

**SA Textile Industry
&
its Trading Environment**

A South African Perspective

16 May 2004

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Outline of Presentation

- Government
- Economy
- SA Textile Industry
- Strengths & Internal Integration
- Imports & Exports
- Govt Policies and Trade Agreements
- The China Threat!

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Government

- Constitutional Multi-party Democracy
- Political Stability(10 years new democracy)
- Elections (Apr 2004)
- Independent judiciary
- Human Rights constitutionally entrenched
- Employer & Employee rights
- Legal framework for investment & trade
- Well regulated financial markets
- Skills Development Act
- Employment Equity Act
- Black Economic Empowerment Act

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Economy (1)

- Largest Economy in Africa
- Modern and highly developed infrastructure
- Transport
 - Extensive road network – 753 000 km/647 m.tons
 - Largest rail service in Africa – 34 000 km/180 m.tons
 - Major Ports at Cape Town, Durban, Port Elizabeth, East London, Richards Bay, Saldanha Bay, Mossel Bay
 - 9 major airports
- Electricity generation – 157 million Gwh
- Well developed telecommunications sector

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Economy (2)

	1999	2000	2001	2002	2003
Economic Growth	1.2%	3.0%	2.5%	3.5%	2.0%
Inflation(CPI %)	5.2%	7.2%	6.4%	9.2%	5.8%
Prime Lending Rate	15.5%	14.5%	13.0%	13.6%	15.4%
Bal on current a/c (\$bn)	-0.5	-0.3	0	0.6	-1.3
Rand/US\$	6.11	6.94	8.60	10.52	7.56
Rand/£	9.89	10.49	12.39	15.76	12.34

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Economy (3)

Foreign Trade – Goods & services

	1999	2000	2001	2002	2003
Imports (US\$bn)	35.3	38.8	37.1	37.0	48.3
Exports (US\$bn)	35.7	39.5	37.9	38.1	47.8

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Textile Industry (1)

Raw Material Availability

- **Cotton Lint (20 000 – 30 000 tons)**
- **Wool (50 000 tons)**
- **Mohair (6 600 tons)**
- **Polyester Fibre (50 000 tons)**
- **Filament yarn**
 - **Polyester (60 000 tons)**
 - **Nylon (50 000 tons)**

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Textile Industry (2)

Turnover	\$1650 Million
Fibre Consumption	251 000 tons
Fabric Production	515 million m ²
Spindles	420 000
Looms	3 000
Knitting Machines	2 000
Employment	62 000
Imports	\$780 Million
Exports	\$503 Million

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Textile Industry (3)

Production

	1999	2000	2001	2002	2003
Yarns (million kg)	90	93	95	94	91
Fabric (million m ²)					
Woven	415	420	386	400	370
Knitted	165	136	139	144	143

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Textile Industry (4)

Fabric Import Penetration

	1999	2000	2001	2002	2003
Imports ('000t)	50	64	71	74	87
Local ('000t)	97	93	89	91	88
Penetration (%)	34	41	44	45	50

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Textile Industry (5)

Import Prices (\$/kg)

	1999	2000	2001	2002	2003
Fibre	1.51	1.45	1.35	1.32	1.32
Yarn	2.67	2.14	2.24	2.28	2.44
Fabric	5.85	4.61	2.70	3.55	3.51
Rand/\$	6.10	6.94	8.60	10.52	7.60

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Textile Industry (6)

Textile Industry Strategies

- Improve productivity, WCM & profitability
- Establish/expand export markets
- High value added, niche markets, focus on key competencies
- HR development, staff empowerment
- Improve plant utilization or expansion

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Textile Industry Strengths

- WCM standards amongst major players
- Number of large scale, vertically integrated global players, with highly flexible, low volume, niche producers
- Good relationships with Europe & North American buyers
- Access to raw materials, including man-made & natural fibres
- Availability of well established technical support infrastructure
- Efficient training infrastructure
- Geographical clustering
- Strengths underpinned by the industry's trajectory & the major shakeout of firms through the 1990's

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Import & Export Markets

All Goods

Import Sources

Germany (15.4%)

USA(11.3%)

UK(8.7%)

Japan(5.9%)

Export Destinations

USA(11.7%)

UK(11.1%)

Germany(8.3%)

Japan(6.2%)

Textiles & Clothing

China (30%)

Taiwan(7%)

India(6%)

USA(26%)

UK(14%)

Italy(8%)

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Government Policies(1)

- Sustainable integration into Global Economy
 - Trade liberalization
- Enhance economic competitiveness
- Promote domestic economic reform
 - Employment Equity
 - Black economic empowerment
- Export growth
 - Bi-lateral & multilateral trade agreements
 - Tariff reduction
- Diversify markets & product (value added)
- Create sustainable employment growth

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Government Policies (2)

Textile & Clothing Tariffs

	MFN	SADC	EU
Cotton	160 SAc/kg	0	160SAc/kg
Polyester	7.5%	0	7.5%
Yarns	15%	0	10%
Fabrics	22%	5%	15%
Made up textiles	30%	10%	24%
Clothing	40%	15%	29%

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Trade Agreements (1)

Current

- SA Customs Union
- SA / Zimbabwe
- SA / Malawi
- SA / Mozambique
- SADC FTA
 - MMTZ
- SA/EU FTA
- Africa Growth & Opportunity Act

Future

- USA/SACU FTA
- EFTA/SA FTA
- Mercosur/SACU FTPA
- India
- China
- Nigeria

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SADC Trade Protocol

	2004	0% in year
Cotton	0 cents	2004
Synthetic Fibre	0%	2003
Yarn	0%	2004
Fabric	5%	2005
Made ups	10%	2006
Clothing	15%	2007

Rule of Origin - two stage transformation

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SA/EU Free Trade Agreement

SA DUTIES	2004	2007
Synthetic Fibres	7.5%	4.7%
Yarns	10%	5%
Fabrics	15%	10%
Made ups	24%	15%
Clothing	29%	20%

EU Duties

- Yarn duties 0% in 2003
- All other duties 0% in 2006

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Africa Growth & Opportunity Act

- 36 countries of SSA eligible
- 24 countries have access
- Duty free entry for clothing
- Cap 1.5% - 7.0% of US imports
- Rule of Origin - yarn forward rule

AGOA III - Pending

- LDC Exemption – extended to 2007 with phase out
- Co-mingling allowance
- Extension of AGOA to 2015

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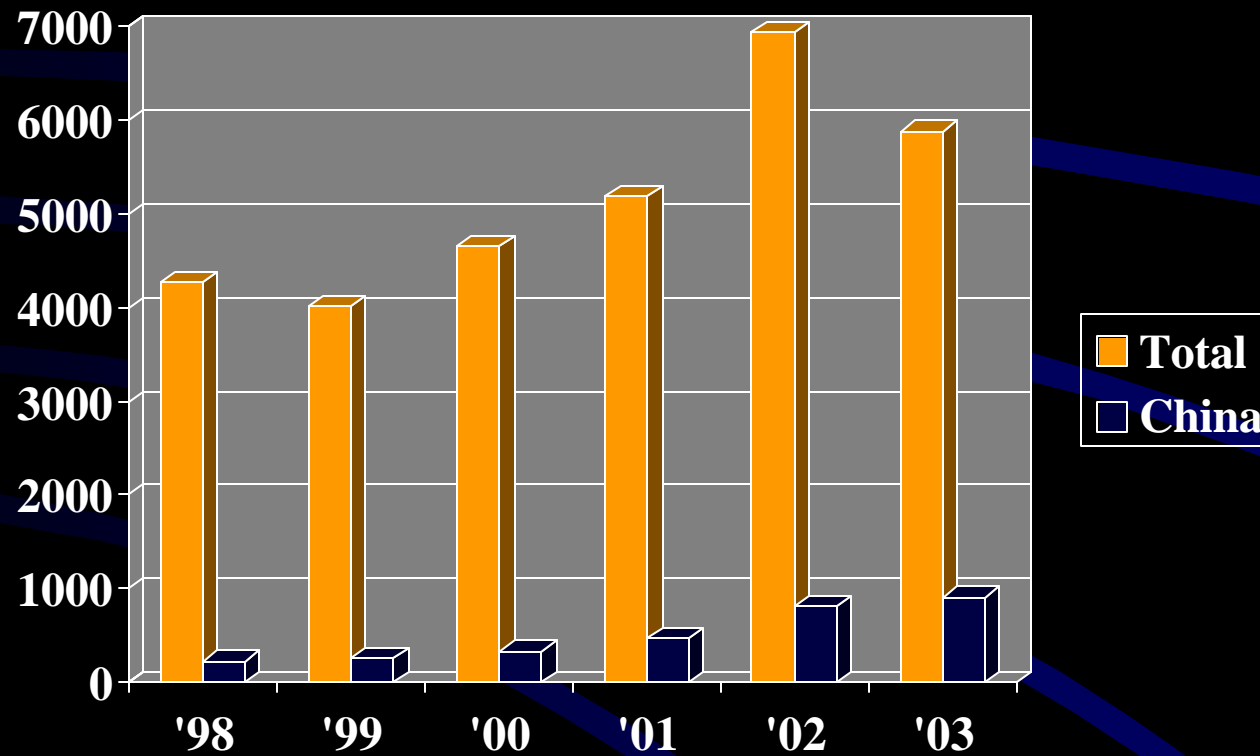
The China Threat

Problem Areas

- **Surge in Imports esp. from China**
- **Gross Under-valuation of Imports**
- **Abuse of SADC FTA (Anti Dumping evasion)**

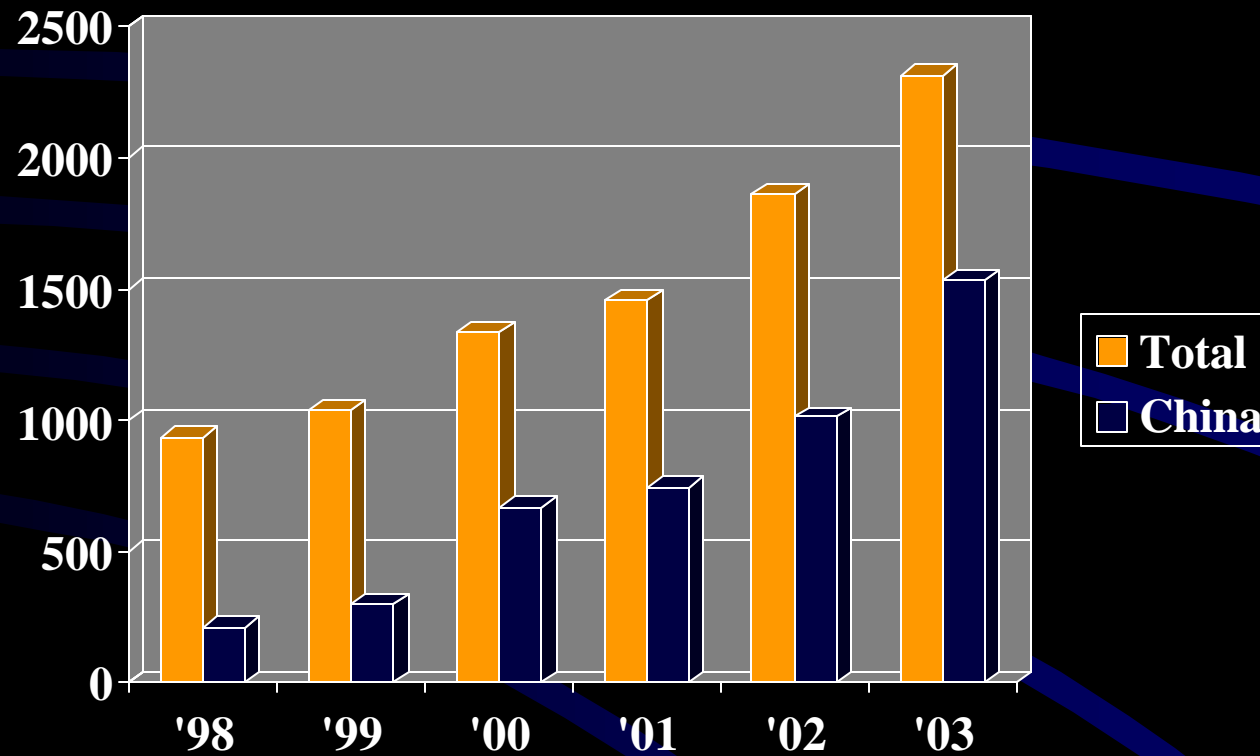
The China Threat

Textile Imports (R'm)



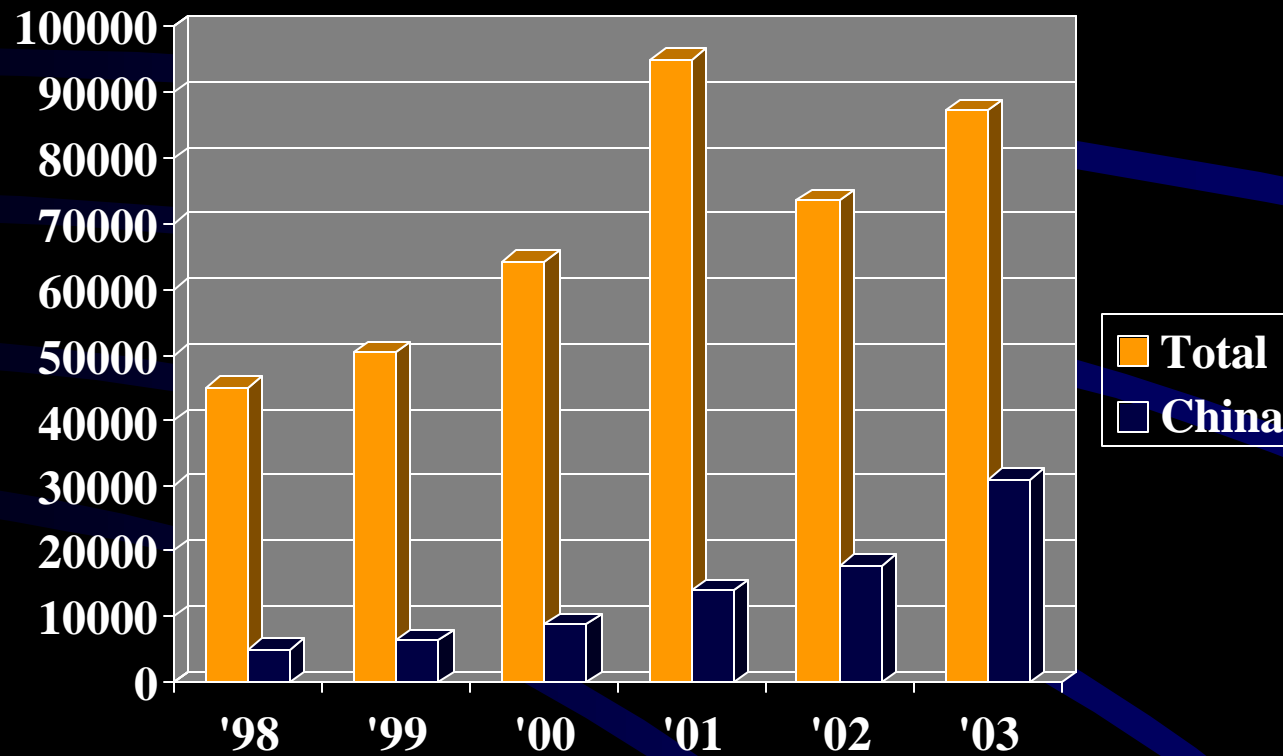
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Clothing Imports (R'm)



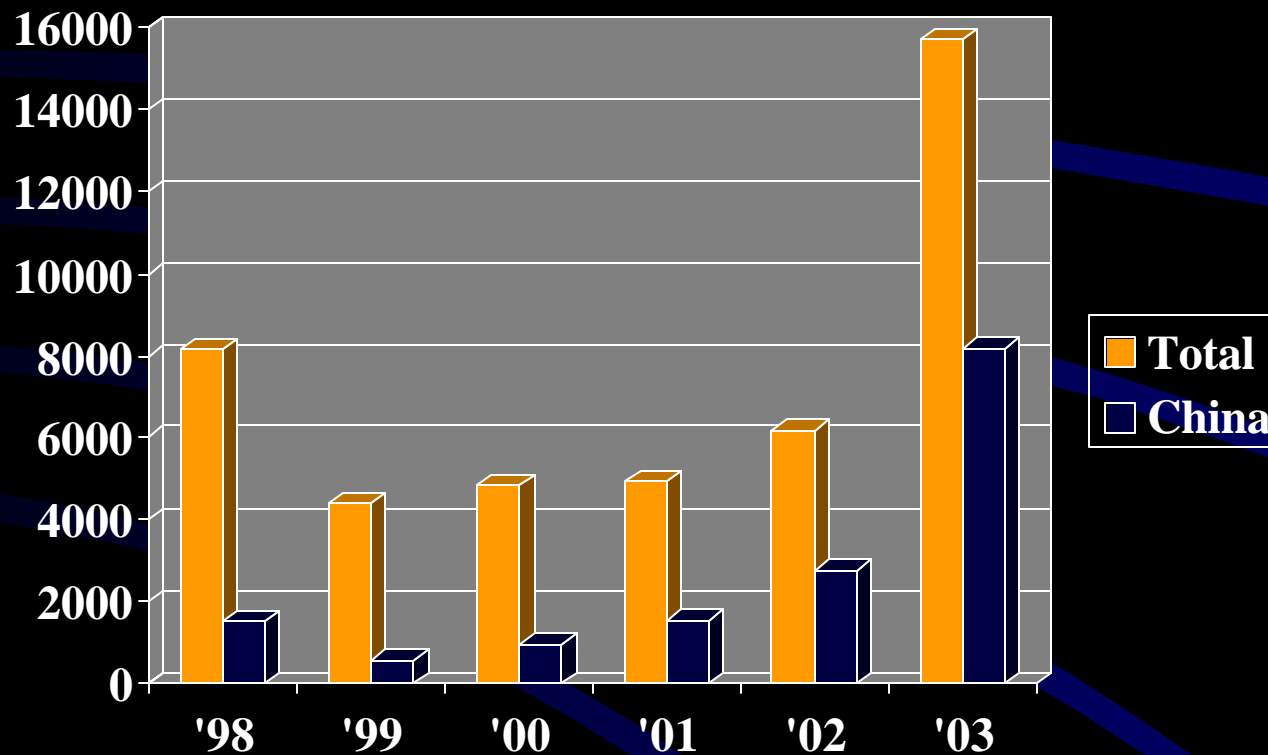
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Fabric Imports ('000kg)



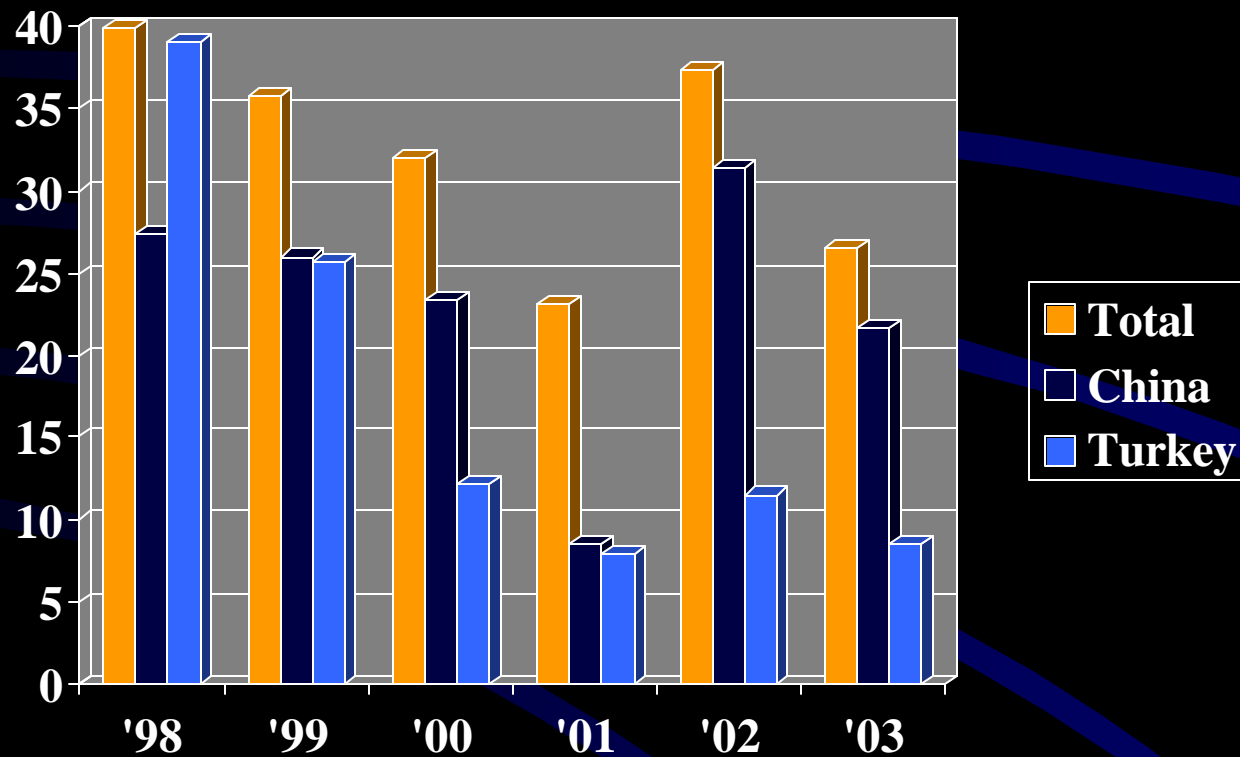
The China Threat

Made up Textile Imports ('000kg)



The China Threat

Fabric Prices (R/kg)



Perspective on South Africa

Thank you for listening

Mr. President, Ladies and gentlemen,

I am honoured to have been asked to address your august Assembly on behalf of the South African Textile Federation at this Istanbul Declaration Summit on Fair Trade in Textiles and Clothing.

As the time imparted is short and the matter at hand is of a serious nature for the future of our industry, I hope that you will not mind if I refrain from joking. Also kindly forgive some manual corrections to my transparencies as the news about this presentation came rather late when I was already enjoying Belgium's gastronomy.

Slide 2

For the benefit of the membership who has not been recently exposed to the South African Environment, I will quickly give a short update on some of the main features of South African Politics and Economics, then focus on the South African Textile Industry's major statistical data, strengths & strategies, imports and exports.

I will follow with an outline of the South African Government's Trade related Policies and Agreements and finally address the China threat for South Africa.

Slide 3

- After peaceful revolution, focus on reconciliation,
- Elections : 68% ANC,
- Human rights : to change 75% votes required,
- Skills shortage : Liberation before education.

Slide 4

- Telecoms : GSM

Slide 5

- Growth : too slow to create jobs to reduce unemployment,
- Inflation : now 5% or less,
- Prime : now 11%,
- Rand/\$: now 6.5 is detrimental to many exporting industries including textiles and contributes to losses of jobs and an increase in the poverty of the masses.

The main beneficiaries of this strong Rand are:

- ? All sectors of commerce that do not add value to the products they import in South Africa. Prominent amongst these are Trading Houses that import much of their products from the Far East;
- ? The very wealthy people who now can import luxury goods, which are not produced in the country, at much cheaper prices. This is equivalent to a tax break for the wealthiest;
- ? The transport and energy sectors due to a reduced Rand oil price off set to an extent by the rise in crude prices;
- ? The working classes to a degree, through a reduction of imported inflation now achieved but conversely, negatively affected by the loss of jobs.

Most South Africa's competing countries have maintained their currency's relation to the US Dollar. The Yuan, the Bath, the Hong Kong Dollar, the Korean Won and the Taiwan Dollar are linked to the US Dollar and have devalued at exactly the same rate as the Dollar against the Euro and against the Rand. The Mexican Peso has devalued by almost 20% and the Botswana Pule by 7% against the US Dollar and the Indian and Pakistani Rupees have only appreciated by 8% against the Dollar, the Russian Rouble by 9%, the Singapore Dollar by 8% and the Turkish Lira by 12%. This is far from the 42% appreciation of the Rand during the same period.

Slide 6

Balance of Trade is basically in equilibrium but this will deteriorate due to the strong rand policy.

Slide 7

- Cotton : shortage as consumption is about double. This is compensated by neighbouring countries except for higher grade cottons (Pima).
- Wool : second largest World producer miles behind Australia.
- Polyester is produced from imported chemical feedstocks while nylon yarn is produced from imported polymer.

Slide 8

- Shows Textile Trade imbalance.

Slide 9

- Shows a slight decline in production output.

Slide 10

- Raw materials : handicap except cotton is distance from suppliers,
- Technical : handicap is local skills shortage and distance,
- Training : SETA,
- Clustering : Sub Sahara market but no money, Latin America close by,
- Shakeout : employment has dropped dramatically from 300000 to 150000 due to wages 10 times higher than China, Indonesia although 10% of Europe and USA + liberalisation of import duties ahead of WTO targets.

Slide 11

- Productivity : TIDC,
- Export : SATIEC & Trade Agreements,
- Niche markets : probably a dream except for some Technical Textiles (parachute fabrics, sewing thread, tyre cord) due to distance of fashion oriented customers,
- HR development : handicap is education gap & local culture.

Slide 12

All Goods : machinery is a major component of imports, minerals of exports,
Textiles : garments are imported from the Far East and exported to USA, EEC due to still prevailing quotas and Trade Agreements.

Slide 13

- Penetration is increasing year on year at slower pace than the West but inexorably.

Slide 14

- Import prices have been drifting down in dollars despite the weakness of the dollar. This is hurting badly South African Textile manufacturers.

Slide 15

- Most of these policies deserve praise, however are too idealistic, unrealistic in view of the present cultural and intellectual development of the majority of South African people,
- There is a trend in Government to attempt to be more catholic than the Pope hence Trade Liberalisation in textiles 5 years before the required WTO compliance.

Slide 16

- Cotton duty : a mental aberration to protect the South African farmers who produce one half to one third of the cotton lint required by the spinning industry. This forces the spinners to commit every year to buy the whole South African cotton crop at a negotiated price that is often divergent and higher than the World price. Once an agreement is reached, the Minister of agriculture waives completely the 160 cents duty for that year,
- Duties applicable until next round of multilateral negotiations in the WTO.

Slide 17

- SADC : comprises basically most African countries located South of the Equator, i.e. Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.
- AGOA : relates only to clothing.

Slide 18

- These are the duties into SA. The other SADC States have yet to commence phasing down their tariffs.

Slide 19 & 20

- EU tariffs will be zero in 2006.
- SA tariffs will be at 50% of MFN tariffs in 2007.

Slide 21

- Internal prices jump 4.4% in May, Food up 12% year on year,
- GDP growth 9.7%, 1st quarter 2004 against 9.1% growth 2003,

- Energy and transportation cannot cope and Government is attempting to slow growth to 7 % for 2004, as a result import growth drops from 43% in April to 35% in May,
- But retail sales are up 13% in April and 18% in May,
- Exports are leaping 33% in May, main driver of growth and generate \$ 2.1 billion trade surplus in May.

Slide 22

The share of total textile imports originating from China has risen to 16% in 2003 and to 17% in the first 3 months of 2004 (figures are annualised in the graphs).

Slide 23

The share of clothing imports coming from China is up from 66% in 2003 to 75% in the first 3 months of 2004.

Slide 24

In terms of fabric imports 35% originate in China in 2003. This has risen to 40% in the first 3 months of 2004. Broken down into categories, 22% of all filament fabrics came from China (up from 6% in 2000) while 51% of all knitted fabrics in 2003 came from China.

Slide 25

Imports of made up textiles from China have surged to over 50% last year and to 65% in the first 3 months of 2004.

Slide 26

In terms of import prices, China is consistently below all other sources. A notable exception is the price of acrylic fabrics from Turkey where the fabric price in 2003 was \$ 1.12/kg. South Africa is facing a serious threat to both its apparel and textile sectors from China.

We consequently lend our full support to the initiative of the Istanbul Declaration. We will also be pursuing the possibility of voluntary restraints with China or even safeguards in terms of their WTO accession protocol.