A DPRU Policy Brief*: **PB 14/32**
Commissioned for the

# JOB DESTRUCTION AND MINIMUM WAGE-SETTING IN THE SOUTH AFRICAN CLOTHING INDUSTRY

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**June 2014**

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# I. Job Destruction and Minimum Wage-Setting in the South African Clothing Industry[1]

Employment in the South African clothing sector has been on a strong trend decline, collapsing by almost 50% between 2002 and 2010 (Nattrass and Seekings 2012). Part of the reason is increased international competition, a product of trade liberalisation in the late 1990s, exchange rate appreciation in 2003 and the dramatic growth of Chinese clothing exports after 2004. But minimum wage setting has also played an important role in the destruction of jobs.

From its establishment in 2002, the National Bargaining Council for the Clothing Manufacturing Industry (NBC) has been used by the South African Clothing and Textile Workers Union (SACTWU) and mostly Cape Town-based employers who dominate the Apparel Manufacturers Association (AMSA), to raise minimum wages, especially in the non-metro areas. Prior to the establishment of the NBC, minimum wages were either negotiated by employers and unions in mostly metro-based bargaining councils or were subject to minimum wages set by the more technocratic Wage Board and its successor, the Employment Conditions Commission (ECC).[2] Both the Wage Board and the ECC were required to take into account the likely trade-off between wage and employment levels when setting minimum wages. The parties to the regional bargaining councils also, in practice, considered employment effects within their respective regions. Since 2003, however, minimum wage agreements in the NBC have been routinely extended by the Minister of Labour to non-party firms, primarily in lower-wage, non-metro areas like Newcastle in KwaZulu-Natal (KZN), without any apparent consideration of the ensuing job destruction.

In 2000, minimum wages in the clothing industry in Newcastle were half those in Cape Town. By 2011, after seven years of wage agreements in the NBC, they were at two-thirds the Cape Town level (see Figures 1 and 2). This was achieved by the NBC pushing up non-metro wages at a much faster rate than wages in Cape Town. Indeed, real minimum wages in metro areas like Cape Town barely kept abreast of inflation. In dollar terms, however, wages rose from 2002/03 in all regions (see Figure 2), with adverse consequences for competitiveness across the industry. SACTWU wage negotiators were prepared to sacrifice real wage growth in an effort to save jobs in Cape Town – as they themselves recognised[3] – whilst destroying jobs in non-metro areas and sparking wide-spread refusal to comply with the rising wages.

[1] This policy brief draws on a paper forthcoming in Transformation (2014).
[2] In 1991, the Wage Board set minimum wages for clothing firms in South Africa (Wage Determination 471). The bantustans were exempt until 1997 when the minimum wage was extended across South Africa. The Wage Board was replaced by the ECC, which regulated minimum wages in clothing between 2000 and 2003 (Sectoral Determination 4).
[3] SACTWU Press Release, "SACTWU and NCMA sew together wage agreement", 9th June 2005; http://www.sactwu.org.za/pr-and-news/archived-2005/71-sactwu-and-ncma-sew-together-wage-agreement.

**Figure 1:** **Nominal value of minimum wages for qualified machinists in Newcastle and Cape Town, 2000-2012**

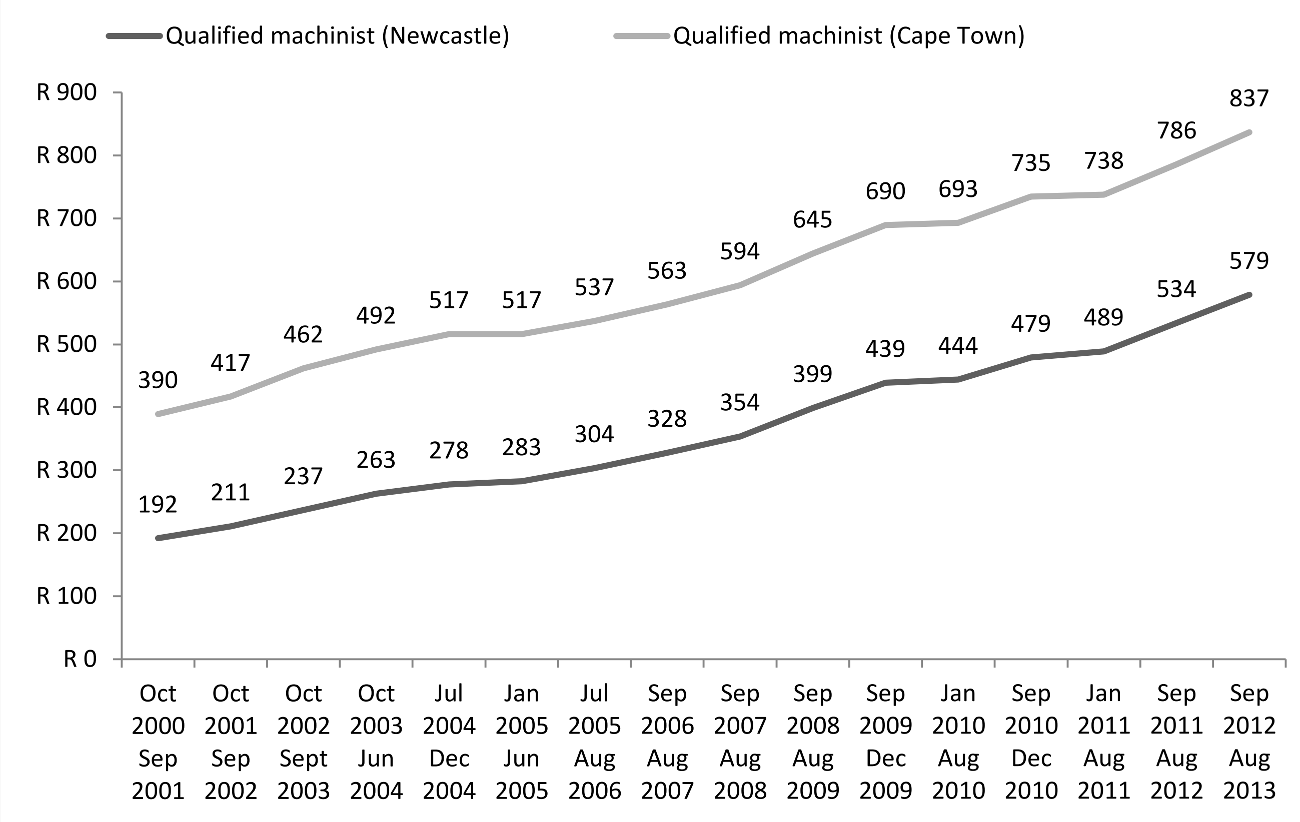
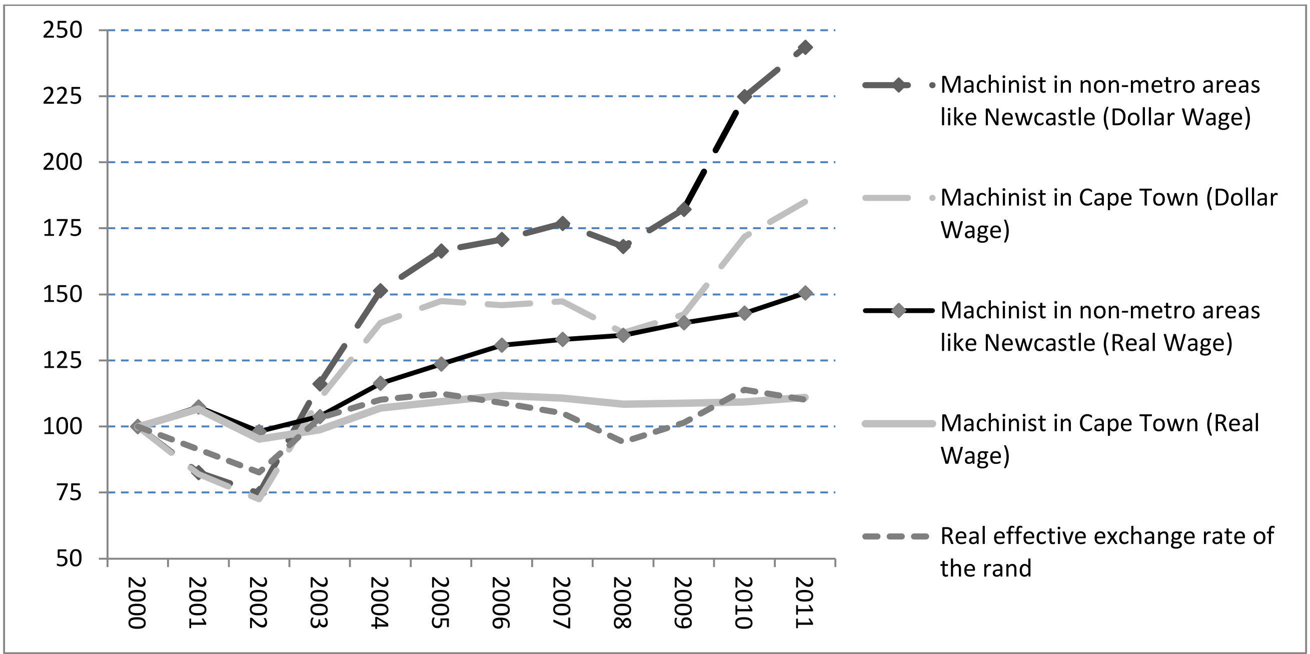



**Figure 2:** **Index (2000=100) of dollar and real Rand values of minimum wages for experienced machinists in Newcastle and Cape Town, and the real effective exchange rate, 2000-2011**



In late 2010, the NBC launched a 'compliance drive', i.e. using the labour courts to put pressure on, and close down, non-compliant firms. The NBC also agreed further wage increases, and presented these to the Minister of Labour for extension countrywide. Clothing firms in Newcastle responded by launching a judicial review application[4] requesting that the decision taken by the Minister of Labour at the end of 2010 to extend NBC-agreed minimum wages to them be set aside. In the alternative, they sought to have declared unconstitutional portions of the Labour Relations Act (section 32 (3)) which permit the Minister to extend collective agreements without acting reasonably and having regard to the consequences for unemployment (Chen 2011a).

In 2013 the court ruled that the Minister of Labour had erred in accepting that the NBC was representative. The court found that the employers' associations that were party to the NBC did not employ a majority of even the registered employees in the industry. (As of 2010, only 25 per cent of all registered firms countrywide were represented by the employers' associations in the NBC.[5]) But the court judgement did nothing to resolve the underlying conflict. The Labour Relations Act gives the Minister of Labour the power, under a different section, to extend collective agreements even if the parties to a bargaining council are not representative (which she did indeed do subsequent to the court judgement). The court did not rule on the question of the reasonableness of such action. The predominantly Cape Town-based union and employers continue to push for raised wages in other parts of South Africa on the assumption that the Minister of Labour will extend these wages across the country even though only a small minority of firms employing a minority of clothing workers are represented in the NBC.

This struggle is of broader importance because South Africa's non-compliant clothing firms comprise the labour-intensive rump of the last remaining labour-intensive manufacturing sector in South Africa.[6] The Newcastle crisis reveals starkly the tensions between South Africa's labour market policies and institutions and employment and does not bode well for labour-absorbing growth in South Africa.

Successive government plans have emphasised the need for job creation in South Africa, without grasping the nettle of what is required for growth to absorb sufficient labour to reduce unemployment and poverty. The 'New Growth Path' (RSA 2010) emphasised only 'decent work', i.e. high-productivity, high-wage jobs. The 'National Development Plan' (NDP) accepted the need for expanding low paid jobs, but saw these as being located primarily in services (RSA, 2011: 114), assuming that South Africa's manufacturing strength lay in capital-intensive activities because of the country's 'high cost structure' (*ibid*: 114). Neither document paid attention to the effects of wage-setting institutions on labour-costs – i.e. the crucial component of the 'high cost structure' that was supposedly rendering South Africa's manufacturing sector, uncompetitive.

The key argument put forward in defence of extending minimum wages across the country is that the failure to do so will result in lower-wage firms driving out higher-wage firms (i.e. will result in 'unfair competition'). But this is not necessarily the case if firms operate with different technologies and compete in different markets. Although there are examples of low-wage firms from non-metro regions like Newcastle competing with higher-wage firms elsewhere in the country, higher-wage firms can and do co-exist with low-wage firms where their productivity is correspondingly higher, and this is typically facilitated by greater capital-intensity

[4] Case number 5642/2011 in the KwaZulu-Natal High Court.

[5] NBC, 'Employment strengths as of 28th February 2011', data provided by the NBC.

[6] Clothing is South Africa's last remaining labour-intensive industrial sector. According to the 2008 manufacturing survey, capital invested per job was R10,000 in clothing, while the average for manufacturing as a whole was R150,000 (StatsSA 2010). Wages were accordingly lower, with average weekly wages (in 2008) of R696 in clothing compared to R918 in manufacturing generally.

and higher skilled workers. Furthermore, high- and low-wage firms tend to compete in different markets (e.g. high-fashion, school blazers and other niche markets versus simple sleep wear and basic garments), thereby reducing further the potential for the low-wage sector to drive out higher-wage, higher-value added activities. Indeed, high- and low-wage firms in the South African clothing industry have been co-existing in this way for almost a century, i.e. long before the advent of centralised collective bargaining.

## II. The 2010 Compliance Drive and Further Wage Increases

By the end of 2009, the NBC had obtained court orders and writs of execution (to be implemented by the local sheriff on instruction) against over 400 non-compliant clothing factories, mostly in lower-wage areas of KZN (especially Newcastle), Botshabelo and QwaQwa. Many writs were obtained, but not executed as NBC officials sought agreements with firms over payments of dues and pension fund contributions owed to the NBC, as well as wages owed to workers. For firms that had been non-compliant for many years, the amounts owing in terms of back-pay and NBC contributions were substantial and self-evidently impossible to honour fully.[7] There was, therefore, some room for negotiation, although the high current cost of compliance remained the major sticking point.

Some owners engaged in elaborate cat-and-mouse games with the NBC as they begged for time to implement the minimum wage while completing their existing orders and simultaneously making plans to shut down their companies. Some opened new businesses, sometimes in different locations, forcing the NBC to begin the process anew. They also leased machinery from other factories to avoid having these assets attached. Others downsized to micro-enterprises (employing five or fewer workers) in order to obtain an automatic exemption from the minimum wage, or re-organised themselves as cooperatives.

Tiring of this process, the NBC decided to launch a ‘compliance drive’ and in early 2010 the NBC compliance manager drew up a list of 65 priority ‘offenders’ and acted decisively against them by instructing local sheriffs to implement court orders. By the end of July, the sheriffs had executed 13 writs in metro areas and 12 in non-metro areas, nine of which were in Newcastle.[8] In August, the NBC ramped up the process, shutting down a further 14 firms in Newcastle and QwaQwa (Khanyile 2011). Employers and workers alike were alarmed by the precipitous job destruction. When the sheriffs shut down Wintong Manufacturing in Newcastle, factory workers protested vociferously (Dugger 2010) and other Chinese-owned clothing factories closed in solidarity. SACTWU asked the courts to intervene, arguing that this amounted to an illegal lockout. Negotiations led to the re-opening of the factories (including Wintong).

The crisis in Newcastle and elsewhere also prompted a series of national meetings between the Department of Labour, the Department of Trade and Industry (DTI), the NBC, AMSA and various ad hoc representatives of firms that were not party to NBC agreements and were also not compliant with their terms (Chen 2011a: par 54). Many of the non-party firms, mostly in KZN, organised themselves into a new association, the United Clothing and Textile Association (UCTA). All parties to these meetings committed themselves to finding a solution that was acceptable to everyone. But they failed to find any such solution. The UCTA proposed a new wage model for the entire industry. This would allow for lower minimum wages supplemented by piece-work or productivity-linked pay. AMSA, who had been party to the compliance drive in the first place,

[7] According to an audit done in September 2009, R40 million was owed in arrear payments to workers in non-compliant firms (Enslin-Payne 2011).
[8] NBC, list of firms for priority writs of execution, undated, included as Annexure HC5 of Chen (2011a).

concurred with the 'need for a new minimum wage dispensation in the industry because of the job losses and closures' and the imperative of reforming labour legislation.[9] This was rejected by SACTWU.

By November 2010, 26 factories in Newcastle had been closed down (Chen 2011a: par 52). The NBC proceeded to agree a new round of wage increases, and submitted the collective agreement to the Minister of Labour so that she could extend the agreement to non-party employers countrywide. It is difficult to reconstruct precisely who knew what, and when, during the final weeks of 2010, but it seems that the combination of factory closures under the existing compliance drive and the prospective new round of wage increases focused attention again on the prospect of massive job destruction. In December, following substantial adverse publicity about job losses, Ebrahim Patel – a long-standing SACTWU leader and now the Minister of Economic Development – announced that the NBC and non-parties had accepted a proposal (the so-called '22 December resolution') for a phased period of compliance and a 'moratorium' on proceeding with writs of execution against non-compliant companies. Non-compliant firms would have to become 70 per cent compliant by 31 March 2011, 90 per cent compliant by 1 January 2012 and 100 per cent compliant by 30 April 2012 (Chen 2011a: par 58). All arrears (in back-pay, NBC levies, and so on) owed by non-compliant firms were suspended and deemed payable only if the firm broke the phase-in agreement (or became non-compliant after 30 April 2012). Just two days later, however, the Minister of Labour gazetted the extension of the collective agreement, without any reference to phased transitions from non-compliance to compliance. Confusion reigned over the following months, as no one fully understood the minimum wage dispensation or whether the phasing-in agreement applied to the old or the new minimum wage levels.

Patel's prominence, relative to the Minister of Labour, reflected the additional resources he was able to mobilise through his co-ordinating role as Minister of Economic Development. In practice, he wielded considerable authority over DTI programmes aimed at improving productivity. The Clothing and Textile Competitiveness Improvement Programme (CTCIP), for example, assisted the large clothing producers to upgrade skills and production capacity and to develop stronger and more co-operative links with suppliers in the CMT sector.[10] A key requirement of the programme was that all parties complied with NBC agreements. The DTI also offered production incentives (then worth 10 per cent of value-added, later reduced to 7.5 per cent) to help fund capital-investment. These, too, were available only to compliant producers.[11] By increasing their capital-intensity and enforcing higher wage costs, assisted firms were reoriented towards the higher-income consumer market. As the DTI put it, the CTCIP and related incentives were 'expected to move the industry up the value chain to activities that are far more sustainable than competing against "sweatshop" labour practices and pervasive government subsidization in other developing countries' (2010). Over the following three years, the DTI made 175 awards, totalling R470 million, to compliant clothing producers.[12] Given employment in compliant firms, and the fact that most but not all compliant companies received awards, this amounted to approximately R20,000 per worker, i.e. double the 2008 estimate of the investment costs associated with each job in the industry. Seardel – part-owned by SACTWU – received at least R67 million for its apparel division (Seardel 2012).

Unsurprisingly, given Patel's erstwhile leadership of SACTWU, this was in line with SACTWU's understanding of 'decent work' as comprising *only* those jobs at the top end of the clothing industry. In his defence of the

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[9] Minutes of the meeting chaired by Les Kettledas of the Department of Labour, 20 September 2010.
[10] http://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=35&subthemeid=25
[11] Ibid.
[12] Minister of Trade and Industry, written reply (April 2013) to written question 610 tabled in the National Assembly by Mr G. Hill-Lewis (DA).

NBC, Andre Kriel, Patel's successor as General Secretary of SACTWU, quoted approvingly from a DTI document which argued that:

> '… a policy that seeks to base competitiveness on low wages would not be consistent with South Africa's human rights culture. On the contrary, sustainable human resources policies will allow the industry to compete in the market for high fashion and technical garments and textiles and to deliver innovative, quality products that require well trained and productive workers' (Kriel 2012: par 57).

There was no place in the Patel/ SACTWU vision for the labour-intensive production of basic goods for lower-income consumers or the mass market. Compliance might be achieved in phases, but the objective of the Patel/DTI/ SACTWU structural adjustment programme for the industry was the destruction of lower-wage jobs.

## III. Job Destruction Stalled

The December 2010 'agreement' to phase in wage increases in non-compliant firms required that firms paid 70 per cent of the minimum wage by the end of March 2011. In mid-March, the *Financial Mail* reported that at least 250 clothing firms in Durban, Newcastle, QwaQwa and Botshabelo would not be able to meet the 70 per cent target and 28,000 jobs were under threat (Bisseker 2011). AMSA took the opportunity to push again for a new wage model. Johann Baard told the reporter that this failure to achieve the target was to be expected because 'the industry's cost structure does not match the prices the retailers want', adding that 'with almost half the industry non-compliant, it is clear that as an industry we have priced ourselves out of the market … Non-compliance reflects that the industry wage model has been overtaken by competitive global market realities' (quoted in Bisseker 2011). There is a certain irony here, given that AMSA and the NBC, which had managed to restrain real minimum wage growth in metro areas since 2000, had helped drive up labour costs in non-metro areas and for employers who are not represented at the NBC. In a later interview, Baard observed that AMSA's support for the compliance drive was born out of frustration: 'It is not that we are uncaring, we are left with no alternative. It would be different if the unions, Cosatu, the politicians and Luthuli House [ANC head office] had the will. We need to re-invent the wage dispensation in the country' (quoted in Planting 2011).

Some non-compliant producers in the UCTA applied to the NBC for exemptions from the minimum wage on grounds of financial hardship. The Labour Relations Act allows producers to apply for exemptions from section of an NBC agreements. The applications were turned down (Enslin-Payne 2011). South Africa's bargaining councils rarely grant exemptions from the minimum wage, and the NBC seemed especially reluctant to do so.[13] It even stopped hearing any exemption applications during part of 2010.

In June 2011, following the issue of further compliance orders, five Newcastle firms and the UCTA launched their legal action against the Minister of Labour and the NBC. The firms were subject to on-going harassment

[13] The most recent data on applications to the NBC for exemptions by small and medium enterprises are for 2008. The NBC reported that exemptions were *requested* on the basis of 'no previous experience, demotion as a result of disciplinary enquiry, false statement at the time of engagement' and 'companies unable to afford the prescribed wage and levies'. When reporting the NBC's stated rationalisation for *granting* exemptions, however, the NBC lists: 'no previous experience in current position, medical reasons and demotion due to disciplinary enquiry'. Affordability was a stated motivation for requests for exemption, but not included in the list of reasons why exemptions were granted.

and intimidation, including threats from the sheriff to remove assets and close them down (Chen 2011b). By mid-July, writs had been issued to 109 companies across South Africa, affecting 6,400 employees (Planting 2011). A report for the KZN Provincial Treasury found that full compliance with the nationally-imposed minimum wages would lead to the destruction of as many as 25,000 jobs (Coetzee 2011), and the press reported the figure of 28,000 in early 2011 (Bisseker 2011).

The scale of likely job losses in 2010-11 if the new minimum wages were enforced explains both the producers' responses – forming a new association and taking the Minister of Labour and NBC to court – as well as the hesitation on the part of the state and even the union with respect to enforcing compliance. As we have seen, Patel participated in the informal agreement at the end of 2010 to tolerate temporary non-compliance through a gradual phasing in of the new minima (although this was not acknowledged in the Minister of Labour's extension of the NBC's 2010 collective agreement). In August 2011, the crisis in the clothing industry was the subject of a cabinet briefing, where the Minister of Finance (Pravin Gordhan) suggested that changes to labour policies might be necessary to prevent further job losses. His comments were subsequently endorsed by Trevor Manuel, a previous Minister of Finance and head of South Africa's National Planning Commission.[14]

The general-secretaries of the ANC and COSATU clashed over the acceptability of lower-wage job creation, with the ANC arguing that the immediate priority was to create any jobs, whilst COSATU said that only high-wage, 'decent' work was acceptable. In practice, however, even SACTWU was hesitant to insist on large-scale destruction of jobs in non-compliant firms. In late 2011 and into 2012, the union restrained the NBC from further action against non-compliant firms. When, in July 2012, AMSA sought a court order to compel the NBC to act on the 450 writs of execution that it had accumulated but not served on non-compliant firms, SACTWU initially *opposed* the application, explaining that it favoured living wages but not factory closures. A few days later the union reversed its position, explaining that it did not want to give the impression that it condoned non-compliance (Planting 2012). The union agreed to a new NBC collective agreement (for 2012-13) that, for the first time, included a plan for phased-in wage increases by non-compliant firms.

The NBC's retreat in 2011-12 from its aggressive compliance drives of 2009-10 meant that job destruction was, for a while, slowed. The state and union attributed this not so much to de facto tolerance of non-compliance as to the government's industrial policy. The DTI and union claimed that the DTI's industrial policies had 'effectively stabilised a deeply vulnerable sector' (DTI 2012: 2) and achieved a 'significant slowdown in retrenchments in the industry'[15] (see also Vlok 2011; Steyn 2012). This optimism proved to be premature. Between 2010 and 2012, Seardel retrenched almost half of its 9,000 clothing workers (Seardel 2012: 15) despite receiving generous production incentives from the DTI. Eight hundred jobs were lost when it closed Intimate Apparel in Cape Town. Intimate Apparel had been supplying the upmarket chain Woolworths, and was not facing competition from Newcastle producers.[16] In January 2013, the NBC resumed its compliance drive, targeting 300 firms in KZN. Within one month it had issued 50 writs of execution, shutting 15 factories (Payne 2013).

[14] http://mg.co.za/article/2011-08-25-cabinet-no-pravin-we-wont-relax-sas-labour-laws
[15] SACTWU press release, 'Significant slowdown in clothing, textile and footwear job losses', 14th November 2011; http://www.sactwu.org.za/pr-and-news/archived-2011/210-significant-slowdown-in-clothing-textile-and-footwear-job-losses.
[16] 'South Africa: "Retailers to Blame" for Closing of Seardel Unit', by Bekezela Phakathi, *Business Report*, 28 July 2010; http://allafrica.com/stories/201007280126.html.

# IV. CONCLUSION

After seven years of retrenchments in the clothing industry, the NBC and Minister of Labour sought in 2010-11 to raise and enforce increases in the minimum wage that threatened somewhere another 20-28,000 jobs. The issue pitted mostly compliant Cape Town-based employers, the union and the Minister of Labour against non-compliant employers in Newcastle, other parts of KZN, and the Free State, with various government and ANC officials urging caution on the NBC and Minister of Labour. The issue exposed the logic inherent in South Africa's institutions for minimum wage-setting. The parties to the NBC could use the mechanisms of collective agreements and (with the backing of the Minister of Labour) extensions to raise the minimum wages that non-party firms were obliged to pay, and could then use the courts to enforce compliance. If non-compliant firms were unable to pay these raised wages, given strong international completion, the outcome was inevitably large-scale job destruction.

The struggle over non-compliant clothing producers in Newcastle and elsewhere in 2010-11 was symptomatic of the difficulties involved in promoting labour-intensive growth in South Africa. These producers have to contend with minimum wages set in bargaining councils dominated by unionised firms in metro areas, who produce primarily for the middle- and higher-income end of the clothing market where there is more room to pay higher wages. The lower-wage producers are unable to benefit from the DTI's support programmes which require firms to be compliant with the minimum wages at the outset. Furthermore, by assisting firms to improve their competitiveness by upgrading machinery and retraining workers, such programmes raise the firms' capital-intensity and shift producers out of the kind of lower-wage, low-productivity forms of employment necessary to absorb unskilled unemployed South Africans.

The SACTWU/DTI vision is that only 'decent' (i.e. higher-wage, higher-productivity) jobs should exist in South Africa, and that labour-market and industrial policies should prevent any lower-wage, lower-productivity production as this is supposedly a 'low-road' to growth. This assumption has underpinned the post-apartheid government's growth strategy (Nattrass 2001, 2011). But the hoped for 'high-road' of substantial job creation through skill- and capital-intensive growth has yet to materialise. The costs of this union-backed structural adjustment strategy have been born by workers in labour-intensive industry.

The case of the clothing industry suggests that South Africa needs a more differentiated approach to wage-setting that enforces basic standards of employment but tolerates lower-wage employment in specific areas, especially if low basic wages can be supplemented with productivity-linked pay. 'Sweatshops' and illegal working conditions should not be tolerated, but minimum wage-setting is the wrong mechanism for ensuring that delinquent employers comply with legislation on working conditions. Lower-wage, lower-productivity employment should not be destroyed on the mere assumption that it might protect higher-wage, higher-productivity production. Job destruction should require evidence. Our research suggests that job destruction in areas like Newcastle does not benefit sufficiently compliant firms in Cape Town: non-compliant firms compete mostly with producers in Lesotho and China; insofar as there is some competition between compliant and non-compliant South African firms, the scale of job destruction in non-compliant firms required to preserve jobs in compliant firms is simply indefensible. Allowing low-wage producers to continue to operate in places like Newcastle provides employment for less skilled workers, in especially impoverished areas, and helps poorer consumers who purchase basic clothing goods rather than pricier, branded, and more fashionable products.

This analysis does not imply that there should be any general deregulation of the labour market, or that there should be no minimum wage-setting, or that minimum wages should be lowered in all sectors, or even that minimum wages in the clothing sector should be abolished. It certainly does not imply that unemployment in SA is primarily or even largely the consequence of labour market regulation, or that reforms to the current system of minimum wage-setting through national bargaining councils and extensions would solve South Africa's unemployment problem. What the analysis does suggest is that the level at which minimum wages are set has large effects on employment in specific circumstances, notably in labour-intensive, tradable sectors. The Minister of Labour should therefore not impose higher minimum wages through the extension mechanism without taking into account possible employment effects – especially when the higher minima were proposed by a bargaining council that was not representative of the firms (and workers) most affected. If or when higher minima will result in factories closing and/or jobs being destroyed, then minimum wage-setting should certainly take into account the preferences of the workers most affected.

The case of the clothing industry demonstrates how South Africa's bargaining councils affect employment, destroying jobs and inhibiting new job creation. In a tradable, relatively labour-intensive and lower-wage sector such as clothing, imposing higher minimum wages through the extension of collective agreements results inevitably in either massive non-compliance or massive job destruction. South Africa's labour-market institutions and industrial policies can be used by an unholy coalition of a trade union, metro-based and more capital-intensive firms and parts of the state to inflict job-destroying structural adjustment on the industry under the guise of promoting 'decent work' and a level playing field for producers, even as clothing jobs are simply being exported to low-wage countries such as Lesotho and China.

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