Winnie S. Madonsela

The Textile and Clothing Industry of Swaziland

in:
Herbert Jauch / Rudolf Traub-Merz (Eds.)

The Future of the Textile and Clothing Industry in Sub-Saharan Africa

Bonn: Friedrich-Ebert-Stiftung, 2006

Country Reports

The Textile and Clothing Industry of Swaziland

By Winnie S. Madonsela

1. Introduction and Overview of the Swaziland Economy

The economy of Swaziland has been closely linked to and is dependant on the South African economy even before Swaziland as a British Protectorate gained independence in 1968. The Government of Swaziland has always adopted a collaborative stance towards the South African government, even when such a stance was unpopular during the apartheid era in South Africa. Swaziland's economy is so closely integrated with the South African economy, and Swaziland's currency, the Lilangeni, is pegged to the South African Rand on a one to one basis, making it vulnerable to Rand exchange control volatility. South Africa remains Swaziland's major trading partner.

Swaziland shares membership in the Southern African Customs Union (SACU) with Botswana, Lesotho, Namibia and South Africa. SACU is a regional trade arrangement that allows duty free access for goods and services to member countries. A Common External Tariff (CET) is charged on all goods entering SACU from non-member countries. SACU members are negotiating Free Trade Areas (FTA) with several economic groupings and individual countries, including the USA, the European Free Trade Area (EFTA), MERCOSUR, India and China. The conclusions of FTA agreements will certainly impact on market opportunities for Swaziland. Swaziland enjoys preferential access to European markets under the EU-ACP-Cotonou Agreement and to the US markets under the African Growth and Opportunity Act (AGOA).

Swaziland's economic performance has declined since the early 1990s. The average annual rate of real Gross Domestic Product (GDP) growth fell from 8% in the 1980s to 4% in the 1990s. Since then, growth has declined further. Official estimates put real GDP growth at 2.1% in 2004. Given the estimated population growth rate of 2.9%, the unimpressive economic growth implies a deterioration in the standard of living as measured by per capita income.

Agriculture forms the backbone of Swaziland's economy. A large part of the GDP is directly related to agriculture, as much of the value added in the manufacturing sector arises from processing agricultural and forestry products. The sector is also the largest in terms of employment with over 70% of Swaziland's working population dependent on it for their livelihood and income. The main crops produced are maize, cotton and tobacco.

The downward trend in economic performance in 2004 is a reflection of the low growth rate in Foreign Direct Investment (FDI), weaker performance of the manufacturing sector and low agricultural productivity. The slump in agricultural production was a result of three consecutive drought seasons in the region, which resulted in a serious food shortage throughout the country. This development exacerbated the already severe problem of high unemployment, income inequality and poverty. Growth in manufacturing output slowed down in 2004 following the closure of some major companies and weaker performance of the manufacturing sector emanating from the sustained strength of the Rand, which is at par with the Lilangeni.

Tables 1 below summarises Swaziland's economy over a number of years.

Table 1: **Major Economic Indicators**

	1998	1999	2000	2001	2002	2003	2004
Nominal GDP (E' Million)	7,439.1	8,412.0	9.630.0	10.838.2	12.436.8	14.302.3	16.262.4
Real GDP (factor cost; E' Mil.)	1.398.5	1.449.9	1480.1	1.504.3	1.562.6	1.607.9	1.615.0
Real Growth Rate	3.2%	3.4%	2.1%	1.7%	3.6%	2.9%	2.1%
Average Inflation	8.0	5.9	7.3	7.5	11.7	7.4	3.4
As % of GDP (factor cost)							
Agriculture	10.1	10.6	9.9	8.8	8.7	8.6	8.8
Manufacturing	36.9	36.0	35.8	35.6	35.4	35.2	34.8
Government Services	16.5	16.2	16.5	16.6	16.3	16.4	16.6
Labour Market (in 000)							
Paid Employment	91.9	93.3	96.3	95.5	98.7	98.6	96.5
Paid Public Employment	31.9	32.4	32.7	33.2	33.5	33.9	34.0
Paid Private Employment	60.0	60.9	63.6	62.3	65.2	64.7	62.5
Paid Employment Growth	0.5%	1.5%	3.3%	-0.8%	3.4%	0.2%	3.2%

Source: Central Bank, Ministry of Finance and Economic Planning & Development

2. Overview of the Clothing and Textile Industry

Historically, the clothing and textile industry in Swaziland has been linked to international markets. Prior to Swaziland qualifying for the AGOA benefits, the textile industry was not a major contributor to the country's GDP. The textile industry suffered from a lack of local quality inputs and was not protected from competing producers in South Africa. This led to Swaziland becoming a captive market for South African exports. Swaziland's consumers were serviced by South African retail clothing chain stores such as Truworth, Edgars and Tru Pep. With AGOA becoming law in May 2000 in the United States, Swaziland became a beneficiary as from January 2001. AGOA led to a sharp increase in Foreign Direct Investment (FDI) in the clothing and textile industry, creating thousands of jobs.

The textile and garment factories are located mainly in the Matsapha Industrial Estate, which is the main business site and the hub of industrial activity in Swaziland. Government has embarked on a programme of decentralisation of the textile industry to ensure that even rural areas benefit from the emerging industry. Factories established in rural Swaziland are found mainly in Nhlangano and Siphofaneni. Various additional production sites are earmarked for places such as Ebuhleni, Mpaka and Matsanjeni. Rural-based firms, however, face serious problems relating to lack of developed infrastructure and high operating costs.

One of the setbacks in the Swaziland textile and clothing sector has been the absence of local capital and investors. This meant that the industry is dependent on foreign investors whose motives are purely based on profits and not on development considerations. Equally problematic has been the fact that the jobs in this sector are of poor quality as they are characterised by a lack of job security and low levels of skill acquisition. The industry as a whole faces a host of difficulties ranging from unfavourable exchange rates to uncertainties with regard to availability of preferential markets in the future, especially with the expiry of AGOA in 2008. Even worse, the expiry of the Agreement on Clothing and Textiles at the end of 2004 had a severe impact on the industry.

Swaziland had experienced increasing FDI inflows in 2001 and 2002 in the clothing and textile industry, which contributed positively to the growth of the manufacturing sector as a whole. Swaziland's membership to AGOA assisted the country to retain existing FDI as well as to attract fresh FDI inflows, particularly in the textile and garments industry. This boom was, however, short-lived as FDI levels declined from 2004 onwards, leading to factory closures and retrenchments as mentioned below.

Table 3: **Swaziland's Textile and Clothing Companies**

Investor Name	Country of Origin	Target Market	Location	Invest-ment (I)	Employ-ment (E)	Establ.	Status April 2005	Status December 2005
FTM Garments	Taiwan	USA	Nhlangano	E13M	660	1999	Operational	Operational
Zheng Yong	Taiwan	USA	Nhlangano	E40M	2600	2000	Operational	Increased I. to E55M/E.to 3200
Leo Garments	Taiwan	USA	Matsapha	E11.5M	520	2001	Operational	Operational
Orient Sun	Taiwan	USA	Ngwenya	E8.5M	500	2001	Operational	Operational
Proton	Taiwan	USA	Matsapha	E13M	800	2001	Operational	Operational
Garment World	RSA	RSA	Matsapha	E10M	-	2003	Operational	Ceased Operations
Ho's Enterprise	Taiwan	USA	Nhlangano	E20M	610	2001	Operational	Operational
Chen's Garments	Taiwan	USA	Matsapha	E40M	1200	2001	Operational	Ceased Operations
Sarri Sun	Singapore	USA	Matsapha	E17M	200	2002	Operational	Ceased Operations
Far East	Taiwan	USA	Matsapha	E18M	100	2003	Operational	Increased E. to 400
Texray	Taiwan	USA	Matsapha	E45M	1700	2002	Operational	Operational
Fashion Int.	RSA	USA	Matsapha	E18M	500	2002	Operational	Operational
Chi Chai Tex	Taiwan	USA, RSA	Siteki	E30M	-	2002	Operational	Ceased Operations
Clothex	India	USA, RSA	Matsapha	E5M	-	1996	Operational	Ceased Operations
Procan Investment	Canada	USA	Matsapha	E10M	240	2004	Operational	Operational
Amarat	Afghanistan	USA	Siphofaneni	E5M	10	2003	Operational	Operational
Shun-Li	Taiwan	USA	Matsapha	E17M	620	2002	Operational	Ceased Operations
Chin-Tsu	Taiwan	USA	Matsapha	E5M	-	2003	Operational	Ceased Operations
Tseng Vise	Taiwan	USA	Matsapha	E50M	620	2002	Operational	Ceased Operations
Taitex	Taiwan	USA	Matsapha	E15M	163	2002	Operational	Operational
Juris Manufac.	RSA	RSA	Nhlangano	E1.8M	215	2004	Operational	Operational
Huan Ling	Taiwan	USA	Matsapha	E20M	-	2003	Operational	Ceased Operations
Matsapha Knitwear	Taiwan	USA	Matsapha	E450M	1200	1989	Operational	Operational
W&W Garments	Taiwan	USA	Matsapha	E30M	575	2001	Operational	Operational
Master Garments	Taiwan	USA	Matsapha	E10M	1140	2003	Operational	Operational
Bao Sheng	Taiwan	USA	Matsapha	E3M	200	2001	Operational	Operational
Lanka Products	Sri Lanka	USA	Matsapha	E13M	-	2005	Not Yet Operational	Operational

2.1 Employment Levels

The textile and clothing industry not only plays a major role in the manufacturing sector, but also in Swaziland's economy as a whole. This industry has remained a major generator of employment because of its labour intensive nature. In April 2005, the textile and clothing industry accounted for 14,373 jobs compared to 30,000 in 2004. This means that since August 2004, the industry has seen a loss of more than 15,000 jobs, due to factory shutdowns. This trend continued as the total number of jobs dropped further to 11,493 in December 2005.

The clothing and textile industry is, however, not the only manufacturing industry affected by job losses. According to the Central Bank of Swaziland, "formal sector employment is estimated to have contracted by 2% to 62,600 jobs in 2004 from 64,700 jobs in 2003. A contributing factor to the decline in job opportunities was the loss of competitiveness of Swazi products in world markets due to the strong Lilangeni against the country's major trading currencies, in particular the US dollar, which resulted in the closure of a number of companies, including textile companies. The number of investors in the clothing and textile industry declined from 26 in April 2005 to 18 in December 2005. The status of Swaziland's clothing and textile companies is summarised in Table 3 below.

Table 4: **Foreign Direct Investment into Swaziland; by Type, 1999-2004** (E' million)

Type	1999	2000	2001	2002	2003	2004
Equity	657.4	510.2	837.4	737.9	709.4	678.7
Reinvested Earnings	1,515.3	1,962.6	1,960.8	2,711.4	2,517.2	2,753.6
Long-term Capital	643.6	693.4	850.1	582.9	703.1	828.1
Short-term Capital	606.7	891.0	653.5	1,215.6	857.5	963.3
Total FDI	3,423.0	4,057.2	4,301.8	5,247.8	4,787.2	5,223.7
Change in Total FDI (%)	21.3	18.5	6.0	22.0	-8.8	9.1
Excl. Reinvested Earnings (%)	25.7	9.8	11.8	8.3	-10.5	8.8
Average Inflation (%)	5.9	7.3	7.5	11.7	7.4	3.4

Table 5: **Foreign Direct Investment into Swaziland; by Sector, 1999-2004** (E' million)

Sector	1999 Stock	1999 Change	2000 Stock	2000 Change	2001 Stock	2001 Change	2001 Stock	2002 Change	2003 Stock	2003 Change	2004 Stock	2004 Change
Manufacturing	2,330.0	32.4	2,859.0	22.7	2,919.0	2.1	3,634.1	24.5	3,331.8	-8.3	3,493.6	4.9
Services	341.5	-12.1	313.3	-8.3	343.0	9.5	499.8	45.7	417.8	-16.4	526.9	26.1
Investment	177.3	4.7	138.2	-22.1	175.8	27.2	194.8	10.8	188.6	-3.2	222.9	18.2
Agriculture	445.2	28.3	532.6	19.6	540.2	1.4	550.6	1.9	505.2	-8.2	543.1	18.2
Finance	93.3	-15.5	176.3	89.0	162.4	-7.9	219.7	35.3	288.0	31.1	270.7	-6.0
Mining	35.7	-25.3	37.8	5.9	161.4	327.0	148.8	-7.8	55.8	-62.5	166.5	198.4
TOTAL	3,423.0		4,057.2		4,301.8		5,247.8		4,787.2		5,223.7	

Source: Central Bank of Swaziland

2.2 Spill-Over Effects

The textile and clothing industry has had some spill-over effects, which benefited other sectors. It has provided transport operators with a constant market and also prompted government to improve the road network and embark on other infrastructural developments. Over the past 5 years, the average share of transport and communications infrastructure accounted for 36.8% of the government budget. This facility has not only benefited investors, but also local transport operators and Swazi nationals in general. Due to the large number of employees residing in areas surrounding the Matsapha Industrial Site, transport operators have experienced increased numbers of clients. Street vendors have also benefited from the textile and clothing industry. The increasing number of people relocating to industrial towns has provided sufficient means of survival to several groups such as landlords and operators of small retail outlets. There are, however, very serious negative social impacts associated with the surge of textile industries. These include escalating levels of crime, congestion and conditions of poverty and squalor.

2.3 The Nature of the Swazi Textile and Clothing Industry

As mentioned earlier, Swaziland is dominated by South African retail clothing chain stores. In recent years, a number of Asian retailers have entered the market with popular, low priced "imitation" brands of famous clothing labels. A number of locally owned boutiques have also mushroomed with the bulk of them sourcing their products from Dubai.

Swaziland has experienced an increase in textile-related exports to the United States because of AGOA. East Asian capital has sought to take advantage of Swaziland's offers of low tax rates and low labour costs coupled with preferential access to the US markets.

Swaziland's clothing and textile industry can be summarised as follows:

- **Retail Clothing Industry:** South African retail chain stores, Asian retail stores and locally owned boutiques. It is, however, difficult to determine their exact market shares.
- **Manufacturing:** East Asian companies and some South African companies. Asian companies source their inputs mainly from China. South African companies mainly source their inputs from South Africa.

One of the disadvantages for Swaziland's consumers arose from the practice of re-importing textile products manufactured in Swaziland back into the country. These products are produced cheaply but when they are re-imported, they are sold at high prices. This means that Swaziland is being used as a source of cheap labour, for products that eventually end up in Swaziland at exorbitant prices. Swaziland may as well manufacture these products and sell them locally at low prices, giving consumers a source of cheap products.

2.4 Value of Exports to US and EU Markets

Swaziland has benefited a lot from preferential treatment in the US market. Table 6 shows the values of clothing exports to EU and US markets.

Table 6: **Clothing Exports from Swaziland to the US and the EU** (US $ million)

Year	Exports to the US	Exports to the EU
1998	16.3	0.5
1999	23.2	0.6
2000	31.9	1.1
2001	48.1	0.8
2002	89.1	0.2
2003	140.5	0.2
2004	178.6	n.a

The statistics show the effect of Swaziland's AGOA membership on export earnings. Swaziland attained AGOA membership in 2001, and in less than 3 years, the value of Swaziland's clothing exports to the US trebled. The exports to the EU on the other hand have declined since 2000 and this is in part due to the absence of effective preferential access to EU markets for Swazi goods.

2.5 Wages

Although all national laws (including the Labour Act) apply in Export Processing Zones (where clothing and textile companies are located), cheap labour is seen as a major incentive for investors. According to the Wages Act of 1964 and the Regulation of Wages in the Textile and Apparel Industry, which came into effect on the 1st of September 2004, the minimum wage rate stands at US $ 21.8 (roughly about E139) per week for casual labourers, cleaners and machine learners. These low wages have come under pressure since 2004 when several clothing and textile companies indicated that they expected to be exempt from minimum wage regulations if they were to continue their operations in Swaziland.

3. National Economic Policies Towards Promoting Growth of the Textile and Clothing Industry

The Swaziland government has taken major steps towards promoting and encouraging export industries through promotional measures. The Ministry of Foreign Affairs and Trade through the Trade Promotion Unit (TPU) identified new export products and trade agreements, which create access to international markets. Swaziland's membership to regional economic groupings is one of the major incentives for investors to set up production in the country. Being a member of SACU, SADC and COMESA (Common Market for Eastern and Southern Africa), Swazi products have preferential access to a regional market of more than 320 million people. In addition, Swazi exports have preferential access to major markets such as the EU, the USA, Canada, Australia and Japan.

Financial Incentives for foreign investors offered by the Swaziland Government include the following:

- A corporate tax rate of 30% and exemption from tax on dividends for 10 years. This applies to investments in the manufacturing sector and other sectors such as agriculture.
- Duty free importation of capital goods, new machinery and equipment for use in the manufacturing industries, including the textile and clothing industry.
- An export Credit Guarantee Scheme granted through commercial banks and supported by the Central Bank for export-oriented enterprises.

- Double taxation agreements with the Republic of South Africa, the United Kingdom and the Republic of Taiwan (China).
- Competitively priced, well-built factory buildings readily available from the Ministry of Enterprise and Employment, and private developers.
- A regionally linked electricity supply network that provides a reliable and competitively priced service to all businesses, irrespective of size.
- A well-developed and robust telecommunications system that includes mobile cellular GSM services.
- Abundant and consistent water supply with a fair price, especially when compared to pricing in other countries of the region.
- An excellent transport link to regional and international destinations by road, rail and air.
- A low cost, reasonably skilled labour force.

4. Reactions of Trade Unions Towards the Crisis

Companies in Swaziland's EPZs are represented by the Swaziland Textile Exporters' Association (STEA), which deals with the Swaziland Manufacturing and Allied Workers' Union (SMAWU). The main problems in industrial relations arise from the fact that the most jobs created in EPZs are not "sustainable jobs" mainly because of the lack of job security and low levels of skill acquisition. Additionally, because of the government's desire to attract investors and to retain them, there are many cases of violations of minimum labour standards, including minimum wages.

The workers' unions hope to collaborate with the International Textile, Garment and Leather Workers' Federation (ITGLWF) across the region in an effort to develop capacity and solidarity among unions and workers. With this resolve, the unions believe they will realise improvements in working conditions in the country and in the region as a whole.

In order to do this, the trade unions have to gain recognition and represent their members effectively. Unions have embarked on collective bargaining and collaboration with international organisations like the ITGLWF and IUF. Local unions have received valuable advice from various unions such as the Danish Workers' Union and the Southern African Clothing and Textile Workers Union (SACTWU). Unions from other countries have supported education and training workshops for the local unions and have shared valuable information on how to carry out trade union activities effectively.

SMAWU cited very serious challenges facing the organisation, particularly with regard to recognition by investors in the industry. Despite these challenges, SMAWU has strived to reach in most companies the stipulated 50% plus one membership required for recognition This enables the union to have easy access to employees from the different companies, and to encourage them to join the union, and to enjoy the benefits of trade union membership such as support on issues like wages, working conditions, unfair dismissals, etc.. For SMAWU, the formation of the Swaziland Textile Exporters Association (STEA) contributed positively to the process of gaining recognition as it helped coordinate employers in the industry.

There are still a lot of challenges facing the union in achieving its stipulated objectives. These include lack of commitment to fair labour practices by employers and a communication barrier between the union and employers. The majority of the factory owners originate from China (Taiwan), and communication in English is difficult. Therefore, it is difficult for the unions to negotiate for their members. Further more, victimisation of workers, underpayments, unfair dismissals, retrenchments and company shutdowns are widespread in the industry. Such problems cause insecurity among workers and especially union members, who want to see positive outcomes from SMAWU interventions. On several occasions, trade unions had to seek help from international friends to solve the problems. In several cases such assistance has facilitated the process of recognition.

Another important development has been the establishment of a Joint Negotiating Council for the Clothing, Manufacturing and Textiles Industry (CFTL). The terms of the constitution governing the Council have to be observed by employers who are members of the employers' organisation and by all employees who are members of the union. Parties to the Council are STEA and SMAWU.

A call on the government to institute temporary trade safeguard measures against Chinese imports on the basis of China's Accession Protocol to the WTO is on the agenda, as was resolved during the draft statement on the state of CFTL industry. This initiative is expected to restructure the industry into a modern sustainable one with fair labour standards, wages and well-trained workers. Social dialogue involving trade unions will help in this regard. Affiliation of local trade unions to the ITGLWF is also an important step towards strengthening their ability to confront the existing crisis in the textile and garment industries.

5. Outlook

The outlook regarding FDI and the future development of the clothing and textile industry in Swaziland remains challenging. With continued market access to the USA through AGOA and to other markets through similar preferential market schemes, the industry could still grow. This prospect is, however, undermined by the expiry of the ATC and the intense competition from China as a production site offering a host of benefits to clothing and textile companies.

EPZs, at face value, appear to contribute positively to employment creation. However, they are characterised by deplorable working conditions and low wages which means that EPZs create a large number of "working poor": people employed on a full time basis but trapped in poverty. This problem, as noted earlier, is not unique to Swaziland but is characteristic of the whole region.

Whilst clothing and textile exports are very important for the domestic economy, there appears to be conflicting evidence with regards to re-investment of profits. Large amounts are being repatriated and thus lost as a source for industrial expansion.

References

Central Bank of Swaziland, *Annual Report April 2004-March 2005*.

Government of Swaziland, Ministry of Enterprise and Employment: *Swaziland Review 2005*.

Government of Swaziland, *The Wages Act 1964*.

Jauch, Herbert, Export processing Zones *and the quest for sustainable development: A Southern African Perspective. Environment&Urbanisation, Vol. 14, No. 1, April 2002*.

Madonsela, Winnie, *EPZs, Employment at all costs: Unmasking the Monster. A Paper presented at a seminar of the Economics Association of Swaziland (ECAS), 2004*.

SMAWU, *Annual Negotiation Procedure for 2005*.

SMAWU, *Constitution of the Swaziland Joint Negotiating Council for the Clothing, Manufacturing and Textile Industries*.