

BUSINESSDAY

NEWS WORTH KNOWING

Monday, 20 November 2006

[close window](#)

Posted to the web on: 06 November 2006

Geekonomics

Matthew Stern and Frank Flatters

THE trade and industry department has an unusual preoccupation with used stuff. According to South African law, no used or second-hand goods can be imported without a permit.

While this is a very general provision, its implementation is reserved for items of interest to particular sectors. In the cases of used clothing and second-hand vehicles, the regulations are designed to assist the domestic clothing and motor vehicle industries. The broader implications of these regulations, however, seem to be given little consideration.

A presentation at the recent Tips/DPRU (trade and industry secretariat/development policy research unit) forum by three researchers from the University of KwaZulu-Natal provides some interesting insights into the history and impact of restrictions on used clothing imports (you can pick up this paper and new research work from www.tips.org.za).

The import duty on used clothing is a whopping 60%, or R25/kg, whichever is greater. This compares with an already high rate of 40% on new clothing. But this is not the main constraint.

Since 1994, special rebates available to charities have been abolished and the rules tightened with the stated goal of reducing competition for the domestic garment industry. For this purpose, separate categories were created for overcoats and all other clothing.

Since overcoats were not produced in SA, imports were permitted (subject to quotas, tariffs and the "normal" permit conditions) and all other imports were banned. Imports of overcoats became increasingly restricted, first to allow only long overcoats, and then to gradually reduce the quota to zero.

Only an appeal to the courts forced government to relax the quota to 1999 levels. Other than overcoats, the only used clothing imports that are permitted now (with a rebate) are items to be used as rags and for fibre recovery.

As might be expected, when government imposes heavy taxes and other restrictions on imports demanded in the local market, traders find ways to sidestep them. Costly import restrictions are a subsidy to smugglers and their government accomplices.

Used clothing appears to enter both through major ports and across land borders from countries that do not regulate used clothing imports. Mozambique appears to be a major source.

Despite high duties and taxes on used clothing imports into Mozambique, and

the costs of moving goods from Maputo to SA markets, it's still profitable to do so.

While import restrictions have not stopped the flow of imports, they certainly have raised their price in SA. So then what is their overall impact?

The Clothing Federation (Clofed) and its unions claim that used clothing import restrictions save jobs in the local garment industry, at the same time observing that they reduce incomes and employment in the informal used garment trade.

But international evidence and unlimited evidence from SA suggests that the informal garment trade is an important source of incomes and employment, especially for the very poor.

There can be little doubt, furthermore, that the main threat to the local garment industry is not from used clothing imports. It is rather from producers in China and elsewhere who are able to produce garments of all sorts at much lower costs than in SA.

Used clothing traders view their goods as competing, not with higher quality or higher cost SA garments, but rather with those from China.

In addition to providing incomes to poor informal workers, the used garment trade provides an essential good to SA's poorest consumers at prices lower than available otherwise. The University of KwaZulu-Natal study confirms that used clothing buyers are poor people, in some cases so poor that spending on this basic good alone consumes about one-third of their total incomes.

SA's used clothing market is a result of poverty, not a cause. Restricting it aggravates the conditions of the poor and does nothing to help lift them out of poverty. The reduction of poverty requires something much different than giving even more protection to jobs in already heavily protected industries. It requires an industrial policy that fosters competitiveness and adjustment rather than hindering it.

Meanwhile, let's stop punishing the poor further for the failures of our company policies.

Motor vehicles are not as important to the poor as clothing. Nevertheless, cheap transport is essential to the success of many small and informal businesses.

Expensive vehicles, taxi services or public transport systems impose a heavy penalty on the incomes of the poor who are seeking or have jobs that require commuting.

The ban on used car imports is a hidden tax on domestic vehicle prices, designed to further protect a heavily subsidised domestic motor vehicle industry.

The National Association of Automobile Manufacturers of SA justifies government policy and business actions that inflate domestic car prices as a means of preserving the second-hand value of customers' existing vehicles.

This is laughable. Given the choice, many consumers would prefer to upgrade to recent-model used cars imported from Japan at half the South African price. Just ask those who have been able to get around South African regulations by bringing in used vehicles (illegally) from Botswana.

||Matthew Stern and Frank Flatters are from Development Network Africa, a private economic and development consulting firm (geeks@dnafrika.com).

BDFM Publishers (Pty) Ltd disclaims all liability for any loss, damage, injury or expense however caused, arising from the use of or reliance upon, in any manner, the information provided through this service and does not warrant the truth, accuracy or completeness of the information provided.



Copyright © 2004 BDFM Publishers (Pty) Ltd. All Rights Reserved
Site Feedback | Privacy Policy