

Do Quotas Create Employment?

China, with a cheap supply of workers has become a very effective competitor in the textile market. In an industry where labour intensity is high, low wage rates count. Countries around the world have sought to protect themselves from what is sometimes politically hyped as unfair competition. Often such protection is designed to protect employment.

In the case of South Africa, if retailers, in the face of quotas imposed on the import of Chinese clothing, had agreed to source their products locally, the local clothing industry would have had to create 60,000 jobs overnight, according to the Cape Clothing Association.

In the year to last December, 71 per cent of the 345.1 million imported garments and 48 per cent of the 9.4 million kilograms of apparel imports came from China. China's quotas for this year are 172.2 million units and 3.8 million kilograms, meaning that 72.8 million garments and 712,000kg of apparel would have to be made in South Africa or sourced from a third country if demand remained the same as last year, not even considering expected growth.

Employment in the clothing industry last December stood at 74,500, so the industry would have had to almost double its capacity and develop skills that had been lost as the industry shrank. When the import surge began in 2003, employment stood at 95,000, so 20,500 jobs were lost between December 2003 and January this year, when quotas were implemented.

It has become clear that the quota on fabric is counterproductive and it should be stopped. While there was clear evidence of a dramatic surge in imports of garments from China, there was no evidence of such a surge in fabric imports, so these quotas were unjustified. The closure of a number of textile mills and a deterioration of performance means that South Africa has neither the capacity nor the range of fabrics required to meet potential needs. An increase in demand would lead to fabric price increases, extended lead times and poor delivery performance.

Questions

1. Should an economy protect itself from international competition by the use of quotas and tariffs?
2. Is it possible for an industry to regain 60,000 jobs?
3. If you want to compete with the Chinese you have to earn Chinese wages. Discuss.