TEXTILE INDUSTRY STRUCTURE AND GOVERNMENT CONDUCT: ASSESSING THE IMPACT OF THE DUTY CREDIT CERTIFICATE SCHEME ON INDUSTRY PERFORMANCE

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ABSTRACT

The clothing and textile sector in South Africa has forever been a contentious sector insofar as its historic labour augmenting capabilities are concerned. The industry has developed a certain structure, in large part as a result of years of government intervention (conduct). The performance of the sector, given the conduct by government is the primary object of investigation in the paper.

Finding that production and employment (as indicators of industry performance), have been on a long run declining path, the secondary and main object of investigation then turns to a behind-the-scenes look at the workings of the government's Duty Credit Certificate Scheme (DCCS). The paper illustrates how the DCCS explains for much of the distortions that altered industry conduct and a resulted in a dwindling production performance.

JEL Classification: L67

INTRODUCTION

Employment in South Africa's clothing and textile industry has generally been on a long run downward path. More recently, substantial short run job losses were experienced in the clothing and textile industry formal sector. For example, employment in the textile, clothing, footwear and leather industry declined from 261 480 workers in 1996 to 188 290 in 2003 (StatsSA, 2006).

The continual production and employment decline, in spite of substantial government support, is the concern that mostly stimulated this research.

The paper investigates key industry performance indicators in the clothing and textile industry since 1980 and attempts to analyze

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them. Prior to this, the paper investigates and reports on impact factors that could have been responsible for the structural changes in the industry. The focus of this discussion is however on government conduct (policy) over the period of the analysis, while other impact factors are briefly referred to. Having concluded these parts of the investigation, the last section of the paper then investigates and illustrates by means of a practical illustration, how the DCCS, on which the focus of the investigation falls in this paper, could have induced further adverse changes in production and employment, as a result of the distortionary nature of the scheme.

The reader should note that the textile industry, being the least labour intensive section of the industry, was selected as a proxy for the industry, for large parts of the study. By the same token, it should be noted that the causes of structural change were in every respect the same in both the clothing and textile sections of the industry. The illustration given around the nature and the workings of the DCCS, equally applies to both sections of the industry. On a last note, the reader is reminded of the dynamic nature of world markets for clothing and textiles and that the author acknowledges that the South African clothing and textile industry does not function in a vacuum but is part of a highly integrated world market.

CAUSES OF STRUCTURAL CHANGE IN CLOTHING AND TEXTILES SINCE THE EIGHTIES

Some of the main events that helped shape the industry since the 1980's, are briefly outlined in this section. It should be emphasized that the magnitude of intervention in this industry is so wide-ranging, that only the factors that had the most profound impact, as measured by the quantitative magnitude of support, are considered here.

The General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO)

Against the backdrop of increasing protectionism, GATT and later WTO, devoted attention not only to tariff measures, but also to domestic subsidies for agriculture, non-tariff barriers, services, textiles, trade related investment measures (TRIMs), and trade related intellectual property rights (TRIPs) (quoted in Molatsana,

2006).

Bilateral agreements between South Africa and Europe and South Africa and the USA dominate over South Africa's WTO commitments as determinant of export performance. The reason behind this is that bilateral agreements are more favourable than the Most Favoured Nation (MFN) status afforded South African exporters under the WTO.

In the last ten years in particular, markets had also been extremely dynamic. Far Eastern markets, for example, who ten years ago seemed to be an average global competitor, have now upset most traditional exports around the globe.

In order to follow the structural adjustment process in clothing and textiles, it is necessary to extend the analysis of government intervention back a few years. The reason is rather trivial, but quite obvious: structural adjustments take place in the long run.

Export incentives

During the 1980s, the South African government argued that the South African clothing and textile industry suffered from an anti-export bias. (President's Council, 1987). This bias was present as a result of high import duties on raw materials, which made it difficult for South African manufacturers to compete internationally. What followed was a range of distortionary measures aimed at correcting this bias and stimulating South African exports of clothing and textiles. During the 1980s a structural adjustment programme (SAP) was introduced in the clothing and textile industry (mostly as a result of the impact of trade sanctions on the balance of payments), and supplemented with the so-called Category A- and B- export incentive scheme that covered all sectors of the economy (DTI, 2007).

Using 1993 wholesale trade figures of clothing and textiles of R3 900 million, and accepting a conservative price premium of 40 percent, Wiese (1994:15), estimated the cost to the tax payer to be R1 560 million per annum to maintain the SAP. Based on the approximately 200 000 job opportunities in the clothing and textile industry, the premium amounts to R7 800, 00 per worker *vs.* an average salary of R18 600, 00 per worker per annum.

With the SAP, the clothing and textiles industry earned import certificates based on export performance, which they could then use

to counter for the anti-export bias present in the high import duty structure of imported inputs.

Category A incentives were paid against import duties incurred on imported inputs and Category B incentives rewarded value added in the form of a cash payment, determined *ad valorum* (the higher the value added, the higher the incentive paid). Category A- and B-export incentives were replaced by the General Export Incentive Scheme (GEIS).

In April 1990, GEIS (Dti, 2005) was introduced to help firms offset the price disadvantage that the country's exports faced in international markets. The price disadvantage may have been the result of the anti-export bias inherent in the import protection system. Molatsana (2006) quotes a study by the South African Chamber of Business (SACOB, 1991) that show that manufacturing costs in South Africa was 15 percent higher than the OECD average because South African manufacturing firms paid 24 percent more than their OECD counterparts for inputs. Capital and productivity adjusted labour costs were also higher in South Africa.

GEIS, which replaced the input and value added compensation to exporters, provided tax free subsidies to exporters based on the value of exports, the degree of processing of the export product, the extent of local content embodied in exports, and the degree of overvaluation of the exchange rate. Whereas both SAP and Category A- and B- export incentives rewarded value-added, GEIS and DCCS were based on the level of beneficiation.

The higher the level of beneficiation, the higher the level of incentive paid to the exporter (up to a ceiling amount). Clothing and textile manufacturers that exported final goods manufactured from local inputs or from imported inputs on which the full duty had been paid, earned an average tax-free cash award from GEIS of around 18 percent of the free-on-board (FOB) value of their exports. The same exporter would also be earning DCCS to the value of around 25 percent of the FOB value of exports, if it was a clothing or textile producer and exporter.

According to the Board on Trade and Tariffs (BTI), SAP proved to be an ill considered and highly disruptive export incentive that ultimately led to the destruction of certain sectors of the textile and clothing industry (*e.g.* Jerseys). This was aggravated by excessive

dumping of textile products from the Far East into South Africa, fraud and inadequate customs control. In 1994, SAP was replaced with the Duty Credit Certificate Scheme (DCCS) that offered a customs duty credit for export performance. It was officially phased out on 31st March 2005 (Republic of South Africa, 2007). Following on the heels of DCCS, was the interim Textile and Clothing Industry Development Programme (TCIDP), which, in all respects is similar to DCCS. Negotiations are also currently taking place around a replacement of the current TCIDP[1].

A brief summary of the latent features of TCIDP that is used in the analysis of distortionary impacts in the sector is given below.

Level of Benefit. The level of benefit depends on the export product. There are four product categories namely clothing, household textiles, fabric and yarn. The benefit level differs for each category and is fixed for the duration of the interim TCIDP. The percentages are as follows:

Table 1. Level of benefit under TCIDP

PRODUCT EXPORTED	BENEFIT LEVEL
Clothing	25%
Household Textiles	17.5%
Fabric	12.5%
Yarn	8%

Source: Republic of South Africa, 2007

Products on which duty credits are earned. The products that qualify as exports under the TCIDP are listed in Table 2.

Table 2. Qualifying exports under TCIDP

PRODUCT	TARIFF HEADING
Clothing and clothing accessories	61.01 to 61.17 62.01 to 62.17
Household textiles	57.01 to 57.05 58.05 63.01 to 63.04
Fabrics and other textiles	50.07

[1] TCIDP as used by the Department of Trade and industry, and CTIDP, as used by Texfed, refer to exactly the same scheme.

	51.11 to 51.13 52.08 to 52.12 53.09 to 53.11 54.07 to 54.08 55.12 to 55.16 56.02 to 56.03 58.01 to 58.05 58.06 to 58.11 59.01 to 59.03 59.06 to 59.07 60.01 to 60.06
Yarn	50.04 to 50.06 51.06 to 51.10 52.04 to 52.07 53.06 to 53.08 54.01 to 54.06 55.08 to 55.11 56.04 to 56.06

Source: Republic of South Africa, 2007

Products that may be imported utilizing a Duty Credit Certificate. Based on their exports, participants are allowed to import the products based on a menu as set out in Table 3.

Table 3. Imports allowed when utilizing a DCC

Exporter	**Product exported**	**Product allowed to be imported**
Manufacturer of Woven and Knitted Clothing and Clothing Accessories	Clothing Clothing Accessories	Fabric Clothing Clothing Accessories
Manufacturer of "knit-to-shape" Clothing and Clothing Accessories	Clothing Clothing Accessories	Yarn Clothing Clothing Accessories
Manufacturer of Household Textiles	Household Textiles	Fabric Household Textiles
Manufacturer of Fabric and Other Textiles	Fabric Other Textiles	Yarn Fabric Other Textiles

Source: Republic of South Africa, 2007

Determination of the value of the certificate. The value of the certificate is calculated as a percentage of the *export sales value,* where the export sales value is reduced if the full invoice value was not been repatriated. As such the export sales value in Rand may be more than the amount repatriated in Rand. This means that currency fluctuations after invoicing will not influence the value of the certificate.

Other exogenous factors

Certainly not all the structural adjustment in the clothing and textile industry can be attributed to the various interventionist and distortionary policies outlined above. International markets had been extremely dynamic and over the last twenty years, giving rise to new manufacturers in other parts of the world and especially domination of the sector by countries in the Far East. Section 4 covers some of the international market environment changes that impacted on the South African clothing and textile sector.

SELECTED TRENDS IN THE CLOTHING AND TEXTILE SECTOR

This section briefly explores some trends in the clothing and textile industry. Section 5 explains the reasons behind these trends.

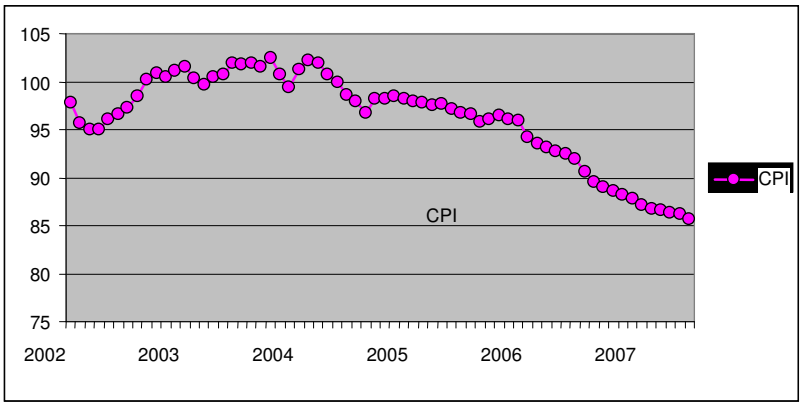

Figure 1. Clothing and footwear monthly CPI: 2002 – 2007
Source: Texfed, 2006

Figure 1 plots the monthly CPI for clothing and footwear for the period January 2002 to middle 2007. The continued downward trend in the CPI for the sector is attributed to price deflation as a result of increasingly cheaper imported product in the sector. The upward trend in imported product is confirmed when looking at Fig. 2, which confirms an increase in imported product since the start of the review period, 1992.

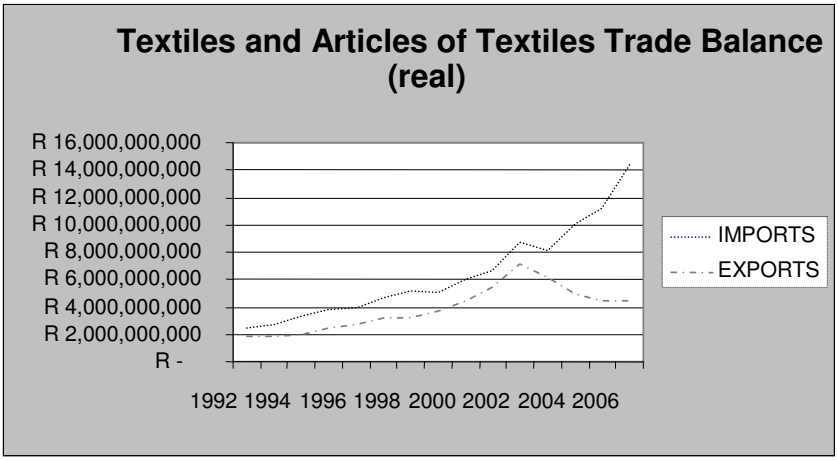

Figure 2. Textiles and articles of textiles – trade balance; 1992 – 2006
Source: Compiled from SSA, 2007

Figure 2 shows the trade balance of textiles and articles of textiles for the period 1992 to 2006. Even the textile sector, which is considered more competitive than clothing due to its more capital intensive nature, has been experiencing a deteriorating trade balance with the rest of the world since 1992. Exports in this sector have been on the decline since 2002.

The remainder of this analysis focuses on the stronger textile industry, as a proxy for what is transpiring in the industry as a whole. Fig. 3[2] plots the total production in the textile industry. From Fig. 3 it is clear that despite the many interventionist policies of government, production levels have been on a constant decline since the start of the review period.

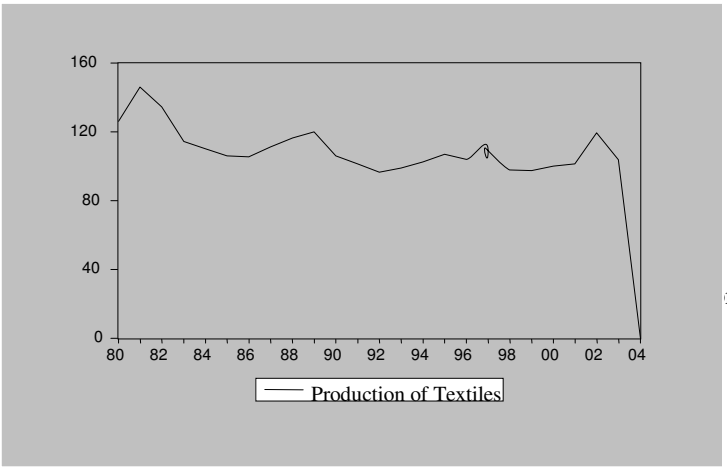

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Figure 3. Production of textiles (real): 1980-2004
Source: Compiled from Texfed, 2005

A fair question to pose at this juncture is what the main factors were that determined this downward trend in production. Fairer perhaps, would be to question what the factors are that determine the production function in textiles. To this end, Breitenbach *et al.,* constructed a production function for the industry. Because of a lack of reliable and continuous time-series data of all the relevant inputs in the production function, the model is not the best fit of reality. The model does however, confirm the strength of the relationship between the input variables and the fact that those input variables that were considered, do in large part determine output levels in the industry. These input variables are now briefly discussed, individually.

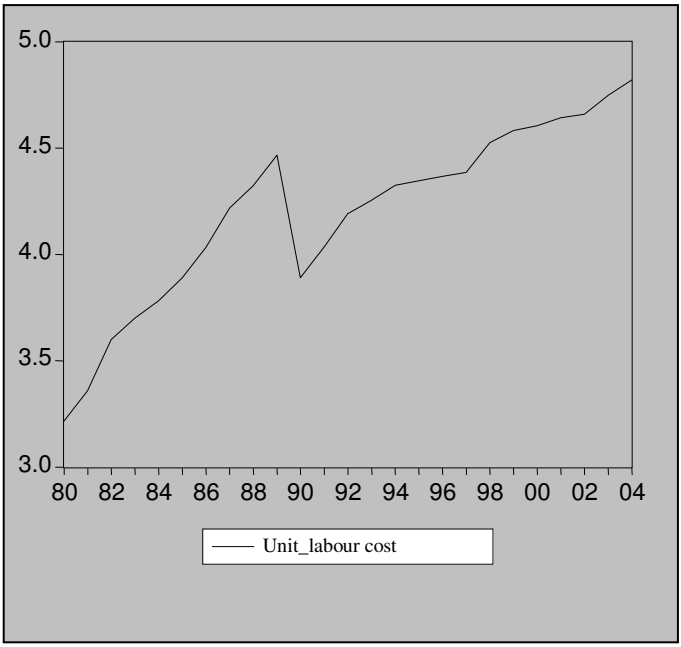

Figure 4. Unit labour costs in the textile industry – 1980-2004
Source: Compiled from Texfed, 2005

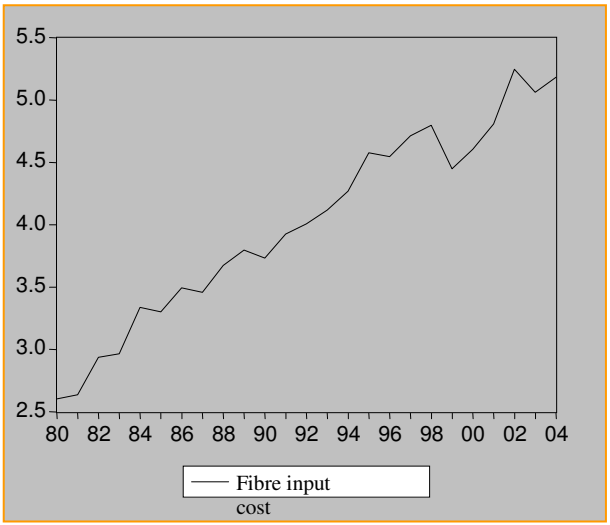

Figure 5. Fibres input cost: 1980-2004
Source: Constructed from Texfed, 2005

As is visible from Fig. 4, unit labour costs in the industry showed some volatility around the same levels between 1980 and 1985. Between 1985 and 2004, unit labour costs have continually increased and had, in real terms, doubled by 2004.

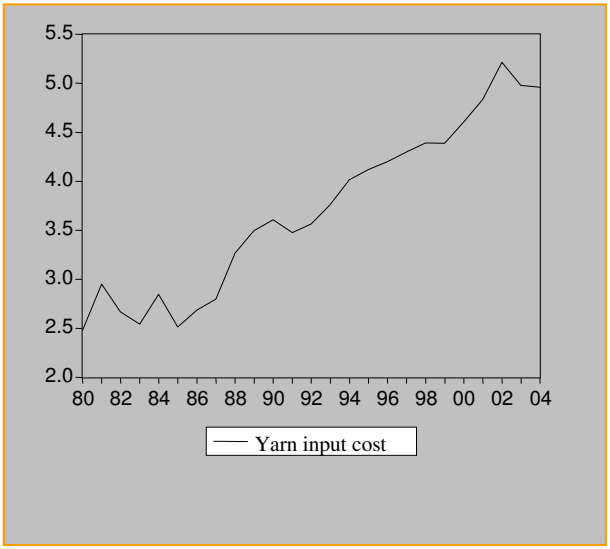

Figure 6. Yarn input cost: 1980-2004
Source: Constructed from Texfed, 2005

Fibre and yarn input costs are plotted in Fig. 5 and 6. Almost an identical upward trend emerges from both figures. Except for a temporary decline in fibre and yarn input costs in 2000, when there was a sharp rise in the real effective exchange rate of the rand, the trend is sharply upward, with a doubling of input costs at constant prices between the years 1980 and 2004.

Continued increases in input costs lead to reductions in production levels and continued labour shedding in the industry. Fig. 7 shows the trend in employment in the textile sector for the period 1980 to 2004.

Figure 7. Employment in the textile industry: 1980-2004
Source: Constructed from Texfed, 2005

To add weight to the above select analysis, mainly from the textile industry perspective, summary statistics of recent developments in the textile industry is briefly given in Section 4.

CURRENT (2007) TRADING ENVIRONMENT IN THE TEXTILE INDUSTRY[3]

The South African textile industry is currently facing extremely difficult trading conditions. Employment in the industry has declined from 70 500 in 2003 to just below 50 500 in 2006. In addition a number of textile mills have recently closed and have been forced to retrench staff.

Imports are at an all time high. Imports of yarns increased from 77 000 tons in 2001 to 99 000 tons in 2006 - an increase of 29 percent, while imports of fabrics remained relatively constant with 94 900 tons in 2001 and 95 300 tons in 2006. Much larger increases were recorded by imports of made up textiles which have increased from 4 900 tons in 2001 to 28 700 tons in 2006 - an increase of nearly 500 percent. Imports of clothing increased from 139 million items in

[3] This section is taken from the Texfed Internet homepage, *viz.* www.texfed.co.za

2001 to 567 million items in 2006 - an increase of over 300 percent.

Historically, textile and clothing imports into South Africa originated from a wide range of countries chief amongst which were Taiwan, South Korea and Europe. However, since 2001 imports have increasingly been sourced from China. In the case of clothing imports, 89 percent currently originates from China, 3 percent from India and the remaining 8 percent from the rest of the world. Sixty percent of all made up textiles (blankets, bed sheets, towels and curtains) originate from China.

Strategic Issues

China's Entry to the WTO[4]. The Multi Fibre Arrangement (MFA) has regulated much of the world trade in textiles and clothing since 1974. This was an exception to the normal GATT principles. Textiles and clothing have always been regarded as sensitive because they are labour intensive and have highly traded commodities. The MFA provided the basis on which industrial countries established quotas on imports of textiles and clothing from more competitive developing countries. It was aimed at the orderly opening-up of restricted markets in order to prevent market disruption.

The intention of the MFA was to reconcile interests of importing and exporting countries by permitting expansion and liberalization of trade. In addition, there were safeguard provisions which participants could if their domestic market was disrupted or threatened as a result of imports.

What followed was the Uruguay Round with the objective to secure the eventual integration of the textile and clothing sectors into the post-Uruguay Round of GATT, and ending its status as an exceptional case. China became a member of the WTO in 2001. In practice, countries were given time to phase-out quotas on clothing and textile imports from China. The end of this phase-out period was December 2004.

South Africa together with Japan, Australia and Switzerland, were not part of the MFA and had therefore unrestricted markets. None of these countries ever introduced textile and clothing quotas before

[4] Information on this sub-section was suggested by the Editor, and supplied by Texfed.

January 2005. The USA and the EU were responsible for most of the quotas in the past.

The countries with the most restrictions placed on them were China and India, which were countries with high tariff protection, various non-tariff barrier support schemes, and who received subsidies from their governments.

"Although we knew that the MFA were coming to an end on 1 January 2005, I think we were shocked at the rapid growth of China as we were not quite aware of how large China's manufacturing plants are. And then there was and is the question of price for finished goods from China. China has become the 'supplier of choice', mainly because of China's ability to produce huge volumes at low prices" (Claassens, 2008).

Even large First-world producers of clothing and textiles, like the USA, experienced large trade deficits with China, in clothing and textiles. South Africa was no exception and in general, this resulted in lower production, a decline in clothing exports, the closing of plants and loss of employment.

South Africa competes with all these major exporting textile and clothing industries, like China, India, Brazil and Pakistan, to major export destinations like the EU, the USA and Canada.

China Restraint Arrangement. This arrangement was introduced on 1 Jan 2007. There have been subsequent changes to the original quota regulations and these were introduced on 27 March 2007. The changes included a tightening of the definition of "foreign brands"; a provision for an additional quota for special purpose clothing *e.g.* firemen's gear and specialised sporting gear; and a provision for an additional quota for special strategic circumstances whereby increased quota will be granted subject to written commitments by importers to increase local procurement over a 5 year time period and to support technology upgrading and skills development in the local industry.

The latest import statistics on quota usage for the first two months of 2007 are listed in Table 4.

Table 4. Quota usage on China imports, 2007

Category	Quota Usage
Textiles	6% utilized (range 2% to 15%)
Clothing	10% utilized (range 2% to 31%)

Source: Texfed, 2007

The low quota usage is due to imports being bought ahead of the quota regime during November and December 2006. The quota has had positive effects. Some sectors of the textile industry have seen an upturn in business as a result of the quotas but this is not universal across all sectors of the industry. A summary of the quotas is set out in Table 5 below.

Table 5. China Quota Summary, 2007

Description	Units	Imports	Quotas		Quota %	
		Jan 05-Jun 06	2007	2008	2007	2008
Total Fabric	'000kg	17 384	13 930	16 304	120%	141%
Knitted Clothing	'000No.	170 684	74 907	81 666	66%	72%
Woven Clothing	'000No.	211 297	101 084	109 931	72%	78%
Curtains	'000kg	6 122	4 778	5 151	117%	126%

Source: Texfed, 2007

Customised Sector Programme (CSP). The CSP was finalized in August 2006. However since that time the retail sector has withdrawn its support for the CSP and consequently the programme has not yet been introduced. The CSP is intended to develop and modernize the textile and clothing industries and to put them on a path to higher competitiveness. It embraces aspects such as domestic market development; promoting exports; competitiveness by upgrading technology and investments; upgrading skills; empowerment; and pursuing a partnership approach.

At this stage the only progress under the CSP is that some of the projects contained within the programme are being advanced, *i.e.* country of origin labelling; finding a replacement for the DCCS; and developing a capital upgrade provision for the sector.

Clothing and Textile Interim Development Programme (CTIDP). The previous export promotion scheme for the textile and clothing industries, the "Duty Credit Certificate Scheme" expired at the end of March 2005. The CTIDP/ (TCIDP) was introduced in its place. Uncertainty surrounding the future of the support scheme is adversely affecting production planning in the industry. The resultant uncertainty has a negative impact on exporters.

Trade Agreements. Trade agreements are much more specific to the needs of producers as it is negotiated by classification of the product

by harmonized system (HS) classification. Producer's needs are thus satisfied more under specific trade agreement and those product lines that South Africa does have a comparative advantage in, are usually emphasized during bi-lateral negotiations. The following trade agreements are currently in effect.

- Africa Growth and Opportunity Act
- South Africa/European Union (EU) Trade Development and Cooperation Agreement
- Southern African Development Community (SADC) Free Trade Agreement
- Because of its importance (explained above), the application of trade agreements as strategic tool, is being extended. The following trade agreements are under negotiation.
- South African Customs Union (SACU)/European Free Trade Association (EFTA) Free Trade Agreement (soon to be implemented)
- SACU/Mercosur Preferential Trade Agreement
- SADC Free Trade Agreement Mid-term Review
- SADC(8)/EU Economic Partnership Agreement (EPA)
- World Trade Organization Doha Development Round
- SACU/India Preferential Trade Agreement.

Textile Industry Statistics. Summary statistics for the textile industry is given in Table 6.

Table 6. Summary statistics of the textile sector, 2007

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Volume of Production (2000=100)	103.1	111.7	98.8	101.3	92.8	92.3
Sales (R'billion)	16.9	20.4	19.2	19.7	19	18.4
Employment ('000)	64.1	65.5	70.5	61.7	52.8	50.5
Imports (R'billion)	5.2	6.9	5.9	6.5	6.4	6.9
Exports (R'billion)	3.4	4.5	3.8	3.2	3.2	3.1

Source: Texfed, 2007

DISCUSSION OF TRENDS IN PRODUCTION AND EMPLOYMENT

In section 3, a number of trends are identified in relation to the textile industry. Input costs have been rising (both labour and raw material cost), production has been declining and so the trade

balance has been deteriorating, with increased imports of textiles and a relative decline in textile exports. On the domestic front, government has continued its support of the industry through the DCCS (substituted by the TCIDP). However, the DCCS and TCIDP have not been successful in developing the textile (or clothing) industry, or so it seems. Before taking a deeper look at how DCCS/TCIDP, first a bit more obvious and on-the-surface observation around the input-output relationship in the industry. When Fig.1 and 2 are viewed together, the picture that emerges is that imports have been rising, but getting cheaper. On the domestic front, as is evident from the sectoral CPI, this has put downward pressure on consumer prices of textiles. At the same time the continued upward trend in input costs has put local manufacturers in a cost-price squeeze, resulting in rationalization, mainly in the form of labour shedding behaviour.

Before discontinuation of GEIS, government was partially successful in supporting the industry. This was done with a direct subsidy, which effectively boiled down to subsidization of profit margins of export manufacturers. In the case of final product, the subsidy was on average, equal to 18 percent of the FOB export value. With the discontinuation of GEIS, this removal of the 'profit ' subsidy lead to an immediate, but not very large decline in production. Again looking at Fig. 3, the abrupt drop in production in 1997, when GEIS was discontinued, is clearly visible. Another confirmation of this continuing trend is visible from Fig. 8. Figure 8 shows a situation in which producer prices have been rising at a much faster rate than consumer prices, again confirming a cost-price squeeze.

Before continuing this analysis, the reader is reminded that there are two main sources of structural change; domestic cost increases (imported and local input costs) and dynamic shifts in comparative advantage, with among others, from China. TCIDP (and DCCS before it), was aimed at developing a competitive clothing and textile sector in South Africa. The question may now be asked why DCCS/TCIDP had not been successful in rendering South African textiles and clothing competitive. Has any attempt by South Africa (and developing countries) to compete successfully in this sector become superfluous?

Perhaps we have entered a new era in which the clothing and textile industry are simply dominated by a small number of large manufacturing countries like China. Perhaps the international trading fields had been altered for good.

The other question that may be asked is whether DCCS/TCIDP has not perhaps had undesirable effects as a result of an incorrect structure? Not all evidence is available to prove or disprove this contention. For example, the reader should understand that the department of Trade and Industry (Dti), and the International Trade Administration Commission (ITAC), do not keep and make available accurate records of how the duty credit certificates (DCC) had been used in the industry. Furthermore, producers and export trading houses do not keep accurate records in their financial statements in regard to the impact of DCC on their businesses.

In order to explain the impact of DCCS/TCIDP on production decisions, some basics around the scheme and its aims need to be understood. Firstly, the scheme had the intention to develop the local industry. This was done by encouraging producers to specialize in certain product lines and obtain economies of scale in those lines in which it has a comparative advantage. Certainly, in order to reach those economies of scale, the scheme presupposes that in order to reach those economies of scale and resultant low average cost levels that will provide comparative advantage, producers need to find markets large enough to dispose of those goods. This leads to the secondary aim; that is earning of foreign exchange. Together with economies of scale in production, the scheme aims to secure long run employment growth in the sector. For this reason the scheme had a compulsory training requirement.

To attain more specialized and scale production, exporters are encouraged through the scheme to earn certificates that will give them duty credits that they may use to import under a fixed menu, those goods that they are less efficient in producing. Producers ought to thus pick those items in their diverse product lines that they have a potential comparative advantage in, attain efficiency in its production, export these lines, earn duty credits and apply these duty credits to import those lines that were dropped (less efficient).

For simplicity, an example is taken from Tables 2 and 3 above. Let’s assume a producer/exporter manufactures ladies hosiery and

undergarments from knitted texturized yarn. The producer decides to specialize and export hosiery in which it has a potential comparative advantage and to stop producing undergarment, applying the duty credit (DCC) that it earns through its hosiery exports, to import the undergarment free of import duty.

The producer, who has now become a fully fledged exporter, exports R 1 million rand worth of hosiery at FOB value thus earning him DCC to the value of R250 000 (25 percent) and in terms of the menu in Table 3, may use this DCC to import either fabric, clothing accessories or yarn. The exporter may now want to import undergarment to the value of R2 million. In this example, if the undergarment carries an import tariff of 15 percent, the exporter (who has also in terms of DCCS/TCIDP become an importer), is to pay a total import tariff of R300 000, but instead ends up paying only R50 000 because of the R250 000 DCC.

What happens if the exporter does not want to import the undergarment? What if the exporter wants to instead use his certificate to import texturized yarn instead? In this case, the exporter may import yarn free of import duty until all of its R250000 DCC had been exhausted. However, none of the product (hosiery) manufactured from imported yarn against which the DCC had been applied, qualifies for future DCC. In this case, the exporter will sell his DCC (as allowed by the scheme) to either another producer in the same industry segment or to a producer in another segment. Often it ends up in the hands of large clothing importers.

Without digging the heels to deep in the possible permutations of where and how DCC certificate is used and where it ends up, the oversimplified illustration given here should explain the fact that DCC could end up anywhere in the market. For the original producer/exporter of the certificate it is sometimes not worth the effort to diversify its business to the extent that it takes its eye off the ball by engaging import activities when it is primarily export focused – the original intention of the scheme. Producers thus more than happily part from their hard earned DCC in exchange for, let's say 80 percent of the value DCC in cash, to improve the bottom-line and get on with business.

It is not hard to see that what was intended to be a development programme for the industry, building a competitive and foreign

exchange-earning sector, employing lots of labour, has been distortionary in the sense that the specialization (and economies of scale) that has occurred, has by far been outweighed by the import-inducing impacts of the scheme. This served to reduce the overall employment creating capacity of the manufacturing part of industry.

Before concluding, a last important note in order for the reader to get fully acquainted with the sector and the probable reasons for government's support of the industry, which puts the industry among the top five strategic industry's under the Accelerated and Shared Growth Initiative of South Africa (ASGI-SA). The clothing and textile industry is, next to the agricultural sector, the sector with the highest employment multiplier. Apparel and textile manufacture create nine jobs per R1 million in output against agriculture's eighteen. Third in line is social and community services at five and a half jobs per R1 million output (Pollin *et al.*, 2006). Pollin *et. al.,* also indicate that the apparel and textile industry has an export penetration of 1,0 against an import penetration of 1,9; almost double that of its export penetration. It should however, be emphasized that the textile industry's share in GDP is declining and that in absolute numbers, the total sector employs less than 200 000 out of a total of over 12,8 million jobs (formal sector employment according to the labour force survey) (Stats SA, 2007) in South Africa.

CONCLUSIONS

This paper by its very nature is much too limited to make in-depth analysis and concomitant conclusive results possible; the industry is just too diversified and has too much depth too reach an all inclusive conclusion for all in industry.

Even with the usual limitation that applies to this study, common sense over the un-lying statistics (especially the fact that it has shown the same trend over the last three decades), prevails.

Final conclusions on this paper are:

- The clothing and textile industry has generally been uncompetitive over the last thirty years, with the exception of some product lines.
- The sector has over the last thirty years lobbied for government intervention and received government support in the form of subsidies, rebates of duties and duty credits.

- The sector is an important employer in the South African economy in the sense that it has the second largest employment multiplier; however, it only employs in manufacturing some 200 000 workers out of a total of 12,8 million formal sector jobs.
- The sector's contribution to GDP has been on the decline.
- DCCS and TCIDP were meant to develop the industry; instead, as was remarked by BTI about SAP one may argue that, "…it proved to be an ill considered and highly disruptive export incentive that ultimately led to the destruction of certain sectors of the textile and clothing industries (*e.g.* Jerseys)". Instead of preserving jobs and creating new ones, DCCS/TCIDP ended up destroying jobs. DCC ended up stimulating more streamlined manufacturing through specialization, improved multi-factor productivity, established export markets (albeit small) and improved specialized training of its declining workforce; it also ended up inducing and cross-subsidizing imports of especially final goods, effectively rendering even more individual manufacturing plants uncompetitive.
- DCCS/TCIDP has re-directed government revenue in the form of import duty, (tax payer's money) away from other applications (welfare creating) to a job-destructive intervention.

The following recommendations are made in respect of the findings of this paper:

- Everything points to the fact that DCCS/TCIDP had a significant distortionary impact and served only to accelerate the closing down of marginal producers in the sector; therefore any similar policy that is meant to intervene by means of duty shifting or direct subsidy on exports or imports should receive very careful consideration.
- Strategic sector support by government is necessitated – not to preserve or create jobs *per se*, but level playing fields requires that if other governments around the world support industry, so should we. The emphasis should fall on research, development, technology, innovation, training and market penetration strategies, some of which already exists, *e.g.* primary market research support. Only, the South African government should aim to position itself alongside business (and labour) out-strategizing its competitors and lending full financial support to strategic programmes.
- Lastly, government should aim to move away from 'blanket' support by industrial sector, to support of strategic and competitive

business and products instead.

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