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South African Quotas on Chinese Clothing and Textiles Economic Evidence

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South Africa implemented quotas on imports of selected clothing and textile lines from China at the beginning of 2007. This was in response to major drops in production and coinciding employment losses in the domestic clothing and textile manufacturing industry. The decrease in output and employment was believed to be causally linked to persistently increasing imports of textiles and clothing from China. The originally envisaged two year implementation period for the quotas was concluded at the end of 2008. However, the South African government approached their Chinese counterparts for an extension of these restrictions. The request was subsequently denied.

This research note presents trade and other data for the two years of the quotas' existence with the aim of investigating the effectiveness of the quotas in (1) stemming the tide of clothing and textile imports into South Africa and (2) stimulating production of textiles and clothing by South African manufacturers. The broader pricing and consumer welfare effects of the quotas will also be considered. The analysis is a good introduction into the economic effects of the quotas and whether the decision to request an extension of the quotas was based on economic rationale.

1. Quotas in International Trade – An Explanation

In international trade, quotas generally refer to a quantitative restriction on the number of goods (within a specific category) imported into the quota imposing country. In the South African clothing and textile case, the quotas were imposed on 31 identified tariff lines classified under the broad clothing and textile categories. It should be noted that the quotas were not imposed on all clothing and textile lines entering South Africa from China – the restrictions accounted for about 70% of clothing and textile imports from China (in value terms) when originally imposed. Also, some of the restrictions were much more specific than others. For example, restrictions were imposed on woven cotton fabric, but also on specific types of men's tracksuits.

The quotas as described implied quantitative restrictions in either numbers or kilograms of imports for the 31 identified tariff lines. These were imposed by way of a negotiated settlement between the governments of South Africa and China, set for an initial two year period (January 2007 to December 2008). Further extensions would have to be negotiated.

[1] Imports are shown in real terms, deflated by the South African CPI index for clothing and footwear.

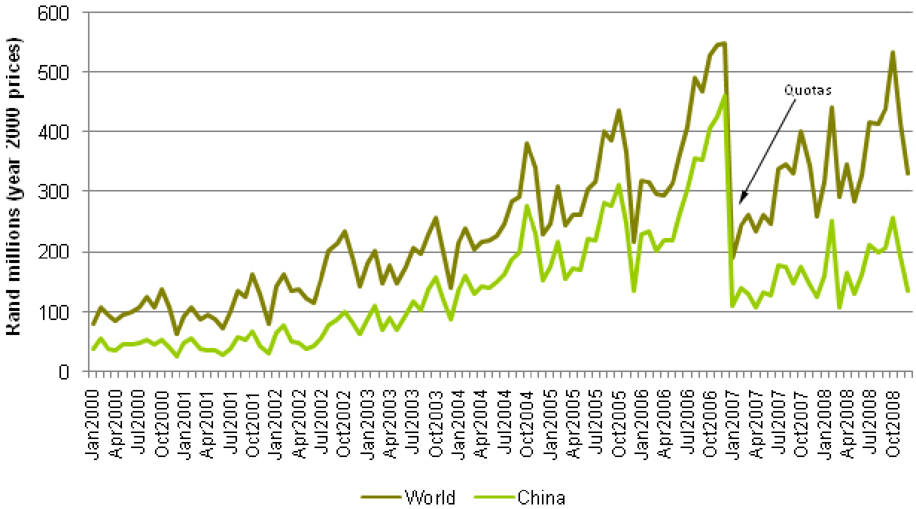
2. Economic Effects of SA Quotas

2.1 International Trade Flows

South African imports of clothing and textiles from China increased dramatically between 2000 and 2006. This is clearly visible in Figure 1 which plots imports of clothing and textiles within the 31 quota lines from China and the World (all exporting countries), respectively[1]. It is also clear that the increase in South African imports of these clothing and textile lines were almost entirely driven by imports from China up to the end of 2006. Other important trends that should be clearly visible from Figure 1 include the following: the above average rise in imports in the fourth quarter of 2006; the sudden drop in imports from both China and the World at the beginning of 2007; the less than proportional drop in imports from the World compared to those from China; and the subsequent recovery of quota line imports in total from July 2007 onwards.

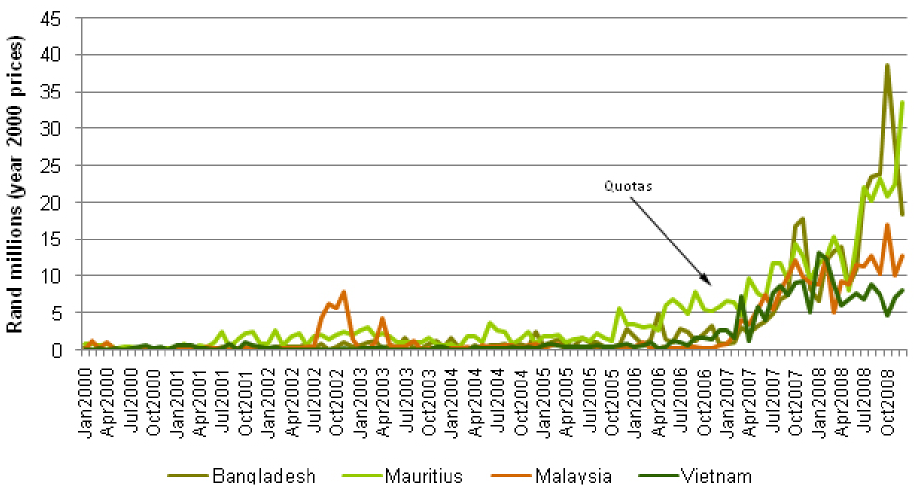
The identified trends have the following intuitive explanation: Although the South African clothing and textile quotas were officially implemented at the beginning of 2007, importers were aware of the imminent restrictions by the final quarter of 2006 and, as a result, stocked up on quota line imports before the quotas official implementation date. The increased imports at the end of 2006 originated almost entirely in China.

Figure 1: South African Imports of Clothing and Textiles in Quota Lines from China and the World, 2000 to 2008 (monthly)



Source: Quantec Research and SARB

Figure 2: South African Imports of Clothing and Textiles in Quota Lines from Bangladesh, Mauritius, Malaysia and Vietnam, 2000 to 2008 (monthly)



Source: Quantec Research and SARB

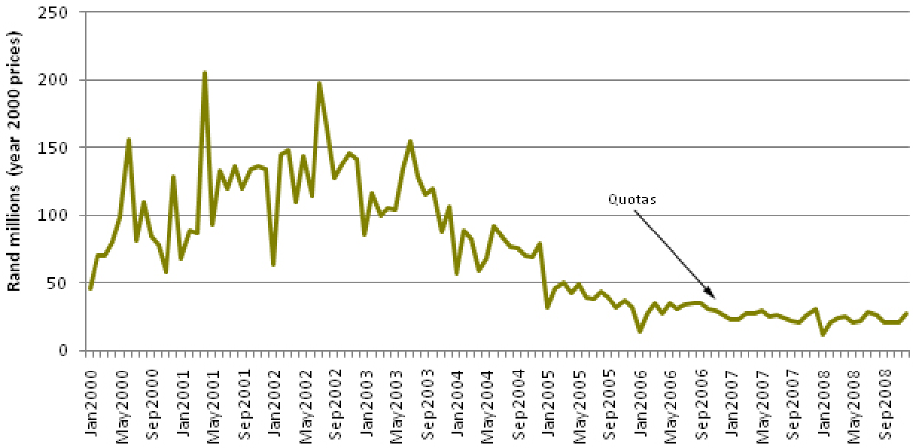
Similarly, the sudden drop in imports at the beginning of 2007 can be attributed directly to the imposed quotas. Again, the decrease in South African imports can be attributed almost entirely to a drop in imports from China.

The evident recovery of quota line imports into the South African market from July 2007 onwards can be attributed to the increased presence of clothing and textile imports from other low cost producing countries[2]. Figure 2 contains real import data (again deflated by the CPI for clothing and footwear) for the countries that showed the most pronounced increase in quota line exports to South Africa over this period. Particularly Bangladesh, Mauritius, Malaysia and Vietnam increased their imports up to 20 fold on a monthly basis compared to the period preceding the quotas. Increased imports from these destinations has meant that total imports of clothing and textiles within the quota lines are now at a similar (or higher) level to what was witnessed before the start of the quota regime with the added complication of a variety of low cost producers exporting to South Africa. This is definitely an advantage for South African retailers as they now have a variety of import sources to choose from, but should put domestic clothing and textile manufacturers under increased pressure for the same reason.

2.2 Output and Employment

South African output and export data for the first two years of quotas have also not produced favourable results. Statistics South Africa data from the Manufacturing, Productions and Sales Survey show that domestic output of clothing and textiles increased by 2.68% in 2007, but decreased again by 1.47% in 2008 (in real terms). Employment data show similarly poor results over the two year period. The December 2008 QES (Quarterly Employment Statistics) shows a decrease in manufacturing employment in 2008 of 35,000 jobs in addition to the 22,000 jobs lost in 2007 (December 2007 QES). In both instances, job losses in apparel manufacturing were listed as contributing to the overall decrease in manufacturing employment. This is reinforced by export data, contained in Figure 3. Real exports within the 31 quota lines, deflated by manufacturing PPI, are shown for the entire two year period. It is clear that export orientated production has shown no significant signs of improvement for the duration of the quota regime.

Figure 3: South African Real Exports of Clothing and Textiles in Quota Lines, 2000 to 2008 (monthly)



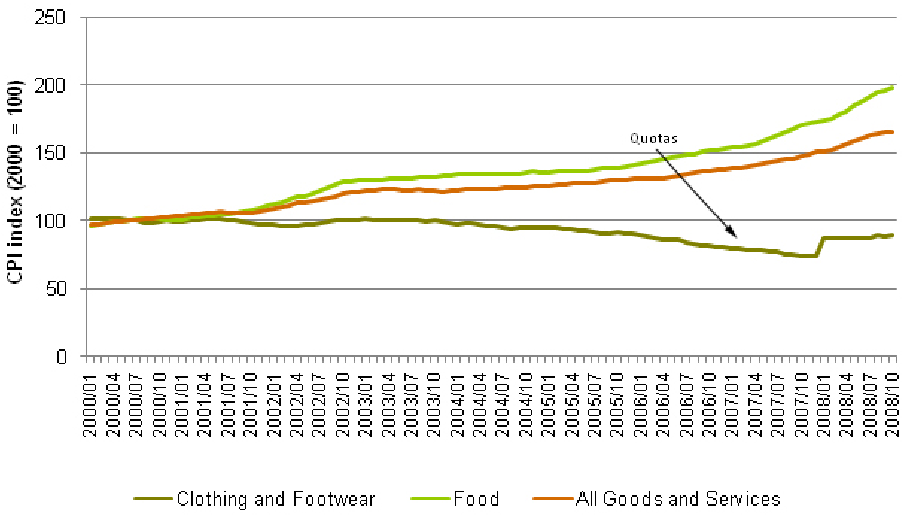
Source: Quantec Research and SARB

[2] *This was possible because the quotas applied only to Chinese imports within the identified lines and not imports within these same lines from other countries.*

2.3 Prices

Finally, Figure 4 contains the South African consumer price index (CPI) between 2000 and 2008. The upward trend over the period for all goods and services is clearly visible. This trend is even more pronounced for food products, also shown in Figure 4. Contrastingly, CPI values for clothing and footwear[3] decreased substantially between 2002 and 2007. The only significant increase in the value of the clothing and footwear index was at the start of 2008. Whether this is related to the clothing and textile quotas is not clear. However, the very general point needs to be made that South African consumers benefited from decreasing prices of clothing and footwear between 2002 and 2007 while the general price of goods and services increased substantially over the corresponding period. Given that low cost imports of clothing and textiles from China came to dominate the domestic market over the same period at the expense of domestic clothing and textile manufacturers, it is reasonable to say that South African consumers benefited from low cost imports of clothing and textiles from China by way of lower prices.

Figure 4: South African Consumer Price Index, 2000 to 2008 (monthly)



Source: SARB

3 Conclusions and Policy Implications

This research note presented trade and other data for the full two year period originally envisaged for South Africa's quotas on clothing and textile imports from China. It was shown that while imports in the targeted lines from China dropped substantially due to the imposed quotas, importers compensated for this by way of substantially increased imports from China in the period leading up to the quotas and imports from other low cost producing countries for the duration of the quota restrictions. Furthermore, it was shown that output, employment and exports relating to domestic clothing and textile manufacturing did not produce the improvement hoped for over the two year implementation period. Of particular concern is the drop in employment in 2007 and 2008.

Given the apparent ineffectiveness of the quotas in both stemming the flow of low cost clothing and textile imports into South Africa and stimulating the domestic clothing and textile manufacturing industry, it should be questioned whether the decision to request an extension of the quota regime was based on the economic evidence to date. Furthermore, given the newly established links with other low cost producing countries and the Chinese refusal to extend the quota regime, it seems the South African clothing and textile manufacturing industry may now be under more pressure than before the two years of quota restrictions. This is supported by the latest output data indicating that domestic production of clothing and textiles decreased by 10.13% in real terms during January and February 2009 compared to the same period in 2008.

[3] *The SARB (South African Reserve Bank) publishes CPI values for the category "clothing and footwear" and not "clothing and textiles."*

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