SACTWU FASHION IMBIZO
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ADDRESS BY Trevor A MANUEL, MP, MINISTER OF FINANCE

I have been asked to answer a rather difficult question – "The South African Economy – is our future in fashion?" The easiest reply is a resounding YES!!!. But, in the present climate, such a shallow answer will be dishonest. It is necessary that all of us accept that there is nothing pre-ordained about the success of any sector, or indeed any economy. The future of a firm, a sector, or an economy has to be continually strived for; carefully and repeatedly doing detailed analysis of both threats and opportunities. The simple message is "Take nothing for granted".

It is important that we, as we celebrate these magnificent ten years of democracy, take stock of the lessons that we have learnt. A decade ago, we were fueled by the many promises of support that we had received from governments who told us of how much they rooted for our success and how determined they were to be part of the greatest triumph of humanity. Ten years on, now older and wiser, we can rightly ask what happened to those promises. The harsh reality is the emotional appeal of a post-apartheid South Africa struck no chord in the Cabinet rooms or Boardrooms where decisions were and are being taken. The same message, perhaps amplified many times, is in evidence in the clothing and textile sector.

So, we can wring our hands and weep. We are free and capable of name-calling. We can try and shame our competitors. Regrettably, none of those actions will guarantee the fashion industry in South Africa a future. We will have to rely on the hard road of striving for competitiveness by understanding both threat and opportunity.

One of the memories of my early working life relates to the store. The firm had just introduced the most innovative system of inventory control ever and the storeman was its proud controller. He had been trained, he had read the instruction manuals, and his knowledge of the system set him apart from the rest of the world. That system was, of course, Kalamazoo. Kalamazoo was branded as the best and last system of stock control. I have wondered about this remarkable innovation – if Kalamazoo had so perfected its systems, how did it survive when the first PC was installed in a storeroom? Indeed, Kalamazoo did not rapidly shift to a software system, it is, I am advised, now long dead and buried.

Conversely, there are other more uplifting stories of companies that recreated themselves to seize opportunities that arose – probably the best of these companies is NOKIA, which was a manufacturer of wooden brushes for decades, until they saw the niche in cellular telephony. But, even Nokia has to fight for its position as the world's largest producer of mobile phones. Its place is under pressure from a variety of quarters, and as more firms innovate, Nokia's market share is shrinking.

The obvious question to be posed is – what kind of future does South African fashion want?

Does it prefer the comfort of Kalamazoo, because that is how things have been or will it brave a Nokia option, because that is where the future is likely to be? Again, it seems all too obvious. An industry that prides itself on leading edge, quick route-to-market, short run, high-turnaround as the fashion industry does, actually is left without choice.

There are some tough realities that the industry will have to engage with. Let me be sufficiently impolite to share some of these with you.

The first of these is China. It is growing ever stronger as a centre for manufacturing. The government of the People's Republic is demonstrating a remarkable confidence and foresight as evidenced in a recently published interview with Li Ruogo, the Deputy Governor of the People's Bank of China. He said, "China's custom is that we never blame others for our own problem. For the past 26 years, we never put pressure or problems on to the world. The

US has the reverse attitude; whenever they have a problem, they blame others." He went on to say that, "The appreciation of the RMB will not solve the problems of unemployment in the US because the cost of labour in China is only 3 per cent that of US labour – they should give up textiles, shoe-making and even agriculture probably. They should concentrate on sectors like aerospace and then sell those things to us and we would spend billions on this. We could easily balance the trade."We may not like what Li Ruogo said, but we will not wish it away.

Furthermore, an overview of the new brands emerging from China is a clear signal that the days of copying are past – Haier Fridges (2003 Revenue $9.75 Billion), Lenovo Computers (2003 Revenues $ 3 Billion) Bird Mobile Phones (2003 Revenues $ 1.3 Billion) and Li-ning Track Shoes, worn by the Chinese Olympic Team (2003 Revenue
of a trifling $121million) are all names that will soon be more commonplace in the world. Chinese manufacturing expansion, in an environment of low wages is a major irritant to the clothing and textile industry in South Africa, but we should not become irritated, rather we should ask how to engage with that reality. There are a few features of Chinese industry that are worth reminding ourselves of – Chinese mainland retail sales were almost $ 600 Billion last year, advertising spend was $23 Billion and most innovative companies now spend around 6% of sales value on R & D – partly influenced by the fact that non-Chinese global brands compete actively for a share of the Chinese market. The study of Chinese entrepreneurship will rewrite the history of doing business everywhere.

The second unpleasant fact that we shall have to live with is the exchange rate. Let me restate, the long run perspective of the Rand, going back to 1998, shows that the nominal effective exchange rate is back on the same path it was by to the end of 2000, and that we lived through a trough with its lowest point in December 2001. The trough, and the instability was caused primarily by volatility between the Dollar, the Yen and the Euro. When one compares s the picture of virtually all traded currencies against the US $ the picture is virtually the same. Over the past twelve months the dollar has depreciated by about 10% against most emerging market economies, and substantially more against the Euro and the Yen. And, as is argued by Martin Wolf in a newspaper piece today, the world must adjust to the dollar's inevitable fall. The fundamental issue at play is that the US current account deficit is unsustainable and its fundamentals unsound. To plead that we, somehow, get the Rand to depreciate is only going to be possible if we destroy all of the hard work which went into building a strong economy over the past ten years.

The third unpleasant fact that this industry will have to deal with is the peculiarities of its sectoral labour market. Indeed the sector has a wonderful strength in its people – some of whom are employed in large factories in cities like Cape Town and Durban, and remunerated by norms of sectoral bargaining, other workers are employed in factories in rural-ish areas such as Botshabello whose wages and working conditions will be fundamentally different from their colleagues in the cities, and thirdly, there are tens of thousands of skilled workers gainfully employed in backyard CMT shops. I am of the view that the industry will have to grasp the nettle of the co-existence of a pretence at rigidity and the reality of inflexibility more firmly. I do not know what the approach ought to be, but I am bold enough to say that pretence is an illusion which will do little for the future of the fashion industry in South Africa.

The fourth tough reality the industry will have to deal with is the ability to mask uncompetitiveness with practices that will destroy this industry. I am now more convinced that practices in the use of Duty Credit Certificates will destroy this industry. Employers tell me that the DCC's make good their exchange rate losses, so they sell these DCC's to brokers, who sell them on to retailers, who use them to import cheap foreign goods duty free, which destroys jobs in the industry, which further cuts the profitability of the employer who first traded the DCC. My submission is that this practice is far more pervasive and pernicious than the occasional container of smuggled goods. Why does the industry not root out this bad practice?

The fifth tough reality is that the industry and all its part is yet to decide what it can do well. I would hazard that the bulk of haemorrhaging is in those parts of the industry focused on copying the wor of others. Fashion, after all is driven by its uniqueness and the success of the marketing of the combination of uniqueness and beauty. In discussion with a local manufacturer recently, I marveled as he talked me through changes in his factory – from a situation where they bled jobs, to one where in January 2005 he will expand his workforce by almost 15% - only because they gave time and effort to considering what their strengths are and abandoning that in which they simply cannot compete for a living.

Let me conclude – in tough love style _ I am aware that these are the same points I raised last year. Yes, I want to see a prosperous and growing future for the South African fashion industry. I am painfully aware of just how tough life in the industry is, but I remain convinced that as we fundamentally changed the South African automobile industry, we can and must pull out all stops to transform the fashion industry. This Imbizo is an important part of that process, but only a part. The changes we need, not for survival but for growth will be far greater than those discussed here this week. But the changes will have to be informed by realism, not pity, not an appeal to justice, not complaining over Chinese wage rates. The realism has to include an acceptance of what we can do better, and to do it well. That is ultimately the choice that you, as industry leaders must make. Government will back you, but you must demonstrate the vision and leadership.