? National/foreign/direct/indirect
   2.6 Has this changed over time? Why?
   2.7 How is the quality of your production equipment? Age and technology generation (categories)? When did you last upgrade the equipment? Why? From where do you get the equipment? How do you rate standard of equipment? (company, industry, international)
   2.8 What kind of competitive advantage does your production hold? Delivery, quality, design, price?
   2.9 Why have you chosen this competitive advantage?
   2.10 What kind of competitive advantage would be the most desirable?
   2.11 How would you describe competition in the industry? Who are your competitors?
   2.12 Would you say this has changed over time? How?
   2.13 Would you argue that your company is competitive? Nationally/internationally?
   2.14 How would you say the company/factory has changed over time?
   2.15 What are the changes made to restructure the company?
   2.16 What would you say are the reasons your company has reacted in this particular way?
   2.17 What has influenced your choice of strategy? Motivation for change?
   2.18 What possibilities for re-structuring do a company of your size have?
   2.19 What are the challenges you meet as a manufacturer in 2010?
   2.20 Have you relocated any of your production? If yes, why? If no, is this a possible strategy? Have you been affected by other companies relocation? How? Why do you think they are relocating?
   2.21 Which markets is your production aimed at? Export (where)/local/national (where)? Changes over time?
   2.22 Which market segments do you aim your production at?
   2.23 How have your markets and market segments changed over time? Why?
   2.24 How is your company’s relation to the Bargaining Council?

Export:

2.25 What does your company produce for export?
2.26 What was the motivation for export production? When did you start?
2.27 What are the challenges/possibilities regarding export production?
2.28 How would you say the export conditions have changed over time?

Local/National/no export:

2.29 Why have you chosen not to export production?
2.30 What are the challenges/possibilities regarding production towards a local market?
2.31 What are the challenges/possibilities regarding production towards a national market?
2.32 How would you say these challenges/possibilities have changed over time?
2.33 In what ways has the increase of imports at the national market influenced your company/factory? Illegal imports?

3. The MFA/ATC:
   3.1 Are you familiar with the MFA/ATC?
   3.2 Would you say that the MFA/ATC has affected the clothing industry? If yes: In which ways? And what has this meant for your company? If no: Why not?
   3.3 Would you say that the phasing out of the MFA/ATC has affected the competition in the industry? If yes: In which way? What has this meant for your company? If no: Why not?
   3.4 Would you say that the phasing out of MFA/ATC has affected production in your company? How?
   3.5 Would you say that the phasing out has affected the competitiveness of the company?
   3.6 How would you evaluate your company's adaptation after the MFA/ATC?
   3.7 What would be the reasons why other companies have adapted to the changes worse/better in comparison with your?
   3.8 What challenges/possibilities has the phasing out of the MFA/ATC given the company? The industry?

4. Relations business-government:
   4.1 Would you say that national industrial policy for the textile/garment industry has changed over time? In what ways?
   4.2 How have national initiatives affected your company?
   4.3 What channels does the industry hold to influence local and national government? How can you make use of these channels? What about lobbying?
   4.4 How would you say initiatives in the business community have affected national decisions?
   4.5 How is your company affected by initiatives from the business community?
   4.6 In your opinion, what should be the main focus of the government in supporting the industry?

5. Outsourcing:
   5.1 Do you outsource any of your production? Why?
   5.2 Which parts of production do you outsource? Who do you outsource to? Where are they located?
   5.3 Do these have different status in relation to your company? Permanent or only if demanded? How can you make sure these are compliant with the BC?
   5.4 Would you say your use of outsourcing has changed over time? How, more/less?

5.5 Have you been forced to extend the use of outsourcing because of downsizing?
5.6 How would you relate the changes in subcontracting to the phasing out of MFA/ATC? Did you start subcontracting after the phasing out of MFA/ATC? Why?
5.7 Does your factory take outsourced orders from other companies? What kind of companies? How is your relationship with these companies?
Would you say these relations have changed over time? How? How would you relate these changes to the phasing out of MFA/ATC?

6. Employment:
   6.1 How big is your workforce? Has this changed over time? Who is your typical worker?
   6.2 Do your workers have different status? Why?
   6.3 Is a solution for flexibility in your company to hire more temporary workers/use labour hire agencies etc?
   6.4 Have you been forced to downsize your workforce? Why? When?
   6.5 When downsizing, what group of workers has been/would have been dismissed? (sex, age, nationality, confront with experiences from other places)
   6.6 Why has/would this particular part of the workforce been/be dismissed?
   6.7 How has changing the workforce served as competitive strategies?
   6.8 Would you say that the salaries/amount of work pr. worker/hours of work changed over time? How?
   6.9 Have the workers accepted increase in efficiency or decrease in salaries to support survival of the industry? Should they?
   6.10 How could the fact that South Africa in general has higher salaries than other producing countries be a limitation for the industry?
   6.11 Has the phasing out of MFA/ATC had any effect on relations regarding employment? How?

7. Trade unions:
   7.1 How is the cooperation, if any between the industry and trade unions? Between the company and trade unions?
   7.2 Would you describe trade unions as a curse or a blessing for the industry, with re-structuring being at a dramatic point?
   7.3 Would you say that trade unions should adjust demands on the industry? Why?
   7.4 Would you say that trade unions limit innovation and competitiveness of the industry? How?

8. Future opportunities:
   8.1 What future plans does the company have?
   8.2 What are the possibilities/constraints for renewal/innovation?
   8.3 What are the challenges/opportunities regarding access to capital?
   8.4 Would you say this changed over time? How?
   8.5 How do you perceive the company's future?
   8.6 How do you perceive the South-African industry's future?

9. Have I forgotten any important aspects of the business community or the company?
10. Anything you would like to ask me?