Global Development Institute Policy Brief

Shifting South: Regional garment value chains and decent work in Southern Africa

How to grow Southern African regional garment sectors and create decent jobs?

Overview

Global garment value chains are coordinated by lead firms and shaped by trade preferences as well as differential labour costs. Evidence shows that regional value chains are growing, often organised and led by regional lead firms. Regional value chains in Southern Africa are no different. Southern African garment manufacturers supply both global value chains serving the US market under the African Growth and Opportunity Act, and regional value chains that feed South African retailers under the Southern African Customs Union and the Southern Africa Development Community. South African retailers serve the domestic market and outlets elsewhere in the African region. To achieve decent work in the garment sectors in South Africa, Lesotho and Eswatini requires the creation of jobs as well as addressing national differences in labour rights and standards. We argue that to do this requires better *regional* public policy. This policy brief draws on research conducted in Eswatini, Lesotho and South Africa to map regional garment value chains and consider their potential for achieving decent work outcomes.

Summary of research findings

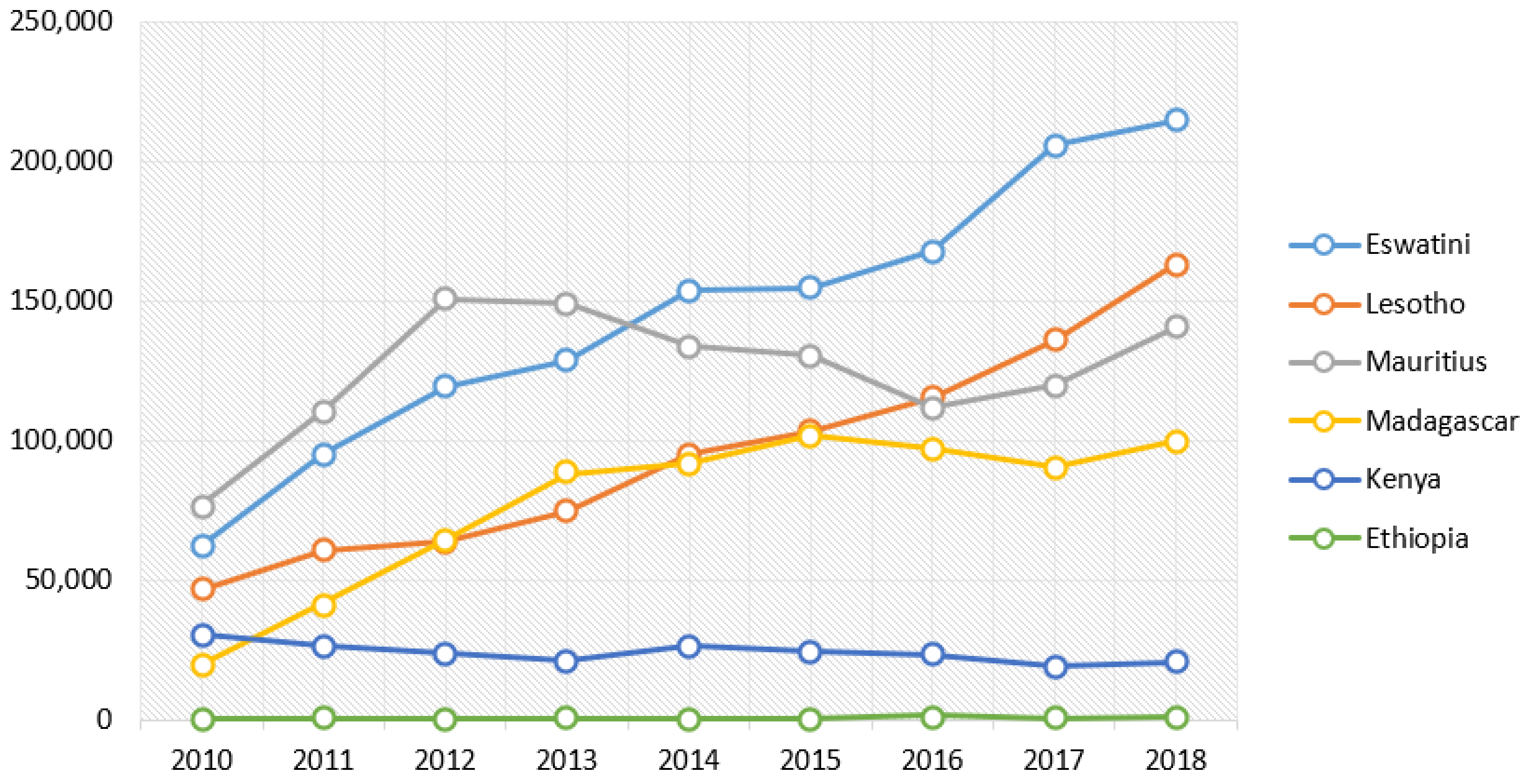
Two factors have driven rising regional garment exports to South Africa (SA):

- Duty- and quota-free access to the SA market under the Southern African Customs Union (SACU) and Southern African Development Community (SADC) Trade Protocol
- A steep labour cost differential.

Rising regional garment trade

Since 2010, regional garment exports to SA have increased, particularly from Eswatini and Lesotho (Fig 1), and are organised through regional value chains (RVC) led by SA lead firms. For producers in Eswatini and Lesotho, SA is seen as an 'easier' market than the United States (US), where labour compliance pressures are significant. In addition, the proposed end of the African Growth Opportunity Act (AGOA) in 2025 creates uncertainty about the US market.

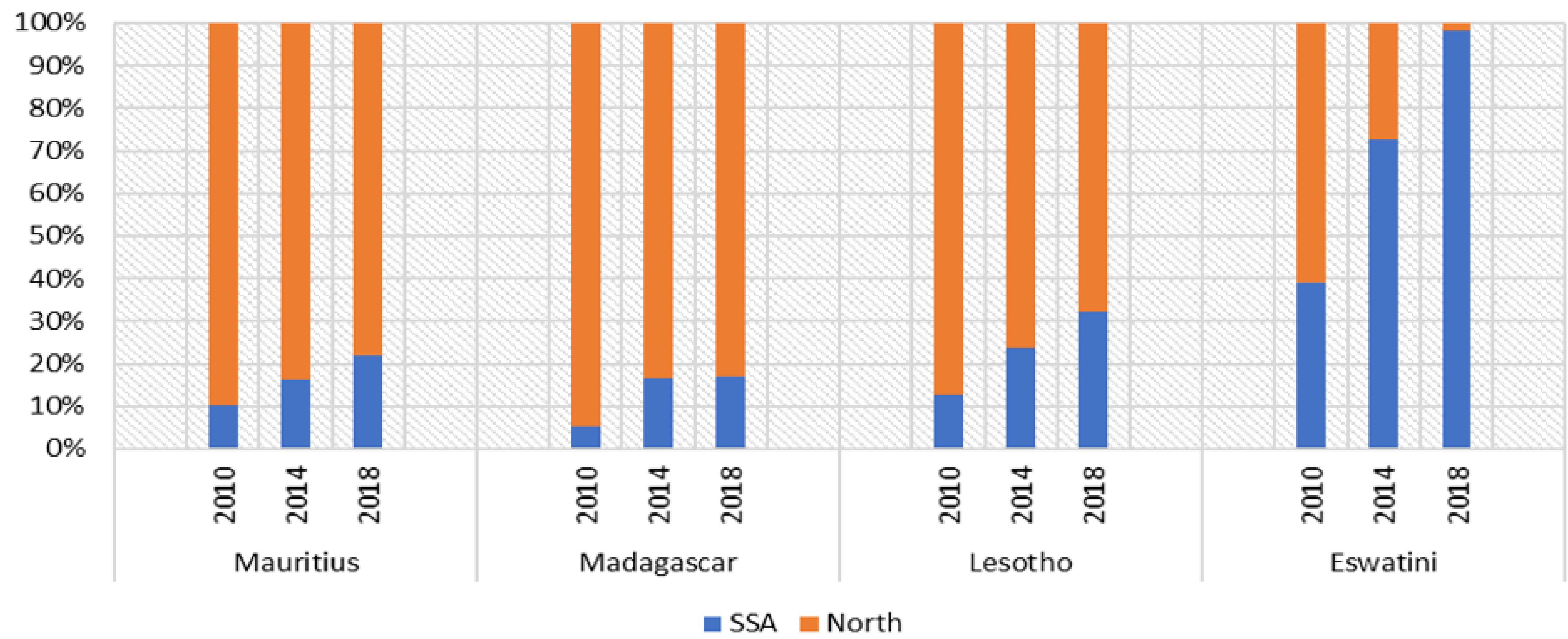
Figure 1: Exports to Sub-Saharan Africa by top exporting countries (2010-2018) – US$ 000’



Notes: South Africa is omitted since 96.4% of its exports is constituted by re-exports (Barnes & Hartogh, 2019). Source: Pasquali et al, 2021 (UN-COMTRADE)

The benefits of AGOA are considerable, but access to the US market can be suspended, as Eswatini and Madagascar have experienced. Eswatini now exports almost 100% of its garments to SA, while Lesotho, Mauritius and Madagascar have *all* seen significant growth in garment exports to the SA market.

Figure 2: Export shares to Sub-Saharan Africa and the North by top exporters



Source: Pasquali et al, 2020 (UN-COMTRADE).

While Lesotho and Eswatini garment factories produce to export, SA garment manufacturers supply SA retailers and export only indirectly through the expansion of SA retailers into the African continent. The stocking of SA retail stores in the region appears to be the same mix of locally (SA) made garments and imports. Some SA retailers have acquired retail outlets in other areas (such as Australia, the UK and Europe), but these overseas subsidiaries operate independently on sourcing, including their compliance with private governance measures on labour standards. SA owned retail operations in the UK, EU, and Australia, therefore, do not boost sourcing from SA or the southern African region. Neither is there any spill-over of European or Australian private governance requirements to regional value chains in southern Africa. Furthermore, while global retailers are entering the SA market (such as Zara and Cotton On), they do not source locally from SA or the southern African region.

The changing garment sector in South Africa and garment production in Lesotho and Eswatini

The SA garment sector has undergone two major periods of restructuring:

The first followed the reduction of tariffs (the mid-1990s to mid-2000s): many formal garment jobs were lost, firms downsized, full-package manufacturing declined, and cut, make and trim (CMT) operations proliferated. Design houses (long present in the Durban area), which act as intermediaries between producers and retailers, spread to the rest of the industry, and some manufacturers located production operations to Lesotho or Eswatini. At the same time, the economic power of the six major SA retailers rose steeply as they developed domestic, regional and global (especially from China) sourcing options with consequent downward pressure on prices.

The introduction of the Competitiveness Improvement Programme (CIP) and Production Incentive (PI) in 2010 stabilised the garment manufacturing sector. However, accessing the CIP and PI required a compliance certificate from the National Bargaining Council for the Clothing Industry (NBCCI). This led to distinct high and low-road competitive strategies. The high-road, probably best exemplified by the Cape Town and Kwa-Zulu Natal (KZN) clothing clusters, sees manufacturing firms working closely with retailers in quick response relationships. Competitiveness is based primarily on proximity, design and upgrading. The low road, typified by manufacturers in Newcastle in KZN (but not limited to Newcastle), relies upon price competitiveness underpinned by low (usually non-compliant) labour costs. While these two strategies correspond to the higher and lower ends of the garment market, the lower end of the SA garment market is growing fast.

The second and more recent phase of restructuring has seen different 'models' emerging, mainly amongst retailers, design houses and manufacturers that have adopted the high-road competitive strategy. For example, one retailer has acquired a major manufacturing arm; another retailer has significantly increased its design capacity, effectively creating an internal design house; another major discount retailer continues to work mainly via design houses; one retailer that targets the middle of the market has retained its strategy of working mainly with full-package manufacturers in relatively close relationships. Significantly, some garment manufacturers and design houses have launched their own retail chains, largely oriented to the 'discount' market.

The growth of the lower 'discount' segment of the garment market is seeing further shifts by the major retailers to acquire a share. The demise of SA's biggest garment retailer (the Edcon Group) saw opportunities for upmarket retailers to buy discount brands and overnight establish footprints in the low end of the market. Others are opening up discount brands from scratch. At the same time, an up-and-coming discount retailer acquired the largest Edcon brand and jumped into the big league. However, the discount market is increasingly impacted by a growing category of so-called 'underbelly retailers'. This nebulous category encompasses an unknown number of retailers with an unknown market share but is estimated to be so significant that it is impacting the entire pricing structure of garment retailing. The 'underbelly' includes fairly large formal retailers and smaller independent chains, but the majority is made up of small informal retailers, which source legally (and illegally) from East and South Asia, as well as from non-compliant SA manufacturers. The prices set by the 'retail underbelly' reverberate through the value chain and impact labour standards. The scale of the resulting illegality and informality, coupled with the lack of knowledge about the underbelly and its alleged illegal imports, challenge effective policymaking.

The garment sectors in Eswatini and Lesotho are almost entirely foreign-owned, but there are differences according to ownership. Taiwanese- and Chinese-owned factories in Eswatini and Lesotho are generally much larger than garment factories in SA. They produce basic or standard products in high volumes and have upgraded little since they were established. The SA-owned firms in these countries are medium-sized, work to smaller orders and produce standard, as well as more complex garments. Given the incentives that Lesotho and Eswatini use to attract investors to the garment sector, in particular tax incentives, the two countries receive little benefit other than the creation of low-wage jobs. Neither country has leveraged FDI in clothing – over 30 years - to create skills above those of a sewing machinist and, to a limited extent, supervisors.

Regional garment employment and the labour cost differential

Employment numbers in the garment sectors in Lesotho and Eswatini have fluctuated, but together, they now employ more formal garment workers than SA. These jobs are dependent on orders from US and SA retailers and, in the case of Lesotho, will be seriously impacted if AGOA ends in 2025. The end of AGOA will also have a limited impact on Eswatini, given its pivot to the SA market. There are also likely implications for working conditions, given that US retailers exercise private governance through codes of conduct. AGOA has labour compliance clauses, but there are no such clauses in the regional trade agreements in southern Africa (SACU and SADC).

Since 2002 wages and employment conditions in the SA garment sector have been set through collective bargaining, involving a national trade union (SACTWU), in the National Bargaining Council for the Clothing Industry (NBCCI). However, rising wages have gone along with a significant level of non-compliance. In Lesotho, wages are set for the textile and garment sector by the Wages Advisory Board, although in consultation (or quasi negotiations) with employers' organisations and a number of relatively small trade unions. In Eswatini, they are set in the Wages Council, also with a certain amount of consultation (or quasi negotiation) with employers and a growing trade union. The state in Lesotho and Eswatini are therefore directly involved in setting wage levels that appease foreign investors and maintain the competitiveness of exports.

Regional labour cost differentials remain stark (Table 1). They stimulate the garment RVCs and put pressure on employment and labour standards in SA. The labour cost of a qualified machinist in Lesotho was 31% of a qualified machinist in the KZN Metro Area and 44.1% of cost in the Non-Metro Area in SA (the lowest wage in SA). The percentages for Eswatini were 29.4% and 41.8%, respectively.

Labour cost differentials mask issues related to workplace governance in Lesotho and Eswatini. Research on the Better Work Lesotho (BWL) programme in Lesotho revealed a baseline of widespread verbal and even physical abuse of workers by foreign supervisors, as well as non-compliance with basic health and safety standards. The Workers' Rights Consortium subsequently highlighted serious instances of sexual harassment in factories in Lesotho. Sharp workplace divisions between foreign management (down to supervisor level) and local workers lead to the latter being restricted to unskilled and semi-skilled operations.

Public enforcement of labour standards in SA, Lesotho and Eswatini is challenging. The resistance to labour regulation by garment manufacturers in Newcastle in SA underscores the difficulties faced by the NBCCI. At the same time, the government inspectorates in Eswatini and Lesotho are under-resourced and poorly staffed. The penetration of cheap (as well as illegal) imports into the SA has placed immense pressure on the NBCCI and labour standards in the country. This pressure does not necessarily show in negotiated labour costs but rather in job losses and non-compliance.

Table 1. Labour Cost comparison: Qualified machinists: SA, Lesotho & Eswatini (December 2018)

	SA Metro (KZN)	SA Non-Metro (B)	Lesotho	Eswatini
Weekly wage	R1 295.00	R970.00	R462.00	R418.00
Additional weekly costs (social benefit funds, etc.)	R196.76	R76.89	0	R20.00
Total weekly labour cost	R1 491.76	R1 046.89	R462.00	R438.00

Regional implications of the SA Retail-Clothing, Textile, Footwear and Leather Masterplan

South Africa's R-CTFL Value Chain Masterplan' is the most significant and ambitious garment sector policy intervention in many years. It is a government-led social compact between major SA retailers, garment manufacturers, trade unions and the government. The objective is to grow the domestic garment sector as well as formalise it. In effect, retailers have undertaken to significantly increase local sourcing in return for the government eliminating the illegal/informal garment value chain, in particular illegal imports and non-compliant manufacturing. Local manufacturers and formal workers would be the major beneficiaries.

While its aims are laudable, the Masterplan is policy rather than a regulation, with major players in the SA garment value chain voluntarily participating in and making commitments. The illegal/informal garment value chain and 'underbelly' retailers are not signatories to the Plan. The achievement of its goals, depends largely on the government's ability to make significant inroads in eliminating illegal imports and stamping out non-compliance with labour standards.

Further, the Masterplan is *national* in scope. Lesotho and Eswatini have no similar policy, and there has not been any discussion on a regional level strategy (e.g. via SACU or SADC). Garment manufacturers in Lesotho and Eswatini, even SA-owned firms, do not qualify as 'local' in terms of the Masterplan and products sourced from them does not form part of the local sourcing commitments made by signatory SA retailers. These retailers have nevertheless undertaken to continue sourcing from Lesotho and Eswatini at current levels to mitigate the potential negative impact on garment sector employment in the region.

The challenge of achieving decent work regionally

The Masterplan aims to eradicate the illegal/informal garment value chain. But it is questionable whether this can be done given that prior and current efforts, both on illegal imports and non-compliance with labour standards, have not been successful. Further, the Masterplan does not address labour standards in Lesotho and Eswatini. While an argument is made that SA needs to address its domestic 'governance void' before tackling governance issues in the region, it is debatable whether a step-by-step approach will succeed given existing value chain integration within the regional economy. We have noted that the discount and 'underbelly' segments of the SA market are the main areas of growth. This is the segment most sensitive to labour costs and is being targeted by manufacturers in Lesotho and Eswatini as well as the Newcastle factories, which epitomise the 'low road' of extremely low labour costs and non-compliance with decent work goals.

Private labour governance of supply chains is under-developed in SA. SA retailers focus on monitoring their domestic and regional suppliers primarily on price, quality and on-time delivery, not labour standards compliance. When the ILO's Better Work Lesotho (BWL) programme was established, it failed to recruit SA retailers, and BWL subsequently folded. Since then, only two major SA garment retailers have fully committed to ensuring decent labour standards in their supply chains by joining an external ethical trading body (UK-based Ethical Trading Initiative), and one of these only joined recently. But this will have limited impact because the commitment is framed as ensuring the sourcing is only from 'compliant' manufacturers in Lesotho and Eswatini. But, given duty and quota-free trade within SACU, the huge labour cost differential makes a mockery of the notion of compliance. The compliant manufacturers in Lesotho and Eswatini pay much lower wages than even non-compliant garment manufacturers in SA.

Policy challenges for meeting decent work goals

There are a set of interconnected policy challenges:

- The key challenge is the growing 'discount' and 'underbelly' retail sector and its relationship with the illegal/informal garment value chain. This growing sector will impact not only the ability of the Masterplan to meet its objectives but will also undermine decent work goals. Addressing this challenge requires much more effective customs controls and labour enforcement, but policy-makers need more evidence on how big the 'underbelly' retail sector is and where it sources from.

- The second challenge is identifying how the state and private actors can collectively regulate this regional process. This raises several questions. Is this even feasible? Can it be done by focusing on SA first and then the region? What policy tools can best drive this forward: public regulations, trade rules, the Masterplan, and/or new multi-stakeholder initiatives (MSIs)? How might these policy interventions promote decent work not just at national but also regional level?

- The third challenge relates to the role of regional trade agreements (SACU and SADC), and whether these agreements can be renegotiated to introduce social clauses that would protect the relatively more regulated (and unionised) SA garment manufacturers from being undercut by low-labour cost suppliers in Lesotho and Eswatini. Social clauses are often core elements of EU and US-led trade agreements, designed to protect local workers and meet global labour standards. However, the obvious stumbling block would be the likely strong resistance from other members of SACU (and SADC) to social clauses. These challenges are further compounded by the African Continental Free Trade Area (AfCFTA), which also has no social clause, beyond the need to meet national regulatory norms.

- The final policy challenge is to identify space for private actors (lead retailers) and public-private initiatives to develop more effective platforms that promote garment jobs and decent work in SA as well as Lesotho and Eswatini.

These challenges underscore the jurisdictional boundaries of public governance and limited private governance in southern Africa. Despite the excitement around the SA Clothing Masterplan, they suggest that the prospects of achieving decent work outcomes in regional value chains in southern Africa are not promising.

Resources

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The authors are responsible for all research findings reported here.

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