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SOUTH African textile and garment producers have had a horrid time of late. Or so media reports would suggest. It is claimed that unsupportive government policies, unrepentant Chinese imports and an unbearably strong rand have dealt a knock-out blow to the local industry and cost SA substantial jobs and export income.

Manufacturers and workers have called for higher tariffs, stricter customs enforcement, increased safeguards and archaic labelling and retailing restrictions. Fellow geeks are advised wearing their French underpants inside their trousers or burn the label.

Undergarments aside, what are the problems posed by this industry? And what should government do?

Tariff reform in this sector began in the early 1990s as part of an economy-wide programme of trade liberalisation. The textile and garment industries benefited from a very gradual tariff phase-down as well as a temporary (10-year) export subsidy programme.

Tariffs in this sector remain high. The 40% rate on garments is one of the highest in SA's tariff book. The long phase-down was designed to provide time for necessary structural readjustments.

The industry has responded as expected, with rationalisation leading to growth of both exports and imports.

At the same time, there have been big job losses in the formal sector. Is trade liberalisation the villain? The data suggest otherwise. From 1995 to 2003 exports grew at almost exactly the same rate as imports. The net effect has been an increase in sales due to the steadily falling real price of clothing, and a shift in production towards exports. Trade-induced changes in total output do not explain falling employment.

The cause of job losses must be sought elsewhere and the obvious place to look is productivity growth.

Global restructuring and productivity increases have streamlined the international clothing and textile industries over the past decade. Major adjustments have been the rule everywhere, including China, where tens of thousands of jobs have been lost.

On the other hand, trade liberalisation and productivity improvements have been of great benefit to clothing consumers worldwide. While the South African consumer price index has risen 82,8% since 1995, nominal clothing prices have increased only 5,5%. In other words, the real price of clothing has fallen about 75%. A large part of this is due to tariff reductions. Further reductions would have a similar effect.

Another less appreciated effect of trade liberalisation has been the booming retail trade, especially in basic garments. This has been good for all consumers, but especially those in the lower-income brackets. It has also been good for job creation in this sector.

For the same reasons, the recent appreciation of the rand has been good for consumers and retailers, and bad for garment and textile producers. But the

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negative effect on competitiveness is an economy-wide problem affecting all producers of tradable goods. It is not an excuse for sector specific remedies of the sort being called for in clothing and textiles.

If productivity growth is the "problem", reversing trade liberalisation is certainly not the answer. This would only delay adaptation to the new environment, and discourage the adjustments necessary to boost competitiveness. Further trade liberalisation cannot be delayed in the hope of protecting what are ultimately unsustainable jobs.

Adjustment assistance for workers, especially income support and training, might be more appropriate. This will be much more effective and less costly than continuing to prop up noncompetitive producers.

At the same time government needs to think about what can and should be done to ensure a competitive real exchange rate.

Further tariff liberalisation and a reorientation of industrial policies to encourage labour-intensive rather than capital and resource-intensive industries are essential.

What can be done specifically for the garment industry? Most important is to provide more competitive access to raw materials, especially cloth. Global textile and garment industries are characterised by a complex and highly fragmented division of labour, with fabrics and garments produced at locations all around the world. No country is self-sufficient in any segment.

A key to domestic and international competitiveness is to be a successful importer — to source raw material inputs efficiently on a global basis.

South African textile and clothing producers are penalised by high import duties on raw material inputs at every stage of the value chain. This is most serious in the case of garments, where producers face import duties of 20%-22% on imported fabric.

Restrictive rules of origin in the Southern African Development Community and in some of SA's most important preferential trading arrangements (the Africa Growth and Opportunity Act and the SA-European Union trade development co-operation agreement) are another serious constraint.

Until South African apparel and textile producers can access the best quality and most affordable fibres, yarn and cloth, they will be unable to compete domestically or on the world stage.

More trade reform, not less, is the answer, supported by sensible adjustment assistance for those who need it most-workers displaced by the adjustments that will continue to be inevitable in this highly globalised sector.

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