The impact of manufacturing incentives in the clothing and textile industry in KwaZulu-Natal: a case study of Durban

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DECLARATION

I, Alberto Dos Santos Paulo, declare that this dissertation is a representation of my own work in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished works has been acknowledged.

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DEDICATION

This work is dedicated to my parents (RIP) who have gone an extra mile to ensure my wellbeing throughout my upbringing. You have always been my source of inspiration throughout my life. Thank you for your love, unwavering support, encouragement, and advice. This work is also dedicated to my brother Estevão Dos Santos and to all friends in Angola and South Africa.

ABSTRACT

The clothing and textile industry has been important to the expansion of the manufacturing sector in South Africa. The industry, however, faces significant challenges; domestic firms are under pressure to improve efficiency and product quality levels when compared to the BRICS (Brazil, Russia, India, China, and South Africa) and other developing countries. Due to the ongoing lack of government support, including capital, technology and innovation challenges, many clothing manufacturers, especially in Durban, have relocated to other countries such as Botswana, and Lesotho, while others have closed down and some have adopted a form of production which is less capital intensive.

This study aims at establishing the level of awareness of business owners and managers in regard to the existence of tax incentives in Durban. This study used a questionnaire to gather primary data. A sample of 50 companies formed the subject of this study. To analyse the data, this study used a descriptive approach. This approach was crucial in allowing for gathering more in-depth information on the study. It also allowed the researcher to present the data in a meaningful form, helped in analysing the data, and offer ideas to further research.

This study revealed that the overall majority of owners were unaware of the existence of tax incentives within the clothing and textile sector; the respondents were also of the opinion that there is a lack of engagement between government and investors in renegotiating the terms of tax incentives. This study recommends that South Africa should urgently tackle its industrial policy reforms and the implementation of tax incentives in a manner so that it is made available, easy and transparent to applicants who apply for the incentives on offer, bearing in mind that a successful administration of tax incentives would also require the use of well-trained officials, sufficient information technology as well as a clear policy for achieving planned goals by using such incentives.

Key words: Tax incentives; manufacturing sector; clothing and textile industry; South Africa.

TABLE OF CONTENTS

LIST OF TABLES **Pages**

LIST OF FIGURES Pages

LIST OF ACRONYMS

ADZs (Advanced Development Zones)

AGOA (African Growth and Opportunity Act)

ATSEs (Advanced Technologic Service Enterprises)

BNESD (National Bank for Economic and Social Development)

BPS (Business Process Service)

BRICS (Brazil, Russia, India, China and South Africa)

CIT (Corporate Income Tax)

CMA (Clothing Manufacturers Association)

CMT (Cut Make and Trim)

CPFP (Capital Projects Feasibility Program)

CSIR (Council for Scientific and Industrial Research)

CTCI (Clothing and Textile Competitiveness Improvement)

CTCP (Clothing and Textile Competitiveness program)

DCCS (Duty Credit Certificate Scheme)

DTI (Department of Trade and Industry)

EIS (Export Incentive Scheme)

EMIA (Export Marketing and Investment Assistance)

EU (European Union)

FDI (Foreign Direct Investment)

FMI (International Monetary Fund)

GATT (General Agreement on Tariffs and Trade)

GDP (Gross Domestic Product)

GST (Goods and Service Tax)

IDC (Industrial Development Corporation)

IDZ (Industrial Developed Zone)

ISP (Incubation Support Program)

KZN (KwaZulu-Natal)

MCEP (Manufacturing Competitive Enhancement Program)

MECP (Manufacturing Enhancement Competitiveness Program)

MFA (Multi Fibre Agreement)

MIP (Manufacturing Investment Program)
OECD (Organisation for Economic Cooperation and Development)
PI (Production Incentive)
R&D (Research and Development)
SACTWU (Southern African Clothing and Textile Workers Union)
SADC (Southern African Development Community)
SARS (South African Revenue Service)
SEDA (Small Enterprise Development Agency)
SETA (Sector Education Training Authority)
SEZs (Special Economic Zones)
SMMEs (Small-Medium-Micro enterprises)
SWOT (Strengths, Weaknesses, Opportunities and Threats)
TISA (Trade and Investment South Africa)
USA (United States of America)
WTO (World Trade Organisation)

CHAPTER 1
INTRODUCTION

1.1 Background

Tax incentives are common around the world, mainly in developing countries. Although its efficiency in attracting investment is often questioned, countries have progressively resorted to such measures. In particular, they have been offering tax incentives to influence the location decision of investors. For this study, tax incentives are defined as any incentives that reduce the burden of enterprises in order to induce them to invest in particular project or sector (Zuo 2009:7). While some studies have found the use of tax incentives as ineffective and redundant (Bird 2008; Barbour 2005), other studies have found successful results in using them (Wentworth 2012; Parys 2013). This study describes the impact of tax incentives and focuses on the clothing and textile industry in Durban. This study also aims to measure the level of awareness and opinions of business owners about the existence of tax incentives in the clothing and textile sector.

This study found that overall that the majority of business owners were unaware of the existence of tax incentives in the clothing and textile industry. Additionally, the incentives on offer in most cases provided poor results due to implementation deficiency, lack of transparency in its application, high administrative costs and a low level of engagement between government and investor in renegotiating the terms of such incentives. Although this might be the case, this study believes that in South Africa most incentives have detailed policy goals and contain most features of a well-designed incentive scheme.

1.2 Research problem

While South Africa is working towards stimulating and strengthening its clothing and textile industry, China, and India are dominating the domestic clothing and textile market with their aim of exporting high volumes of clothing and textile goods (Parker 2011:47). As observed by Naudé and Rossouw (2008:737-750), the major challenges that South Africa has in light of its membership with Brazil, Russia, India, and China (BRICS) are to control the threat that China could potentially be to the South African domestic clothing and textile industry. Naudé and Rossouw (2008) suggest that through the implementation of a good incentive scheme, the South African clothing and textile industry is likely to see improvement in its growth as well as a decreasing level of imports from its rival countries (mostly from China and India).

South Africa has avoided many of the worst examples in implementing tax incentives through both design and trial and error (Jordaan 2012:10), however, Barnes (2005:20) believes that in South Africa, most incentives are well-targeted, have a detailed policy goal and contain most of the features of a well-designed incentive scheme. Although different research studies (Poesoro 2015; Wentworth 2012; Barbour 2005; Jordaan 2012) have illustrated the potential problems and complexity that could arise from the use of tax incentives, very little research has been conducted in the South African manufacturing sector within the clothing and textile industry in KwaZulu-Natal. To the best of the researcher's knowledge, no studies have been conducted on the impact of manufacturing incentives (tax incentives) for the clothing and textile industries in KwaZulu-Natal, especially in Durban.

1.3 Purpose of the study

The purpose of this study is to determine the impact of manufacturing incentives in the clothing and textile industry in KwaZulu-Natal, and make recommendations on how manufacturing incentives could help in reawakening the clothing and textile sector.

1.4 Research aims

The main aim of this study is to determine business owners or managers' level of awareness of manufacturing incentives and its effectiveness in increasing employment, productivity and economic growth in the South Africans' clothing and textile industry. This study also compares the efficacy of manufacturing incentives offered in South Africa to the ones offered in the BRICS countries and whether the successful incentive reforms used in the remaining BRICS (Brazil, India, and China mostly) countries can be successfully applied in South Africa. In the South African context, this is important given that there is a high unemployment rate in the manufacturing industry, and particularly in the clothing and textile sector. The clothing and textile industry is an important sector in terms of the labour market, and in terms of job creation, requiring low to medium-skilled employees and due to this potential, the clothing and textile industry is seen as one worth fighting for (Ramdass and Pretorius 2011: 334-335).

1.5 Objectives

In order to achieve the above aim, the objectives of the study were:

- to determine the level of awareness of business owners or managers in Durban in regard to manufacturing incentives,
- to determine the opinions of business owners or managers on the effectiveness of tax legislation on tax incentives, and

- to determine the business owner's or manager's perspectives on the process for granting, monitoring, designing and implementation of tax incentives in South Africa.

1.6 Research design

This research is descriptive and also cross-sectional. Mitchell and Jolley (2013:31) describe descriptive research as a method which intends to explain or describe relationships against phenomena, situation, or events as they occur. This study is descriptive as it chose to understand the level of awareness and the opinions of business owners, and managers about tax incentives in the manufacturing sector (clothing and textile). According to Sekaran and Bougie (2016:98), descriptive studies that present data in a meaningful form help to understand the characteristics of a group in a given situation, help make simple decisions, and offer ideas to further probe and for research (Sekaran 2003:137).

Cross-sectional research refers to data that are collected through interviews and questionnaires that are administered to individuals who either represent themselves or who represent institutions or other social entities at a point in time (Lewis-Beck, Bryman and Futing Liao 2004:230). This study uses a cross-sectional design as data was collected at one point in time. With the administration of the questionnaires, it was possible to collect, compare, and interpreting the data in a relatively short period of time. This study is quantitative in nature because it focuses on gathering numerical data and generalising it across groups of people or to explain a particular phenomenon. A quantitative study aims to classify features, count them, and construct statistical models in an attempt to describe what is observed (Babbie 2010:1).

1.7 Overview of this study

Chapter 1: Introduction

This chapter provides an introduction of the research, sets out the background of the research, presents the research problem and the significance of the study.

Chapter 2: Literature Review

In this chapter, the literature and relevant research are presented on the research topic. This study presents emphasis on the impact of manufacturing incentives (tax incentives) in the clothing and textile industry in South Africa, focusing mainly on Durban (KZN). Since very little research has been conducted on manufacturing incentives in the clothing and textile industry in KwaZulu-Natal, the research looks at how manufacturing incentives could benefit the South African clothing and textile industry.

Chapter 3: International aspects of manufacturing incentives: A country comparison of tax incentives in the clothing and textile industry with the BRICS (Brazil, Russia, India, China, and South Africa) countries

Chapter 3 provides a comparison of manufacturing incentives in South Africa's clothing and textile sector to the ones in the remaining BRICS countries

Chapter 4: Research methodology

Chapter 4 discusses the research methodology used in this study. The research design, population, sampling frame, and data collection and analysis are presented.

Chapter 5: Presentation and interpretation of the results

This chapter presents an analysis of the findings of the study.

Chapter 6: Conclusions and recommendations

The final chapter presents the research conclusions and recommendations and makes suggestions for further research.

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

Chapter 1 outlined the background of this study as well as the research aims, objectives, methodology and a brief overview of subsequent chapters. This chapter reviews the literature in order to provide a contextualised understanding of the impact of manufacturing incentives in the clothing and textile industry in KwaZulu-Natal, focusing mainly on Durban. This chapter covers the following areas:

- Background,
- Definition of tax incentives,
- Prior studies on tax incentives
- The rationale for the continued use of tax incentives,
- Forms of tax incentives in South Africa,
- Advantages and disadvantages of tax incentives,
- Design and administration of tax incentives,
- The imposition of quotas and tariffs in the South African clothing and textile industry,
- Defining tariffs, and
- The clothing and textile industry in South Africa.

2.2 Background

Most of the existing literature is uncertain about the role of tax incentives in the clothing and textile industry in South Africa as well as the ability of incentives to influence investment patterns (Keen and Mansour 2009:75). Although the use of tax incentives has been the focus of a large amount of theoretical research around the world, the question of their impact remains unclear (International Monetary Fund 2008:51).

Despite the lack of evidence to support the efficacy or efficiency of tax incentives, governments continue to offer them, and the reasons for the continued use of tax incentives are still uncertain. According to Wentworth (2012:3-10), the government can help to correct the structural weaknesses in sectors or regions allocated for development through tax incentives programs, which may influence investor perceptions of costs and benefits related to business in a particular sector. Barnes (2005:6) observes that the economic rationale for tax incentives in specific sectors or locations is mostly based on market failures (such as information asymmetries, the public-good nature of investment in research and development, infant industry protection, high levels of unemployment, low skilled workers, poor levels of education, low wages, crime, and a weak currency) which incentives seek to correct.

Governments often introduce tax incentives in response to political lobbying or to compensate for other policies that prevent investment (Calitz, Wallace and Burrows 2014:8). Jordaan (2012:5) observes that tax incentives are considered important tools used to enhance investment and growth in a country or region even if the links between investment and growth is unproven. Davis (2013:1-4), contends that even though tax incentives are intended to encourage economic growth in a country or a specific business sector, tax incentives usually come at an enormous cost (Alan and Fisher 2004:1). Although this might be the case, Easson and Zolt (2013:33) observe that tax incentives can play a positive role in encouraging economic growth and investments (domestic and foreign). How helpful and at what cost, depends on how well the tax incentive programs are designed, implemented, and monitored (Easson and Zolt 2013:33).

Kransdorff (2010:70-71) cautions that tax incentives are valuable instruments which can assist in alleviating distortions in the host country's investment climate and help accomplish its growth objectives. Tuomi (2009:69-70) emphasises that tax incentives may be a viable policy alternative when the host country faces high unemployment and weak growth. She also argues that one of the reasons for the extensive use of tax incentives is that governments consider them as a necessary tool to compete with other countries as investment locations for domestic or foreign investors.

In Bolnick's (2004:18) view, the usefulness and impact of tax incentives will depend on local circumstances, the characteristics of each investment and other details of the tax code. Because incentives have benefits and weaknesses, ranking them requires policy judgments as well as technical analysis (Jordaan 2012:2). Thus, concerns over the design of tax incentives should not divert attention from other policies and programs that are needed to improve proceeds and reduce risks for investors (Bolnick 2004:18).

Calitz et al. (2014:8) argue that tax incentives also provide an acceptable way for officials to increase employment and develop or otherwise support industries considered important to the country. In some countries (Brazil, China, India) tax incentives have been satisfactory because the general tax system places investments in those countries at a competitive disadvantage as compared to other countries (Barbour 2005:12). However, tax incentives are likely to be a poor response to the economic or political problems that may exist in a country. For example, "if a country has insufficient protection of property rights or a poorly functioning legal system, it is necessary to engage in the complex and extended process of correcting these deficiencies rather than providing investors additional tax benefits" (Easson and Zolt 2013:4). There is, therefore, a strong argument that tax incentives should be automatically available to all investors who meet a set of open and transparent criteria (Jordaan 2012:11). An opposing argument is that firms should receive just enough incentives to encourage them to invest and no more as this would allow a better monitoring and administration of tax incentives (Barbour 2005: 13-18).

Despite the above evidence, Truett (2010:73) believes that the need to support the clothing and textile industry in South Africa is crucial as is the need for a highly-skilled labour force that has the ability to employ new knowledge, technologies, business improvement methodologies, and eventually add value to existing goods and services. Parker (2011:5) contends that South Africa should take advantage of its strategic position in the BRICS grouping and improve its commitment towards these member countries in order to improve investment in its clothing and textile industry. Morris and Einhorn (2008:355) believe that South Africa should work more towards improving its engagement with the other BRIC countries by negotiating and working towards a consistent governance agenda. By following these steps, South Africa's clothing and textile sector is likely to experience more improvement and growth in areas such as highly skilled labour, new machinery, better quality of garments and textile production, more exports of garments as well as lower textile imports from its adversary countries (China, India) (Parker 2011:17).

Naudé and Rossouw (2008:737) argue that through a good incentive scheme, the South African clothing and textile industry could see continuous improvement in its growth as well as a decreasing level of imports from its rival countries (mostly from China and India). Bird (2008:9) notes that even though tax incentives are widely used across developed and developing countries, they are still recognised as ineffective and redundant since they appear to reduce and complicate economic systems without achieving their stated objectives. On the other hand, Rangasamy and Swanepoel (2011: 142-143) state that the application of a well-formulated incentive strategy could be a distinguishing factor that enhances the competitive position of the clothing and textile industry in South Africa.

Although South Africa has avoided many of the worst examples (such as the Manufacturing Enhancement Competitiveness Programme (MECP) in the early 2000s) in implementing tax incentives through both design and trial and error (Jordaan 2012:10). Barnes (2005:20) believes that in South Africa, most incentives are well-targeted, have a detailed policy goal and contain most of the features of a well-designed incentive scheme.

This section focused on the background overview of tax incentives in South Africa's clothing and textile industry. Although there is still a considerable level of uncertainty on whether or not tax incentives are efficient in this sector, it is important to note that the clothing and textile industry is one of the largest employers in South Africa. However, due to factors such as the lack of capital, technology and innovation, continuous relocations or liquidation of factories, and high labour costs in relation to production output, South Africa's clothing and textile sector is still regarded as inefficient when compared to the same sector in Brazil, Russia, India and China.

Although some studies have found the use of tax incentives as ineffective and redundant (Bird 2008; Barbour 2005), other studies find that the use of tax incentives in South Africa are well-targeted, have detailed policy goals and contains most of the features of a well-designed incentive scheme (Jordaan 2012; Poesoro 2015; Calitz et al. 2014; Wentworth 2012).The next section provides a definition of tax incentives.

2.3 Definition of tax incentives

Much has been written about the desirability of using tax incentives to attract new investment. The empirical evidence on the cost-effectiveness of using tax incentives to increase investment is uncertain (Klemm 2009: 3). In some cases, it is relatively easy to conclude that the use of particular tax incentive schemes has resulted in little new investment, with significant cost to the government. In other cases, tax incentives have played an important role in attracting new investment that has contributed to a substantial increase in growth and development in many countries (Easson and Zolt 2013:2).

Klemm (2009:5) further defines tax incentives as "any measure that provides for more favourable tax treatment of certain activity or sectors compared to what is available to general industry".

Notwithstanding the above definitions of tax incentives, Easson and Zolt (2013:15) note that countries must design tax systems by taking into consideration the tax regime of other countries in the region as well as international practices, thus, allowing tax incentives to be transparent, easy to understand, with low administrative costs for businesses and government, as well as the inclusion of a "sunset provision[1]".

This section provided a detailed definition of tax incentives with a focus on their cost-effectiveness. Some authors state that the use of tax incentives usually attracts little investment with substantial costs to government (Klemm 2009:5), and others argue that the use of tax incentives has, in actual fact, contributed significantly in attracting investments and substantial growth and development in some countries (Zolt 2015:15). The next section provides an overview of prior studies on tax incentives.

2.4 Prior studies on tax incentives

This section provides an overview of previous studies on tax incentives as well as key issues facing policymakers in deciding whether to use tax incentives, how to best design and administer such incentives to attract investment and/or minimise erosion of the tax base. Although some studies (Barbour 2005; Parys and James 2010) place greater focus on tax incentives in its social and economic context focusing mainly on the developed countries around the world, this current study seeks to emphasize the key issues on the effectiveness of tax incentives, focusing mainly on South Africa's clothing and textile sector. Relevant surveys are those by

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[1] "A sunset clause or provision is a measure within a statute, regulation or other law that provides that the law shall cease to have effect after a specific date unless further legislative action is taken to extend the law. Most laws do not have sunset clauses and therefore remain in force indefinitely, except under systems in which the doctrine of obsolescence applies" (Ellison 2012:3).

Jordaan (2012), Wentworth (2012), Calitz et al. (2014), Barbour (2005) and Parys (2013).

Data collected from the study done by Jordaan (2012:5-7) in South Africa, reveals that tax incentives are usually granted due to market failures (infant industry, information asymmetries and uncertainty, the political economy, and other externalities) which give a reason for government involvement. Although her study deals with tax incentives in the agro-processing industry in South Africa, she believes that tax incentives can be used as tool to increase investment and growth, even if the fundamental links involving each of these is far from proven.

Notwithstanding the fact that South Africa's tax regime compares well with that in other African countries, especially the ones in Southern African Development Community (SADC), Jordaan (2012:8) concludes that South Africa's tax regime is still not yet in line with international best practice. In addition, she believes that there is still poor awareness, especially by small and medium scale enterprises when it comes to tax incentives granted by government and other agencies. Too many incentives lack sunset clauses, for the scheme itself and for the duration of the benefit provided; too many incentives are applied in a discretionary manner; and businesses usually see the cost of applying for tax incentives as sometimes higher than the benefits (Jordaan 2012).

Wentworth (2012) conducted a study on the landscape of South Africa's economic incentives. The results of the study were extracted from telephone interviews, face-to-face questioning and emails to South African government agencies, and investment promotion agencies (IPAs). Wentworth (2012) believes that in order for an economy to attract productive, sustainable local and foreign investment, a stable investment climate and supportive investment policy framework is necessary. Wentworth (2012) supports Jordaan (2012) who believes that in the South African economy, factors such as high crime rates, low education and skills development, and widespread unemployment have made it difficult to improve the manufacturing industry, especially the clothing and textile industry. Wentworth (2012) states that tax incentives are more effective in countries with a stronger investment climate. She also cautions that factors such as the political and economic stability of the host country, its financial, technological and physical infrastructure, and a transparent legal and regulatory framework, are much more important to the investment decision than are tax incentives on their own.

On the South African perspective, Wentworth (2012) sees the country as having a modern tax system and a stable investment climate that could mostly be compared with ones in emerging countries (BRICS) and SADC. Wentworth (2012) emphasizes that South Africa still struggles to implement economic development approach, as well as establishing tax incentives to positively influence local and foreign investment. Throughout her survey and data collection, Wentworth (2012) found that a large number of local and foreign investors were unaware of the existence of tax incentives in South Africa, most agencies did not have a reporting system that could access historical information on investors using the incentives, or how many are repeat users; many investors (local and foreign) relied on specialised consulting firms to assist them with the application process, which turned out to be very expensive.

Calitz et al. (2014) conducted a survey study at the aimed at analysing how tax incentives could stimulate investment in South Africa. They believe that tax incentives on their own cannot overcome market failures. They advise that the precise methods needed to analyse the efficacy of tax incentives may differ among types of incentives. In order to measure the efficacy of tax incentives in attracting investments in South Africa, tools such as Input-Output tables and analysis, relying on previous research, Social Accounting Matrices, and Resulting Multiplier were used.

Calitz et al. (2014) state that incentives schemes are designed to generate tax benefits on the basis of performance criteria, such as job creation, generation of foreign exchange, and decentralisation into particular regions. They also believe that tax incentives can be introduced to balance some disadvantages investors may encounter in the host country (for example: lack of infrastructure, complicated and antiquated laws, bureaucracy, and weak administration in the area of tax or elsewhere). Calitz et al. (2014) explains that tax incentives can also be introduced in a way that the host country is able to compete with other countries for international investment. The findings of the study done by Calitz et al. (2014) suggest that evidence for policies such as tax incentives cannot be overstated. Too often the policies for tax incentives are implemented with little concern of the cost-benefit and opportunity cost of specific policy interventions. Calitz et al. (2014) recommends that transparency, accountability and rigorous evaluation of individual incentives could play an important role at measuring the efficacy of tax incentives in attracting investments in South Africa.

Barbour (2005) conducted a case study on South Africa's investment incentives focusing on the manufacturing sector. Data from his study was collected from Bell Equipment (a South African exporter of manufactured goods). Barbour (2005) used a quantitative evaluation of South Africa's tax incentives using Marginal Effective Tax Rate (METR) analysis. The results of his studies show that South Africa's manufacturing sector faces a higher METR than other sectors due to tariffs on imported goods. According to Barbour (2005), too many incentives are available on a discretionary basis and they remain unclear in their application and approval process. Barbour (2005) also believes that South Africa still suffers from overlapping government agencies, each with a degree of responsibility for designing, budgeting, and implementing incentives. Barbour's (2005) study reveals that the incentives available to the manufacturing sector are insignificant and unlike to affect the decision to invest due to factors such as volatile currency, weak demand, crime, and shortage of skilled labour. Barbour (2005) believes that South Africa operates a system of investment incentives that is well defined, effectively implemented and evaluated on a regular basis, and is better aligned with best practice than that of most African countries. He suggests that South Africa should place more focus on the process of rationalisation, and focus all incentives in support of a clearly defined strategy, and the application and approval process for tax incentives in order to allow a quicker and more transparent decision by investors.

Mwamayi, Wood, Haines, Brookes and Mbengwa (2013:621-630) note that due to the ongoing lack of government support, capital, technology, and innovation, many clothing manufacturers, especially in Durban, have relocated to other countries (Botswana, Lesotho), some have unfortunately closed down, while others have adopted the form of production which is less capital intensive thus allowing the industry to minimize costs).

Parys's (2013:129-141) dissertation investigates the relationship between taxation and investment in an international context from two perspectives: the governments' and the firms' perspective, with particular attention to tax incentives. Parys (2013) prepared a dataset of tax incentives in over 40 Latin American, Caribbean, and African countries for the period 1985-2004. His study attempts to find out if tax incentives are effective in attracting investments, and whether governments should take each other's tax policy into account when making tax policy decisions. Parys (2013:130) believes that developed countries deserve special attention with regard to tax incentives because the circumstances in which investments take place are different from the circumstances in developing countries. In Parys's (2013) perspective, some incentives are especially common in developing countries, as are some unique institutional features. He further cautions that developed countries generally use targeted incentives that are embodied in the income tax law, while developing countries tend to use a combination of targeted and more general incentives which may be included in the income tax law, the investment, and other laws, or simply government decrees.

From the government perspective, Parys's (2013:132-133) study concludes that in international tax competition model countries, governments deliberately interact with each other and try to attract the tax base through the policy decisions they make. However, from the firms' perspective, Parys (2013) believes that firms rather take into account other factors (e.g. market size, country's political stability, labour force, and the level of corruption) first than tax incentives in their investment decisions.

In order to find the results from Parys study, data was collected based on the preparation of dataset of tax incentives in over 40 Latin American, Caribbean, and African countries for the period 1985-2004. Parys's (2013) study suggests that firms consider higher transparency and security more than a lower tax burden. In other words, the basic investment environment conditions are mainly regarded as key to investors, before tax incentives. In finding out what is the effectiveness of tax incentives for investment, the findings suggest that the impact of tax incentives for investment in Africa is still insignificant. Parys's (2013) explanation for the low effectiveness of tax incentives in Africa is that the investment climate is unstable in a manner that granting tax incentives is not sufficient to compensate for the poor investment climate.

This section provided an analysis of previous studies on tax incentives from an international as well as a national perspective. The authors shared and at the same time differed in their point of views on tax incentives. The information from the previous studies on tax incentives is used to explain how the results of each research objective compare to previous studies. The next section describes the rationale for the continued use of tax incentives.

2.5 The rationale for the continued use of tax incentives

Despite the lack of evidence to support the efficacy or efficiency of tax incentives, governments continue to offer them, and the reasons for the continued use of tax incentives are still uncertain. According to Wentworth (2012:3-10), the government can help to correct the structural weaknesses in sectors or regions allocated for development through tax incentives programs, which may influence investor perceptions of costs and benefits related to business in a particular sector. Barnes (2005:6) observes that the economic rationale for tax incentives in specific sectors or locations is mostly based on market failures, which incentives seek to correct. Additionally, governments often introduce tax incentives in response to political lobbying or to compensate for other policies that prevent investment (Calitz et al. 2014:8).

Jordaan (2012:5) observes that tax incentives are considered important tools used to enhance investment and growth in a country or region even if the links between investment and growth is unproven. Davis (2013:1-4) contends that even though tax incentives are intended to encourage economic growth in a country or a specific business sector, they usually come at an enormous cost. Unfortunately, even with immense expenditures being made on tax incentives programs, the evidence suggests that tax incentives are of modest benefit to the governments and authorities that offer them (Alan and Fisher 2004:1).

Easson and Zolt (2013:33) observe that tax incentives can play a positive role in encouraging economic growth and investment (domestic and foreign). However, how helpful and at what cost, depends on how well the tax incentive programs are designed, implemented, and monitored (Easson and Zolt 2013:33). Kransdorff (2010:70-71) cautions that incentives are valuable instruments which can assist in alleviating distortions in the host country's investment climate and help accomplish its growth objectives. Tuomi (2009:69-70) emphasises that incentives may be a viable policy alternative when the host country faces high unemployment and weak growth. She also argues that one of the reasons for the extensive use of tax incentives is that governments consider them as a necessary tool to compete with other countries as investment locations for domestic or foreign investors.

In Bolnick's (2004:18) view, the usefulness and impact of tax incentives will depend on local circumstances, the characteristics of each investment and other details of the tax code. Because incentives have benefits and weaknesses, ranking them requires policy judgments as well as technical analysis (Jordaan 2012:2). Nevertheless, some conclusions may be drawn about the relative qualities of the various tax incentive instruments. For example, "even a zero-tax regime will not attract much investment if there are serious deficiencies in the investment climate that render projects fundamentally unviable. Thus, concerns over the design of tax incentives must not divert attention from other policies and programs that are needed to improve returns and reduce risks for investors" (Bolnick 2004:18).

Calitz et al. (2014:8) state that incentives also provide an acceptable way for officials to increase employment and develop or otherwise support industries considered important to the country. In some countries tax incentives have been satisfactory because the general tax system places investments in those countries at a competitive disadvantage as compared to other countries (Barbour 2005:12). However, tax incentives are likely to be a poor response to the economic or political problems that may exist in a country. For example, "if a country has insufficient protection of property rights or a poorly functioning legal system, it is necessary to engage in the complex and extended process of correcting these deficiencies rather than providing investors additional tax benefits" (Easson and Zolt 2013:4).

There is a strong argument that tax incentives should be automatically available to all investors who meet a set of open and transparent criteria (Jordaan 2012:11). An opposing argument is that firms should receive just enough incentives to encourage them to invest and no more. This would allow a better monitoring and administration of tax incentives (Barbour 2005: 13-18).

This section focused on the rationale for the continued use of tax incentives. In many cases, countries choose to use tax incentives due to market failures which incentives seek to correct. Although tax incentives schemes usually come at enormous costs, evidence suggests that tax incentives are of modest benefit to the governments and authorities that offer them. Tax incentives also provide an acceptable way for officials to increase employment and support industries considered important to the country. Due to the continuous complexity on the benefits and weaknesses of tax incentives, ranking them requires policy judgment. Additionally, its usefulness and impact will depend on local circumstances, the characteristics of each investment and other details of the tax code. The next section provides the main forms of tax incentives using a South African perspective.

2.6 Forms of tax incentives: A South African perspective

Designing tax incentives requires two basic decisions: (1) determining the types of investments that qualify and (2) determining the form of the tax incentive to adopt (Easson and Zolt 2013:18). Tax incentives can take a variety of forms. The most frequently employed in South Africa are:

- **Reduced corporate tax rates:** Corporate income taxes are important sources of revenue that governments use to fund public services necessary for long-term economic growth such as education, public safety, infrastructure and health care (Mazerov 2010:1). Some studies (De Mooij 2005:275-277) however, regard reduced corporate income tax rates as harmful to economic growth as very often reduced income tax rates are considered to create little or no additional incentive for corporate investment in the long run. Moreover, cuts in corporate income taxes are also likely to affect long-term growth by leading to cuts in public services (De Mooij 2005:277). Countries may provide exemptions from existing rates of corporate income or profits tax to particular types of activities. Some countries provide a reduced rate of tax for certain types of investments; other countries provide reduced tax rates for investments in particular locations or regions (e.g. the reduced corporate rate between South Africa (28%), and China (25%) (Tax Foundation: 2014:1).

From the above example, it is noted that China's corporate tax rate is lower than South Africa's, and a country with a lower tax rate would represent a significant incentive to any profitable manufacturing company. However, China is a highly-developed economy which could contribute substantially to its ability to charge a significantly lower corporate tax rate. Such an incentive would not be ideal for a developing country like South Africa since the country relies heavily on its tax revenues from companies. According to Botman, Klemm and Baqir (2008:7), by reducing the corporate income tax rates, the largest benefits are likely to go to high-return firms that are likely to have invested even without incentives. Such a reduction in the tax rates could invite tax avoidance through high-tax enterprises changing profits to low-tax enterprises via transfer pricing.

- **Tax holidays:** In developed countries, tax holidays are by far the most common form of tax incentive for investment. Tax holidays can vary in duration from as little as one year to as long as twenty years (Zuo 2009:7-8). Tax holidays have the advantage of being simple to use by the beneficiary enterprises and easily monitored by the tax authorities in the host country as no return filing or auditing is necessary during the tax holiday period which saves on conformity and administrative costs for each party (Zuo 2009:7). On the other hand, tax holidays are susceptible to manipulation and provide opportunities for tax avoidance and abuse. Finally, neither the cost of tax holidays nor the costs of the investment or benefits that may accumulate to the host country can be accurately estimated in advance (Klemm 2009:15).

- **Investment allowances and credits:** Unlike tax holidays, not only new investors but also new investments, if eligible, can apply for either investment allowances or credit. Either type of tax incentive provides instant benefits to the investor who may be in a profitable situation. According to Easson and Zolt (2013:20), investment allowances and credits seem preferable to tax holidays in almost every aspect as they are open-ended, the revenue cost is directly related to the amount of the investment and their maximum cost is more easily anticipated. A disadvantage of the use of investment allowances and credits is that they favour capital-intensive investments and may be less favourable towards employment creation than tax holidays.

- **Accelerated depreciation:** The term "accelerated depreciation" usually refers to any depreciation scheme that provides for writing off the cost of an asset, for tax purposes, at a rate faster than the true economic depreciation (Koowattanatianchai, Charles and Eddie 2017:3-8). Many countries use some form of declining balance method of depreciation or other types of accelerated depreciation as part of their standard tax system. For those countries that do not usually offer accelerated depreciation, a tax incentive can provide for deducting the cost of the acquisition more quickly than would be allowed under the normal standard depreciation programmes (Klemm 2009:10). However, it is important to note that accelerated depreciation can provide benefits to investors only if investors are in a profitable position (Koowattanatianchai et al. 2017:3-8). In many cases, at the initial stage of investment, investors are in a loss position. At this stage, benefits provided by such an incentive policy are said to be very limited (Klemm 2009:10).

- **Reduced import taxes on duties:** Customs duties increase to a large extent the cost of imported raw materials, components, and capital goods. Although exemptions from import taxes and customs duties can be an important factor in investment decisions, Easson and Zolt (2013:23) believe that if such exemptions are granted to particular investors selectively, it can distort competition and may go against international trade rules.

- **Research and development (R&D):** In South Africa, the R&D incentive was designed and implemented by the Department of Science and Technology (DST) to encourage private-sector investment in scientific and technological research and development activities (DST 2012a:1; Exceed 2014:1). The government usually grants R&D incentives to firms in order to alleviate the financial burden of a company as R&D occurs but income is yet to be generated or is completely uncertain (Pfeiffer and Spengel 2014:5).

This section described the different forms of tax incentives in a South African perspective. It also illustrated some examples to better explain the types of incentives described above. The next section describes the advantages and disadvantages of tax incentives.

2.7 Advantages and disadvantages of tax incentives

Every incentive has advantages and disadvantages. A set of certain incentives may work for very different economies with different challenges and conditions. In addition, determining what works will depend on the circumstances of the economy, the competence of the tax administration, the type of investment being attracted and the budgetary constraints of the government (Barbour 2005:9). Barbour (2005:9) and Carvalho (2011:16) note that an efficient and effective incentive:

- is transparent and easy to understand, with comprehensive policy goals and expressed precisely in the legislation,
- has a low administrative cost of planning, allocation, and management for both government and firms,
- is developed, implemented, administered and monitored by a single agency,
- allows the private sector to decide what is the best way to invest,
- avoids misappropriation of funds and rent-seeking activities by government civil servants,
- incorporates sunset clauses for both the scheme itself and for the period of benefits to anyone firm,
- co-ordinates national, regional and local governments efficiently,
- is not regularly changed, and provides investors with assurance over its application and longevity,

- includes a cap on expenditure, or taxes forgone to the fiscus, and
- is non-discretionary and applied consistently against an open set of transparent criteria.

Easson and Zolt (2013:10), Kransdorff (2010:11) and Bolnick (2004:57-62) note the following disadvantages of tax incentives:

- **Revenue costs:** There are tax revenue losses from tax incentives from two sources; first, predetermined revenue from projects that would have been undertaken even if the investor did not obtain any tax incentives; and second, "lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favourable tax treatment" (Easson and Zolt 2013:10).

- **Impact on tax administration:** Incentives programs slow down tax administration in two ways. Firstly, selective incentives require applying different rules to different taxpayers, which essentially complicates the system. Secondly, preventing and controlling the abuse of ambiguities absorb highly skilled administrative resources.

- **The economic cost of fiscal adjustment:** Tax incentives can cause revenue losses through various channels, most of which are direct, unclear, and complicated to measure. In addition, such revenue losses have an economic opportunity cost. Easson and Zolt (2013: 14) note that "The cost may be easy to bear if the revenue loss is small or if the country has a strong financial system and ample financial resources". However, the cost can be extremely high if the revenue loss is large, or if the country has a weak fiscal position and very scarce resources. Under such circumstances the revenue risk from introducing tax incentives should be a vital concern in the policy consideration.

- **Lack of transparency:** The economic cost of a tax break is much less visible then the cost of alternative investment support policies that involve actual budget expenditures. In addition, the actual economic costs associated with tax incentives are indirect and difficult to monitor. If the economic costs associated with tax incentives are hidden, it is easy for government to follow measures that are not cost-effective, and not consistent with the stated development goals.

- **Tax incentives are usually redundant and ineffective.** Tax incentives reduce and cause difficulties in the fiscal systems without accomplishing their stated objective.

- **Political dynamic:** Companies and business groups have strong motivations to lobby for tax incentives and to exaggerate the potential economic benefits. If incentives are provided to selected industries or regions, businesses and politicians representing other industries or regions use these precedents as an argument for pressuring government to broaden the programmes and to interpret the eligibility rules liberally. These pressures often lead to increase in tax breaks, which riddle the tax net with holes, multiply the fiscal and economic costs, and weaken the consistency of tax policy.

- **Tax incentives can also result in costly long-run economic distortions:** Some activities are pursued in preference to others not because they necessarily have a competitive advantage but because their profitability has been artificially improved through preferential tax treatments. In addition to promoting investments with low productivity, this may also draw resources away from other more productive projects.

- **Rent-seeking and corruption:** These are additional problems associated with tax incentives. “Where incentives are large, investors have a natural interest in maintaining the status quo, sometimes resulting in payoffs to influential government officials” (Kransdorff 2010:11).

This section provided an analysis of the advantages and disadvantages of tax incentives. However, determining what type of tax incentive works will usually depend on the circumstances of the economy, the competence of the tax administration, the type of investment being attracted and the budgetary constraints of the government because certain incentives may work for very different economies with different challenges and conditions. The next section focuses on the main considerations in regard to the design and administration of tax incentives.

2.8 Design and administration of tax incentives

2.8.1 Main considerations

The official mechanisms for offering tax incentives are drafted cautiously so that they achieve policy objectives with the minimum loss of tax revenue. Tax incentives should be articulated as accurately as possible to avoid the need for regular corrections or changes (United Nations Conference on Trade and Development (UNCTAD) 2000:3). Frequent changes could contribute to the perception that the tax system is complex and not easy to comply with (Bolnick 2004:62). Although tax incentives may be generally targeted, such incentives should be designed with the clear purpose of attaining increased investment in the field intended (UNCTAD 2000:19-20). Unplanned results may result in additional revenue losses (Zolt 2013:14). Despite tax incentives being articulated in the tax codes, often their administration is carried out by different government agencies. Such diversity of agencies dealing with tax incentives tends to increase the difficulty of doing business since investors prefer to deal with only one government agency and they want to be able to determine from the start the total package of incentives available (UNCTAD 2000:23).

These constraints are also present in the South African tax system, as there is no single government agency charged with overall responsibility for the design, budgeting, and implementation of tax incentives.

Kransdorff (2010:79) believes that South Africa's tax incentives require a holistic approach, regarding their design, implementation, marketing, and administration. He believes that most of South Africa's tax incentives are well designed well targeted and have comprehensive guiding principles, on the other hand, he argues that the incentives on offer usually produce poor results due to implementation deficiencies. In Barbour's (2005:9) view, a well-designed and administered incentive usually would incorporate a "sunset clause" for both the incentive scheme and for the duration of the benefit provided. In other words, by limiting the duration (sunset clause) of tax incentives it would be possible to decrease the costs of the incentive schemes, especially when they are unsuccessful or poorly designed (Barbour 2005:9). Thus, in order to enhance transparency and accountability of tax incentives, governments should keep accurate records of the costs of revenue foregone as well as the time period in which the incentives are granted to potential investors (Organisation for Economic Cooperation and Development (OECD) 2008:1-5).

While the transparency and simplicity of tax incentives are important to its design and administration, successive surveys (Barbour 2005; Kransdorff 2010; OECD 2008) support the idea that governments must be capable of adopting systems in which incentives are non-discretionary and used continuously against an open set of transparent criteria (Barbour 2005:9). Additionally, periodic evaluations of the existing incentives should be carried out by government to assess the extent to which they meet their stated objectives, allowing government to amend incentive programs which fail to achieve their objectives (OECD 2008:1).

Bird and Zolt (2003:29) caution that a successful administration of tax incentives would require the use of well-trained officials, sufficient information technology as well as a clear policy for achieving planned goals by using such incentives. In spite of these resources being extremely important in underpinning the design and administration of tax incentives, without a good implementation strategy or enough political support by government, the design and administration of tax incentives are likely to be inefficiently implemented.

This section has described the main considerations related to the design and administration of tax incentives. In spite of tax incentives being generally targeted, they should be designed with the clear purpose of attaining increased investment in the field intended. While the transparency and simplicity of tax incentives are important to their design and administration, governments must adopt systems in which incentives are non-discretionary and provide periodic evaluations of the existing incentives to assess the extent to which they meet their stated objectives. The next section describes the administrative issues related to tax incentives.

2.8.2 Administrative issues related to tax incentives

Improving tax incentives has for a long time been a topic of concern in developing and developed countries (Brodzka 2013:10). Tax incentives are an important factor influencing investment and strengthening economic growth (OECD 2013:10). Brodzka (2013:34) observes that investors often see transparency, simplicity, as well as stability and assurance in the application of tax rules and in tax administration more important than special tax incentives since the overemphasis on tax incentives, would complicate its administration, encouraging corruption as well as allowing tax evasion. James (2009:23) notes that it is possible to prevent tax incentives from causing administrative issues or facilitating evasion and corruption. He believes that with constant monitoring and good control systems in the incentives policy, it is possible to avoid leakages, thus helping to minimize further burdens on tax authorities. Although Kransdorff (2010) and Barbour (2005) agree that tax incentives should be designed and administered so as to increase revenues while decreasing the burden that they impose on the economy, Brodzka (2013:32) contends that in developing countries, especially those with fragile political systems, it is difficult to measure the costs and benefits of administering tax incentives because of insufficient access to the data collected on approved incentives by officials. This includes data on whether the tax administration checks if investors receiving the incentives actually qualify for it, and in certain cases it would also be important to perform regular audits on firms looking for tax incentives (Brodzka 2013:34).

Another issue related to the design and administration of tax incentives would be the discretionary or automatic authority of officials granting the incentives. It is debatable whether tax incentives should be implemented automatically where investors meet the qualifying conditions or implemented on a discretionary basis (Kransdorff 2010:79-88). Barbour (2005:9) believes that tax officials should rather grant incentives to investors automatically based on law and a set of transparent criteria. Thus, investors are able to know their eligibility for any incentives and reduce opportunities for corruption. Bolnick (2004:81) cautions that discretionary incentives can be used as an important tool to target projects with extreme strategic value to the economy. Although this might be true, James (2009:27) argues that there should be limits in granting discretionary incentives. Zolt (2012:25) explains that in practice, discretionary incentives often encourage abuse such as imposing significant administrative burdens, lack of transparency and being prone to corruption. Beyond the risk of enhancing corruption, discretionary incentives are believed to work contrary to internationally accepted principles and will possibly destroy any assurance that investors should have in government authorities to create and maintain a well-functioning business environment (James 2009:25).

This section has described the various administrative issues related to tax incentives such as corruption, lack of transparency, the discretionary or automatic authority of officials granting tax incentives, and tax evasion. The next section focuses on South African tax incentives and support granted for the manufacturing industry, especially in the clothing and textile industry.

2.8.3 South African tax incentives and support program for the manufacturing industry

The development of the manufacturing industry is regarded as one of South African government's principal vehicles for economic development and creation of jobs (Wentzel and de Hart 2015:105). Taking into consideration the level of unemployment (33.4%) in South Africa (Statistics South Africa 2014:15), the manufacturing sector plays a vital role in the South African economy. Rodrik (2006:769) emphasises that the development of manufacturing in South Africa enhances economic growth and employment. In this regard, the need for the government to improve capital investment in the manufacturing sector is important as is the need to overcome the obstacles (e.g. lack of skilled worker, corruption, inefficient government bureaucracy, extensive labour legislation and inadequate supply of infrastructure), which prevent local and foreign investments (World Economic Forum 2010:302).

According to the OECD (2001:10), some measures can be taken in order to minimise the possible effects of the investment obstacles and to improve the attractiveness of a country as an investment location. One such measure is using tax incentives to demonstrate a country's change in attitude towards foreign and local investment (OECD 2001:10). As a result, the South African government has introduced various tax and financial incentives to facilitate the growth of certain industries and to promote local and foreign investment in the country.

Although the advantages of using tax incentives are regarded as inconclusive by literature (Jordaan 2012; Wentworth 2012; Easson and Zolt 2013; Calitz et al. 2014; Barbour 2005:8), Tuomi (2009:117) notes that tax incentives remain one of the many influences of investment decisions and that in many countries the use of various incentives has been found to influence investment decisions positively. As analysed by the Department of National Treasury (2008:23), the South African government is using tax incentives to support the manufacturing sector as well as promoting the country as a preferred investment destination in its efforts to attract investment to the country. However, the South African government cannot simply launch incentives without careful consideration of all aspects involved and their possible impact on the economy. To achieve the desired results, the unique design of each incentive should also be carefully considered (Wentzel and de Hart 2015:119).

Kransdorff (2010:77) has concerns regarding the effectiveness of tax incentives in South Africa. He notes that South African tax incentives are still regarded as weak and poorly implemented. As a result, the incentives schemes are also considered to be bureaucratically difficult, as well as very costly and time consuming for investors and the government. In spite of this, Barbour (2005:6) argues that South Africa's incentives regimes are comparable with international best practice. However, he believes that if tax incentives are properly designed and implemented, they can assist in boosting job creation or even attract more investments (local as well as foreign investment) in the country. Conversely, if the incentive regimes are poorly managed, they could have a negative effect on the country's economy causing rent-seeking and corruption, complicating the tax system and allowing tax avoidance (Bolnick 2004:3-10).

Although the manufacturing sector is considered as one of the largest contributors to the Gross Domestic Product (GDP) in South Africa, there is the concern that the main part of South Africa's manufacturing sector would not be as competitive when compared to the same sector in developed nations (Kaplan 2010:120). Kaplan (2010:246) states that the South African manufacturing sector still presents poor performance when compared to the same sector in the BRICS' countries. He, however placed his focus mainly in the textile, footwear and clothing industry as these sectors are very labour-intensive, and important for employment creation.

Evidence from Edwards and Jenkins (2013:2) suggests that the manufacturing industry in South Africa, especially the clothing and textile sector, is undergoing an extended period of de-industrialisation. In reality, the view that South Africa is rapidly de-industrialising is presented as fundamental justification by government for a much more active industrial policy focused on the manufacturing industry

(Kaplan 2010:251). Black and Gerwel (2014:257) believe that South African manufacturing sector has a higher productivity share than estimated for the country's level of GDP and at the same time a lower employment share than estimated. Kaplan (2010:252) emphasises that the reasons related to the lower employment in South Africa's manufacturing sector in most cases is because this sector is too capital intensive. South Africa tends to be more capital intensive as it has less than expected output share in labour intensive-sectors (Tregenna 2007:33). Compared to the BRIC countries, the labour-intensive sectors of textiles, clothing, and footwear in South Africa have performed poorly (Table 2.1). In addition, the decline in the share of clothing and textiles in manufacturing value-added is significantly more pronounced in South Africa than in the other BRICS countries (Table 2.2).

Table 2.1: Clothing and textiles value added in BRICS countries, 1990-2008 (Currency: USD millions)

Countries	1990	2008	% Change
Brazil	28,600	26,644	-0.7
Russia	13,350	110,159	725
India	19,049	48,223	153
China	5,308	9,424	77
South Africa	1,941	994	-49

Source: World Trade Organization (2009:102)

Table 2.2: Percentage of value-added in manufacturing, clothing, textiles, and footwear in BRICS countries, 1996-2008					
Countries	1996	2000	2004	2007	2008
Brazil	8.12	6.91	5.93	5.69	-
Russia	12.04	11.22	10.43	9.98	-
India	12.00	12.55	8.68	7.63	-
China	3.31	-	-	2.00	1.87
South Africa	7.62	4.90	4.90	3.56	3.02
Source: Kaplan (2010:243)					

Table 2.1 shows that Russia, India and China had a very considerable growth in clothing and textiles value-added whereas Brazil's growth has declined. However, South Africa shows a significant fall in growth compared to the other BRIC countries. In terms of value-added (Table 2.2), the clothing, textiles, and footwear represented over 7% of total manufacturing value-added of South Africa in 1996. But by 2008, the manufacturing value-added was reduced to 3%. This means that the decline in the sector of clothing and textile in manufacturing value-added is significantly more prominent in South Africa than in other BRIC countries.

Although the manufacturing sector is contributing extensively to the South African economy (Rodrik 2006:22), Wentzel and de Hart (2015:106) argue that it is vital that the government focuses on increasing investment in the sector as this would facilitate increased production capacity, economic growth, and employment in the country. Much attention has been placed on new incentives for the manufacturing sector such as the Production Incentive, the Export Marketing and Investment Assistance, the Research and Development Incentive, the Enterprise Investment Programme and the Clothing and Textile Competitiveness Improvement Programme (DTI 2012a:138). This leads to the question of whether there are any more incentives that could be initiated to facilitate increased support in South Africa's manufacturing sector (Wentzel and de Hart 2015:106).

Black and Gerwel (2014:250) caution that the manufacturing sector in South Africa has faced a constant decline in terms of employment when compared to the same sector in the BRICS countries. Wentzel and Steyn (2014:319) suggest that substantial support is needed in the South African manufacturing sector as this would assist in achieving economic growth and increase employment in the country. They believe that it would not be the wisest decision to simply introduce incentives in the manufacturing sector in order to improve the country's economic growth or boost employment. In their opinion, it is important to rather pay special attention to the existing incentives as this will allow government and tax authorities to determine whether amendments can be made to such incentives (Wentzel and Steyn 2010:5-7).

The next section describes the imposition of quotas and tariffs in the South African clothing and textile industry, as well as the advantages and disadvantages of both quotas and tariff.

2.9 The imposition of quotas and tariffs in the South African clothing and textile industry

The South African clothing and textile industry has benefited from import substitution industrialisation which protected the industry through tariff and non-tariff barriers from foreign competition (Wolmarans 2011:4). In August 2006, the governments of South Africa and China concluded an agreement in terms of which the export of certain tariff lines of the Chinese textile products to South Africa would be administered in accordance with volumes specified in the agreement for a period of two years (Lambrechts 2009: 5). The fundamental objective of the agreement between South Africa and China was to provide South African clothing and textile firms space to reposition themselves, retain existing jobs, create additional jobs and improve competitiveness in domestic and export markets in the long run (Lambrechts 2009: V). Although this might be the case, the South African clothing and textile industry is still affected by numerous challenges, such as cheap imports (especially from China), South Africa's accelerated tariff reduction programme and currency fluctuation culminated in factory closures and huge job losses (Wolmarans 2011:4). Although the imposition of imported quotas in South Africa was supposed to give the clothing and textile sector opportunity to develop and improve its competitiveness, Naudé and Rossouw (2008:748) note that the effects of the South African quotas against clothing and textile imports from China are overall negative. This includes the decline in export competitiveness due to a strong Rand, the relocation of non-metro firms due to rising wages, the relocation of clothing exporters to neighbouring countries to take advantage of rules of origin provision from the African Growth and Opportunity Act (AGOA), the ending of the Duty Credit Certificate Scheme, as well as technological improvements in the sector (Naudé and Rossouw 2008:748). Morris and Reed (2008a:21) conclude that import quotas failed to create jobs, likewise, local manufacturers suffered which created welfare problems through raising the cost of clothing and reducing the disposable income of the poor. Some local retailers imported from other low-cost exporters (Bangladesh, Vietnam, Pakistan, and Malaysia), rather than buying local.

Considering the above analysis, Wolmarans (2011:28) argues that in the South African context "there is still no economic justification for the imposition of import quotas on Chinese products". Although many questions still need to be raised about South Africa's failure to respond to the imposition of import quotas against cheap clothing and textile products from China, Wolmarans (2011:5) suggests that the pursuit to recover global competitiveness in the South African clothing and textile sector should be founded on a combination of procedures (e.g. the legislative and institutional environment, infrastructure, skilled workforce, innovation and networking) designed to satisfy consumers' tastes and preferences that aims to improve the potential for growth in the medium- to long term.

This section analysed the imposition of import quotas and tariffs in South Africa's clothing and textile industry. Although the imposition of imported quota in South Africa was supposed to give the clothing and textile sector opportunity to develop and improve its competitiveness, the effects of South African quotas against clothing and textile imports from the BRICS countries (mostly China) are overall negative.

The next section provides a detailed definition of import quotas and their effects. This is followed by a description of the advantages and disadvantages of import quotas.

2.9.1 Defining import quotas and their effects

Suranovic (2006:1) defines an import quota as a limit on the number of goods that can be produced abroad and sold domestically. It is a type of protectionist trade restriction that sets a physical limit on the quantity of a good that can be imported into a country in a given period of time. Since import quotas prevent domestic consumers from buying an imported good, it results in the supply of the good being no longer flexible at the world price (Suranovic 2006:1). In other words, the imported quantity supplied falls and the domestic quantity supplied rises. Thus, domestic sellers are in an advantageous position when compared to domestic buyers (Pindyck and Daniel 1995:300-305). While import quotas and other foreign trade policies can be beneficial to the domestic economy, they tend to be usually promoted by domestic firms facing competition from foreign imports. Domestic firms benefit from higher sales, larger profits and more income to owners. However, by increasing domestic prices and restricting access to imports, foreign trade policies also tend to be harmful to domestic consumers (Naudé and Rossouw 2008:748-749).

The next section provides the advantages and disadvantages of quotas.

2.9.2 Advantages of quotas

Although critics say that quotas usually lead to bribes in order to acquire a quota allocation, they provide a number of benefits for domestic manufacturers. Listed below are some of the benefits of imposing quotas in trade (Mehra 2015:1; Daniel 2011:1):

1) **Quotas boost local investments:** Quotas play an essential role in trade as they put a limit on goods that are imported in a country, creating shortages that cause price fluctuations.

2) **Quotas create more job opportunities:** When a company is growing strong enough to compete with other foreign companies, quotas help to protect it from stiff competition. As a result, this creates more job opportunities for local workers, increases the overall wealth of the country and leads to a better balance of trade.

3) **Goods become less expensive:** Through quotas and protectionism, the prices of imported goods become inexpensive so that people opt to buy local goods. This way the government can still get a steady source of revenue, which improves the economy in the process.

4) The quota system is an efficient way system of providing protection to the domestic industry. Therefore, it can be a great help in encouraging economic growth, provided it is used wisely.

2.9.3 Disadvantages of quotas

One of the most discussed subjects in international trade is protectionism. Sanders and Demand Media (2015:5) believe that it is necessary to protect domestic industries and jobs. However, they also caution that protectionism may invite retaliation from trading partners, encouraging additional protectionism and result in blocks to free trade. According to Mehra (2015) and Daniel (2011), the disadvantages of quotas are as follows:

1. Quota systems require a large set of decisions (e.g. it includes the number of imports, allocation of import permit, and determining the sources of imports) and it is not always possible to base and coordinate them on objective criteria.

2. Quota systems encourage the creation and continuation of monopoly elements. This happens because the supply of the quota item is purposely controlled.

3. Quotas impose an additional cost on the government, the decision-making authorities have to continuously monitor and assess the changing situation so as to decide whether the system needs modification or not.

4. The quota holders have to import the item within a prescribed period of time, and in some case, only from specified sources.

5. In cases where imported items under the quota system are essential, its restricted availability causes a loss of welfare to the consumers as they are forced to divert their expenditure to less preferred substitutes.

2.10 Defining tariffs

Tariffs are taxes imposed on imported goods and services. Although tariffs are seen as a barrier to trade, they nevertheless are used to protect the domestic industry from cheap imports. Tariffs are also known as customs or import duties, or import fees (Daniel 2011).

2.10.1 Advantages of tariffs

Daniel (2011:1) and Sanders and Demand Media (2015:1) provide the following advantages of tariffs:

1) Tariffs provide a source of revenue for the country levying them.

2) Tariffs often increase the domestic producer surplus and the quantity of the good supplied domestically but hurt the domestic consumer.

3) Tariffs are levied in order to protect domestic industries by reducing foreign imports of a product in a country.

4) Tariffs also temporarily create jobs for domestic workers. As domestic companies are protected by tariffs, quotas, and subsidies, they will hire local labour.

5) By imposing tariffs, it is possible for the government to combat aggressive trade policies and environmental reasons.

6) Tariffs are more transparent as the level of nominal protection under a tariff is easily calculated, although its estimation is more complex under a quota.

2.10.2 Disadvantages of tariffs

In South Africa, the imposition of tariffs on imported products, especially in clothing and textile products, is a way of protecting domestic production and maintaining fair competition between local and imported clothing and textile products. Although this might be the case, Sanders and Demand Media (2015:1) argue that the impositions of tariffs raise the price of imports, leading to a decrease in a consumer surplus, and in some cases, it may result in trade wars between nations. This means that when trade partners retaliate with their own tariffs, it raises the cost of doing business for exporting industries, therefore some exporting firms will lose out and sell fewer exports (Pettinger 2008: 1). This situation might also compromise the quality of goods and services as industries look for ways to cut production costs.

In South Africa's clothing and textile industry, various arguments have been placed in favour of trade restrictions which include protection of infant industries, protect domestic jobs from cheap foreign labour and fair competition (Wolmarans 2011: 12). However, experience has shown that industries who receive protection through tariff and non-tariff barriers tend to become increasingly inefficient over time as protectionism not only discourage imports but also discourages exports (Ritzer 2010:478). In Hill's (2007:201) view, the imposition of tariffs and quotas in South Africa's clothing and textile sector restrained textile exports from some countries such as China, but in other cases created a textile industry that might not have existed. Similarly, investors were forced to seek open markets in other countries (e.g. Lesotho, Botswana) that were not regular participants in clothing and textile production. However, they offered a ready availability of price-competitive labour and in many instances, attractive government start-up incentives (Naumann 2005:3).

Countries such as Cambodia and Bangladesh were able to take advantage of favourable tariffs and quota allocations to build significant clothing and textile industries that generated significant exports (Hill 2007: 201). The imposition of tariffs and quotas in the South African clothing and textile industry has substantially helped in decreasing imports from competing countries, especially China. On the other hand, Van Eeden and Fundira (2008: 8) note that in South Africa local manufacturers of clothing and textiles are still faced with increasing volumes of imported goods from other low-cost imports (e.g. Bangladesh, Cambodia, Malaysia, Pakistan and India) compared to the situation before the imposition of restrictions on Chinese clothing and textiles.

Wolmarans (2011:86) interprets the impact of the limitation on Chinese imports as having a mixed effect in the South African clothing and textile industry. He further argues that the imposition of trade restriction (tariffs and quotas) was not successful in providing the local industry protection from foreign competition.

Wolmarans (2011:86) observes that the South African clothing and textile sector is still unable to efficiently compete against imports from China in most products categories due to a variety of factors such as the level of unemployment and poverty, the rise in the amount of cheap import activities (both legal and illegal mostly from China) which includes, under-valuation to avoid import duties, avoiding importer registration requirements, high labour costs, the lack of upgrade equipment and technology. This has resulted in continuous closures of businesses in the clothing and textile industry (Wolmarans 2011:86).

While several measures have been employed by the South African Revenue Services (SARS) and the DTI towards having effective control of clothing and textiles imports, the reality is that government has limited resources and mechanisms on hand to effectively address these problems (Wolmarans 2011: 90). Given the lack of capacity of the South African Revenue Services (SARS) and the DTI to monitor border activities and verify rule-of-origin violations, cheap and illegal Chinese goods continue to enter South Africa through other SADC countries (Morris and Reed 2008b:21).

Biacuana (2009:4) believes that the decline of South Africa's clothing and textile industry cannot be entirely blamed on its lack of competitiveness with its competitor countries (mostly with Asia). South Africa's lack of competitiveness is caused by various factors such as mis-declaration of tariff codes, trans-shipment, under invoicing to avoid import duties, fluctuating currency, continuous factory closures and job losses, and high labour costs compared to other BRIC countries (Biacuana 2009:6).

Even though high labour costs could be compensated by high productivity, the local clothing and textile industry lacks the required skills and technology (Wolmarans 2011: 17). As argued by Wolmarans (2011: 72) and Morris and Reed (2008a: 7), there has not been a comprehensive industrial and sectoral policy in the South African's clothing and textile industry. This has resulted in an awkward and fragmented reaction to the challenges facing the clothing and textile sector which has resulted in failure by the industry to improve its competitive position (Wolmarans 2011:86).

The next section provides an overview of the clothing and textile industry in South Africa, focusing mainly in KwaZulu-Natal, Durban.

2.11 The clothing and textile industry in South Africa

2.11.1 Introduction

The clothing and textile industry has been important to the expansion of the manufacturing industry in South Africa. The industry, however, faces significant challenges, largely as a result of South Africa adopting a policy path of export-oriented industrialisation (Ramdass and Kruger 2010:300). Domestic firms are under pressure to improve efficiency and product quality levels to ensure long-term sustainability. These new demands in the manufacturing industry, within the constrained environment of trade liberalisation, are important to the clothing and textile sector. The next section provides the background to the challenges encountered in the clothing and textile sector in South Africa, focusing mainly on Durban, KwaZulu-Natal.

2.11.2 Description of the clothing and textile industry: A focus on KwaZulu-Natal

Clothing and textiles are strongly associated with both technology and in terms of trade policy (Palmi 2007:6). As a result, textiles offer a major contribution to the clothing industry, creating a vertical relationship between the two. Nevertheless, the competitive advantage of firms in this market segment is associated with the ability to produce designs that influence tastes and preferences in addition to being cost-effective (Nordas 2004:3).

The clothing and textile sector which is very labour-intensive, requires a low level of skills with corresponding low wage manpower. It is a dynamic and innovative sector, depending on which market segment one focuses upon. Nordas (2004:3) observes that in the high-quality fashion market, the industry is characterised by modern technology, relatively well-paid workers and designers. However, in South Africa this sector is still faced with continuous job losses, with over 67 000 jobs shed during 2002-2012 (Nompumelelo 2014:3).

In line with the above statement, the clothing and textile industry in South Africa, especially in Durban, represents an important vehicle to address the challenges of job creation, economic growth and equity in the country as well as expanding the economy in innovative ways (Morris and Reed 2008b:9-23). The clothing and textile industry is found throughout South Africa but is mostly in KwaZulu-Natal and the Western Cape. Although the clothing and textile sector is concentrated mainly in the Western Cape and KwaZulu-Natal, major differences exist between these provinces (Table 2.3).

Table 2.3: A comparison of the Western Cape and KwaZulu-Natal clothing sectors	
Western Cape	**KwaZulu-Natal**
Most of the firms are found in Cape Town.	Firms are found in the metropolitan area of Durban and outlying non-metropolitan areas.
The industry consists of full-line manufacturers and a large number of Cut Make and Trim (CMT).	The industry is mainly comprised of CMT.
Firms are subject to comparatively higher cost structures.	Firms are subject to lower cost structures.
Firms produce mainly for the higher end of the market.	Firms produce mainly for the lower end of the market including wholesalers.
Most firms are South African owned.	Mainly firms are foreign-owned by Chinese, Taiwanese, Singaporean and Indonesian nationals.
Firms focus on the domestic market due to their higher value and proximity to retail head offices.	The industry's lower cost structure has meant that firms in this region have a greater export focus.
Source: Barnes (2005:6)	

Table 2.3 presents a comparison of the clothing in textile industry in both the Western Cape and KwaZulu-Natal. Table 2.3 also shows that both industries present strengths and weaknesses. Having said that, for example in Western Cape, the clothing and textile industry is mostly focussed at producing for the high end market while in KwaZulu-Natal the clothing and textile industry is mostly focussed at producing for the lower end market. However, in terms of sales, the industries from KwaZulu-Natal present greater export focus when compared to the same industry in the Western Cape.

In KwaZulu-Natal, the clothing and textile industry is found in and around the Durban metropolitan area with compartments on the north and south coasts, Newcastle, Ladysmith, and Mooi River (Bennett 2003:1). In the Durban metropolitan area, there are about 300 organisations employing over 15 000 workers (Cluster Report 2017:5). The South African clothing and textile industry is dominated by small (many forming parts of the informal economy, employing from six to 49 workers) and average size manufacturers (those employing not more than 200 workers) (Ramdass and Kruger 2010:210). There is also a diversity of fabrics that are used across the provinces, ranging from natural fabrics to synthetics and synthetics mixes.

The clothing and textile sector, mainly in KwaZulu-Natal, is going through major constraints in terms of productivity as the variety of fabrics produced locally are limited (Cluster Report 2017:3-9). Barnes (2005:5) observes that any limitations in the textile sector will impact on the success of the clothing sector as enterprises will be forced to import fabrics that are not produced locally. In KwaZulu-Natal and in the Western Cape, the textile sector is regarded as significant as it allows the clothing industry to produce a wide variety of women's, men's and children's clothing, focused on an equally wide range of markets. The majority of the industry output is directed towards supplying the domestic clothing retail sector; however, a limited number of firms supply the international market, mainly the European Union and the USA (Bennett 2003:2).

Although clothing and textile manufacturers in South Africa are more developed than other manufacturers in sub-Saharan Africa, the challenges that the factories face with respect to production, costs of material input, employment conditions, technology and innovation as well as export initiatives are still a matter of concern, as well as the management transitioning from domestic market to international market participation is still regarded as problematic for organisations (Staritz, Morris and Plank 2013). Even though the clothing and textile industry has not performed well recently, it is important to emphasize its labour-intensiveness and the fact that it employs over 80 000 people in South Africa (Business Partners 2014a:1), it is essential that policies and interventions be put in place to secure the sector's growth and development. So far, the South African government has put in place incentives for value-added manufacturing projects such as the Clothing and Textile Competitiveness Program (CTCP), the Production Incentive (PI), the

Export Incentive Scheme, the Support for Industrial Innovation, the Improved Access to Finance, the Industrial Development Zones (IDZ), the creation of an enabling environment for small, medium and micro-sized enterprises (SMME), and the promotion of competition and consumer protection (DTI 2012b:18). Although the incentives noted above are essential for giving operational strength to the clothing and textile sector in South Africa, the exclusion of an efficient supportive textile industry through the granting of incentives would automatically limit the expansion of the clothing industry (Cluster Report 2017:2).

This section described the current scenario of the clothing and textile industry in KwaZulu-Natal, focusing mainly in Durban. This section also compared the clothing and textile industry of the Western Cape and KwaZulu-Natal. The following section describes the constraints and challenges found in the clothing and textile industry in KwaZulu-Natal.

2.11.3 Constraints and challenges found in the clothing and textile industry in KwaZulu-Natal.

Manufacturing is important to KwaZulu-Natal and clothing and textiles represents an important part of this. It is important to highlight that several challenges and constraints are found in the South African clothing and textiles industry (Salinger, Bhorat, Flaherty and Keswell 1999:78). In Barnes' (2005:7) view, the challenges in the clothing and textile industry in South Africa are mainly related to wage rates, lack of capital, technology and innovation, and the high labour and management cost in relation to output while competing on the global market. Ramdass and Kruger (2011:210) emphasize that the use of technology must be regarded as a vital factor to enhance the competitiveness of the clothing and textile industry in South Africa thus allowing the industry to be able to process information in real-time, facilitating communication and improving and increasing the quality and quantity of outputs. Nevertheless, the performance of the clothing and textile industry in terms of efficiency, working conditions or level of social protection, is unstable.

In order to compete with cheaper imports from competing countries, many clothing firms are relocating to non-metro and decentralised areas where they are able to pay lower wages (Payne 2011:1). It is debatable whether South Africa is simply relocating its firms to non-metro (Isithebe, Madadeni, Mooi River and Ladysmith) areas or other countries (Lesotho, Swaziland, and Botswana) for the purpose of paying lower wages. Ramdass and Kruger (2010:211) relate this to the fact that these countries offer a more flexible labour market in terms of additional labour costs, such as overtime and shift pay, sick leave and pension contributions.

Other reasons influencing the relocation of the clothing and textile firms from South Africa to other countries (Lesotho, Botswana, and Swaziland), are associated with how well the host country accommodates potential investors (Ramdass and Kruger 2010:211). For example, in Botswana, the government provides incentives for manufacturers of clothing and textiles to invest in the country and undertakes to pay the potential investors approximately 80% of the costs incurred by investors for the first three years. The fact that Botswana offers lower taxes to clothing and textile manufacturers compared to those imposed in South Africa, and also allows these manufacturers to import raw materials, this makes it easier for manufacturers to consider these benefits as an excellent investment opportunity for potential investors (Barnes 2004:43).

Although the clothing and textile sector experienced substantial growth creating opportunities by South African manufacturers during 1987-1994 (Ramdass 2007:38), the sector, however, is facing a crisis point. Currently a considerable portion of clothing and textiles sold in South Africa are imported. These imports have displaced local production, resulting in a constant deterioration of the industry (KwaZulu-Natal Clothing and Textile Cluster (KZN CTC) 2013: 12). Employment levels have suffered correspondingly. Taking into account that the clothing and textile industry in South Africa employs much low-skilled labour and also plays an important role in the economy of the country, resolving the unemployment crisis in these sectors is crucial as is the need to create a policy environment that stimulates growth with labour absorption (Mahadea and Simson 2010:403). Mahadea and

Simson (2010:392) also believe that South Africa's current unemployment rates are increasing concerns, together with associated issues regarding inflation, budget deficits, increasing income inequality, tension over tax increases, loss of skills, political issues and employment gaps. At the social level, unemployment also affects the standard of living, crime and violence, stigma, insecurity amongst employees, reduction of spending power, psychological well-being and much more (de Witte et al. 2012:235-236).

Despite the long lead-times on products coming from competitor countries (China, India), South African clothing and textile firms have not been able to compete for a bigger share of the domestic market. Consequently, the current clothing manufacturing business model does not match the capability required by fast-fashion retailers (KZN CTC 2013:13). Many clothing manufacturers, especially in Durban, have adopted the form of production which is less capital intensive thus allowing the industry to minimize costs. The struggle for the survival of the clothing and textile industry in South Africa is worrying; the industry is constantly constricting its factors of production rather than upgrading procedures and machinery, reducing its competencies in the process. In addition, the weakened Rand and large number of micro-enterprises, home-industries, numerous factory closures, and unregistered firms are playing a major role in influencing the continuous deterioration of the South African clothing and textile sector (Ramdass and Kruger 2010:211-13). Improvement of productivity levels is necessary to better promote clothing and textile exports. Additionally, clothing and textile manufacturers are required to fulfil the demands of consumers who are fashion-oriented by offering the latest fashion trends in fabric quality and styling.

Ramdass (2007:60), observes that clothing manufacturers who focus on quality garments appeal to the target market and achieve their profit margins, while manufacturers that focus on homogeneous products maintain their competitive position, but to a lesser extent. Barnes (2004:48) and Parker (2011:12-15) believe that South Africa has placed manufacturers previously protected from cheap imports into a position where they are now required to play catch up with the world and at the same time come up with policies that would facilitate them to stay competitive on a domestic and international level.

This section described the constraints and challenges found in the clothing and textile industry in KwaZulu-Natal. In most cases, the challenges found in the clothing and textile sector are related to wage rates, a weakened Rand and the lack of capital, technology and innovation. The performance of the clothing and textile industry in terms of efficiency, working conditions or level of social protection is still regarded as unstable when compared to the same sector from other BRICS' countries. In this regard, the struggle for the survival of the clothing and textile industry in South Africa is worrying as the industry is constantly constricting its factors of production rather than upgrading procedures and machinery, thus reducing its competencies in the process.

The next section describes the institutions supporting the South African clothing and textile industry.

2.11.4 Institutions supporting the South African clothing and textile industry

The clothing and textile sector is slowly losing its importance in the South African economy. Based on current trends it is estimated that the two industries experienced between 50 000 and 75 000 job losses in the formal and informal sector over the years 2004-2012 (Nompumelelo 2014:1). A number of institutions support the South African clothing and textile industry. However, these institutions are fragmented and often act as lobbying associations. Institutions include (Barnes 2005:6):

- **SACTWU:** Southern Africa Clothing and Textiles Workers Union.
- **Clothing Manufacturers' Association (CMA):** Employers' organisation that is the bargaining council partner to SACTWU.
- **Cut Make and Trim (CMT) Employers' Association:** Employers' association in the clothing industry.
- **Bargaining Council for the Clothing Industry:** Employer-employee regulatory council for the clothing industry.
- **Clo Trade:** The Clothing Trade Council of South Africa was formed in 2003 by clothing manufacturers to be the collective voice of members to interact with government and other stakeholders in respect of trade-related matters.
- **Industrial Development Corporation (IDC):** The IDC has a Textile, Clothing, Leather and Footwear Strategic Business Unit that is committed to playing an active role in accelerating the development of this industry.
- **Garment Manufacturers' Association:** Association of larger Western Cape CMTs.
- **Clothing Industry Export Council:** This is an incentive of Trade and Investment South Africa (TISA) to assist exporters. In collaboration with Export Marketing and Investment Assistance (EMIA), it provides funding for initiatives such as trade missions and exhibitions.
- **CTFL SETA:** Clothing, Textile, Footwear and Leather Sector Education and Training Authority.

- **The Council for Scientific and Industrial Research (CSIR):** The CSIR supports clothing and textiles through, for example, the National Fibre, Textile and Clothing Centre, which promotes growth and global competitiveness of the South African textiles pipeline.

This section described the institutions supporting the clothing and textile industry in South Africa. The next section provides a summary, and a “SWOT” analysis of clothing and textile industry in South Africa.

2.11.5 A summary of the South African clothing and textile industry (SWOT analysis)

Before 1994, the clothing and textile sector in South Africa was privileged because it was protected by the government. After South Africa rejoined the global economy in 1994, it faced increasing competition from both the domestic and international markets (Bird 2008:7). This section will present a SWOT analysis of the clothing and textile industry in South Africa.

Table 2.4: SWOT analysis of South African clothing and textile industry
Strengths
Firms: • Flexible relative to scale rigorous competitors. • Good and reliable quality. • Well-established with proven longevity. • Capabilities that exist inside the industry. • Development capabilities (industrial/technical niches, wool, and mohair, advanced finishes). • Technical back-up services for the textiles industry. • Design capabilities in comparison to Asian competitors.
Environment: • Stable macroeconomic environment. • Dual economy, established infrastructure/finance system. • Access to ports. • Geographical clustering of firms. • Local apparel industry and access to local textiles. • Access to semi-skilled labour.
Domestic market: • Shorter lead times. • Growing industrial markets for technical textiles e.g. automotive, construction. • Strong domestic retailer linkages. • Recourse is possible. • Growing domestic market.

Table 2.4: SWOT analysis of South African clothing and textile industry
International market: • Proximity to EU/US markets vs. Asian competitors. • English language proficiency and dominant Western culture. • Well-established linkages and compliance with social labour standard. • Duty Credit Certificate Schemes.
Weaknesses
Firms: • Insufficient application of manufacturing standards. • Low level of capital spent and aging equipment employed. • The capability of management at all levels, but especially younger people. • Limited Research and Development. • Limited independent fashion. • Limited/silo knowledge of unfamiliar export markets. • Quality and delivery reliability issues within the textile industry. • Accessibility to and high cost of local raw materials.
Environment: • Labour cost and labour market flexibility. • Insufficient government support for larger clothing and textiles firms. • No strategic public/private sector partnerships driving the industry. • Rand strength and volatility. • Inefficient ports and expensive shipping costs. • Lack of cooperation between clothing and textiles firms at a sectoral level. • Access to technical, higher-order management skills.
Domestic market: • Ineffective custom controls due to working within an appropriate set of rules. • The concentration of domestic retailers and their propensity to import. • Support by Duty Credit Certificate Schemes (DCCS), very low real tariff levels protecting the local market.
Opportunities
Firms: • Greater application of manufacturing standards. • Investment in new capital. • Clustering between firms to reduce factor costs and improve inefficiencies. • Investment in lower and higher-order skills. • The exploitation of industrial/technical niches. • Accessing raw materials at international prices.

Table 2.4: SWOT analysis of South African clothing and textile industry
Environment: • Negotiation of greater labour market flexibility with labour. • Further reduction in the cost of capital- may also weaken the rand. • Forging better relations and partnerships with governments, textiles, clothing, and retailers. • Investment in ports and roads/rail infrastructure to reduce transport costs. **Domestic market:** • Change in the legal framework to enable customs to keep out illegal/under-invoiced products. • Improved relation with retailers (underpinned by firm changes). • Continued domestic market growth with regards to retailers and industrial sectors.
International market: • AGOA and middle-income economy opportunities not fully explored. • Man-made fibres, woollen targeting, niche African designs, growing of organic cotton.
Threats:
Firms: • Insufficient investment in new capital equipment and processes. • Inadequate response to operational weaknesses leads to growing competitiveness gaps in non-price areas. • Management capabilities and industry's technical base contracts as young professionals gravitate elsewhere. • Development capabilities in textile reduce to point where firms unable to meet customers' product development requirements-in apparel, household, and technical/industrial textiles. • In clothing, design capabilities reduce to point where firms are unable to meet customers' product development requirements.
Environment-conducive characteristic continue to erode as: • Labour market becomes more inflexible. • Cost of capital becomes too high to justify investments. • Rand strength and/or Rand volatility continues. • Technical support infrastructure collapses as industry contracts (e.g. Sector Education Training Authority (SETA), Council for Scientific and Industrial Research (CSIR). • Domestic raw material base contracts as clothing and textile sectors unable to provide sufficient volumes. • Government abandons industry if clothing and textile do not present united front.

Table 2.4: SWOT analysis of South African clothing and textile industry
Domestic market: • South African custom is unable to keep out illegal/under invoice imports. • China and other competing economies target South Africa with continued cheap imports. • Relations with retailers deteriorate resulting in increasing import levels. • Clothing firms import made-up garments; textiles firms import greige (a type of unfinished woven or knitted fabric that has not been bleached or dyed) fabric and finish. • Tariffs reduce further, easing imports access to South African markets.
International market: • Competition from China/competing economies increase. • Uneven playing field within SADC. • Under-investment in people and equipment will lead to a failure to meet delivery, speed and quality requirements. • Failure to penetrate niches in established export markets and new middle-income economies. • Preferential trade agreements not secured or the same benefits given to major competitors. • SA industry contracts-international buyers no longer visit the country. • DCCS benefits not replaced by another equally valuable exporting enabler.
Source: Morris and Reed (2008a:37) and Fourie (2013:1)

Table 2.4 shows that in spite of the challenges faced in the South African clothing and textile sector, there are evidences that this sector is still regarded as good and reliable with designs capabilities in comparison to Asian competitors. Although this might be the case, the South African clothing and textile sector on the other hand still lack in research and development as well as insufficient government support mostly for larger clothing and textiles manufacturers.

The next section provides an in-depth discussion regarding import competition of the clothing and textile industry in South Africa.

2.11.6 Import competition on the clothing and textile industry in South Africa

The clothing and textile industry has been flooded with various challenges, amongst others, cheap and illegal imports mainly from Asia. South Africa's accelerated tariff reduction programme and currency has resulted in factory closures and huge job losses (Woolfery 2009:9-17). Evidence indicates that in South Africa's clothing and textile industry not much industrial policy has been put into practice in order to respond to these challenges (Wolmarans 2011:5).

It is also believed that to a certain extent the South African government as a way of protecting the clothing and textile sector chose to re-impose protectionist actions via import quotas on certain types of products from China as to protect the industry, retain existing jobs, create additional jobs and allow the industry to regain its competitiveness (Wolmarans 2011:5). While the imposition of quotas might reduce imports from China to South Africa, it is debatable whether this policy is likely to work efficiently in South Africa. Woolfery (2009:9-17) is of the opinion that imposing quotas on Chinese imports of clothing and textiles would not necessarily be the solution for a reduction in the level of imports as other countries would view this as an opportunity for them to take advantage of, and increase their imports during the quota period imposed on Chinese apparel.

The clothing and textile industry in South Africa, especially in the Greater Durban area had its peak in the 1990s when there were approximately 450 firms employing around 45 000 to 49 000 people (Skinner and Valodia 2002:58). At this point, tariffs were on average 90% on clothing and it is estimated that local retailers were sourcing 93% of their goods from home industries. Although the imposition of quotas aimed at protecting the South African clothing and textile industry, in reality, a more negative effect manifested in the industry as this split relations involving local producers and retailers which are significant for the survival of the industry (Morris and Reed 2008b: 40-46). A radical change of tariffs over shorter periods than required contributed to the decline in the clothing and textile industry (Table 2.5).

Table 2.5: South Africa's typical tariff on apparel								
Year	1993	1995	1997	2000	2001	2002	2003	2004
Percentage	100%	90%	78%	60%	54%	47%	47%	40%
Source: Skinner and Valodia (2002:59); Van Eeden and Fundira (2008:13)								

Edwards and Jenkins (2013:458) caution that South African clothing and textile manufacturers are failing to compete on the same scale as Asia. Due to its lack of dynamism, the South African manufacturing sector, especially the clothing and textile industry has been seen as a key factor explaining slow growth and high unemployment since the ending of apartheid (DTI 2005:15). Low production costs in the Chinese manufacturing sector allows Chinese imports to increase its level of competition in the global manufacturing industry, especially in the South African clothing and textile sector which requires increased protection from imports from its competitors (China, Bangladesh, India).

While trade between South Africa and China has grown rapidly, a common observation is that the effects of cheap imports have negatively affected South Africa (Edwards and Jenkins 2013:457). Despite some tariffs, liberalisation policies being implemented to promote exports through the granting of tax incentives in the South African clothing and textile sector since the early 1970's programme has failed to promote economic growth or boost employment in the clothing and textile industry (Barnes 2004:28).

South African firms had protection from international competition for an extended period prior to liberalisation and consequently, many firms failed to invest in innovative technologies in that period. This resulted in the clothing and textile industry having weak competition levels and increased job losses (Mariette 2006:1). However, as a way to stop the constant inputs of cheap textile and clothing from China, the DTI introduced a quota system on Chinese imports in 2007. Although these measures assisted at reducing substantial Chinese imports, importers changed Chinese imports with imports from other low-cost producers in countries such as

Bangladesh, Malaysia, and Vietnam (Trade Law Chamber 2010:1). It also led to an increase in customs fraud, especially illegal transhipments of Chinese imports as well as widespread under-invoicing of imports and other forms of illegal imports (Skinner and Valodia 2002:59).

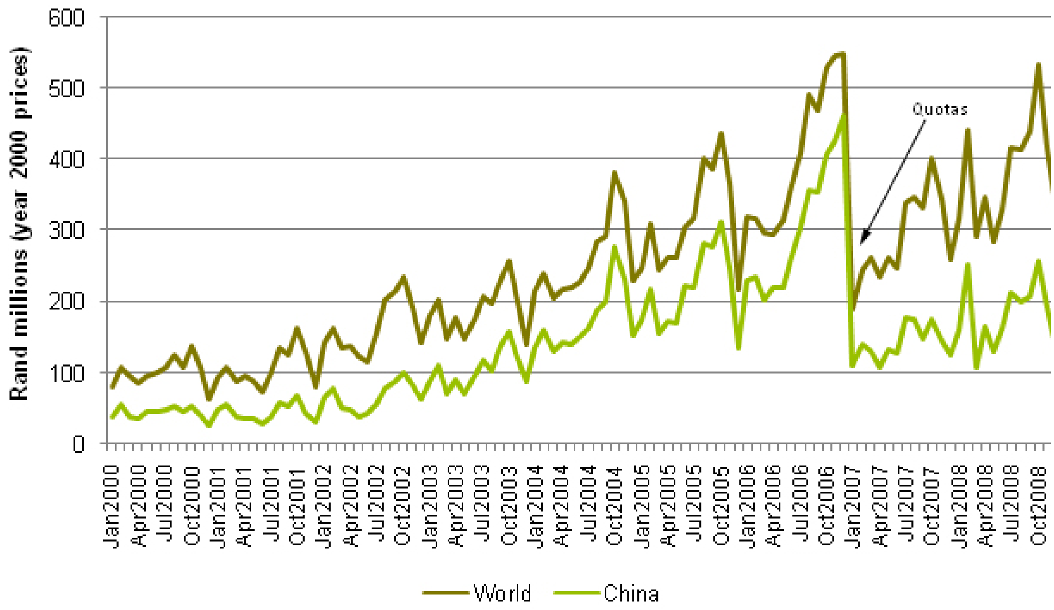
While the South African clothing and textile sector finds it difficult to adjust its tariffs since the sector is obliged to comply with the World Trade Organisation (WTO), it becomes difficult for South Africa's industries to effectively restrict the increase of imported goods. Edoun and Netshiozwi (2015:22) state that as a member of WTO, it is crucial that South Africa develop a domestic trade environment, thus allowing the country to compete with other member countries (BRICS).

Although the increasing connection involving South Africa and China is contributing to changes in the structure of the South Africa economy, Edwards and Jenkins (2015:9) argue that cheap imports from China have stimulated the informal market and consumers have benefited from lower prices (Dhliwayo 2012:8). As a result, exports to developed countries such as the United States of America (USA), for example, have reduced as the USA has shown a preference for cheaper clothing from China.

The radical need for cheap imports from Asia (Figure 2.1 and 2.2) has led African producers of clothing and textile to lose a considerable portion of the global market share (Sylvanus 2007:2). South Africa's clothing and textiles face a combination of problems affecting its growth. However, it is important to consider that part of the causes leading to the deterioration of the clothing and textile industry should not be blamed entirely on China (Dhliwayo 2012:1).

The Chinese have strategically capitalised on their comparative advantage of cheap labour and technological advancement whereas South Africa's manufacturers of clothing and textile have failed in managing increased competitiveness in the international market due to factors such as lack of technological investment, capital, and creation of a domestic value chain (Mutume 2006:8). In regard to the lack of competitiveness of locally produced goods, South Africa needs to improve its knowledge and skills within the clothing and textile industry (Osei-Hwedie 2012:12). Rather than simply implementing protective measures, the government should also consider subsidising and incentivising the clothing and textile sector (Dhliwayo 2012:1).

Figure 2.1: South Africa's imports of clothing and textiles in quota lines from China and the world, 2000-2008 (monthly)

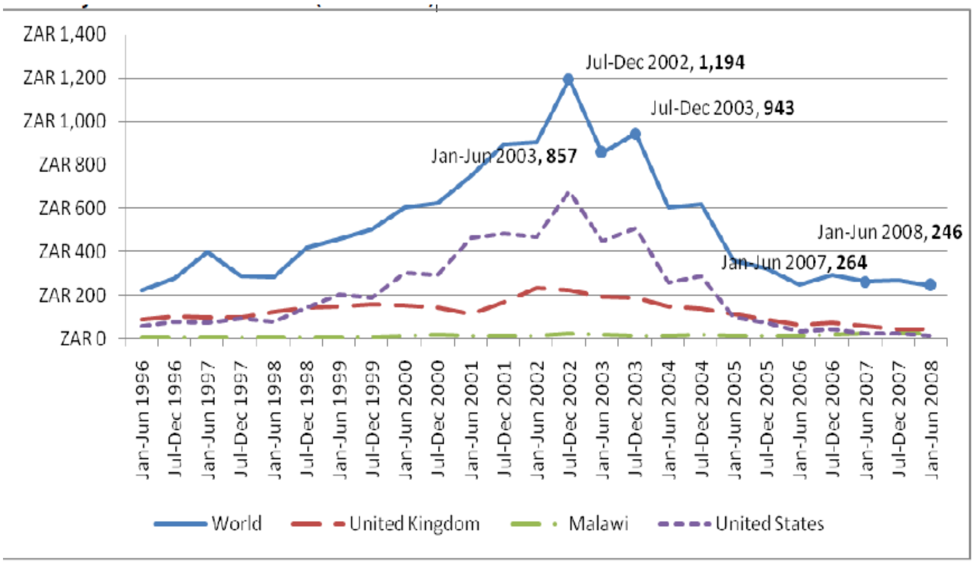


Source**:** Van Eeden (2009)

Figure 2.1 shows that quotas could serve as an effective or ineffective way of limiting imports of the targeted goods according to the country in which quotas are imposed. Chinese imports are not the only threat to South African market. Countries such as Malaysia, Bangladesh, Vietnam, and India are also regarded as low-cost manufacturers and this would adversely attract South African retailers to source goods from these countries while limitations (import quotas) are put on the Chinese market (Van Eeden 2009:12-24).

Osei-Hwedei (2012:14) states that South Africa's clothing and textile producers are still performing at a highly competitive disadvantage compared to other low-cost manufacturers of clothing and textiles. In this regard, South Africa needs to improve its knowledge and skills within the clothing and textile industry and allow local manufacturers to compete with their international competitors in terms of price, quality, and reliability (Woolfery 2009:9 - 17). Although the imposition of quotas in the South African clothing and textile industry was aimed at reducing imports of garment and textiles from China, Morris and Einhorn (2008:365) state that "quotas did not only fail the intended aim of improving production, employment and investment in the local industry, but also resulted in negative overall effects, since it also damages relations between local producers and retailers, which are vital for the survival of the industry".

Figure 2.2 South African exports within the quota lines in nominal Rand millions, January 1996 to June 2008 (bi-annual).



Source: Van Eeden and Fundira (2008:29)

Figure 2.2 represents South Africa's exports expressed in nominal Rand millions. South Africa's exports reached a peak during the second half of 2002 (July-December). Although there was a drop-down of exports before moving back for six months, it is noted that during the period of July-December 2003, there was a recovering of export trends. From 2003-2006 the figure shows a constant downward trend in terms of export figures. Also shown are exports to the USA, Malawi, United Kingdom and other countries in the world, specifically Japan. However by the first half of 2008, South Africa's exports to the USA had reduced considerably compared to exports in Malawi. The graph also shows that South African exports are still reaching the United Kingdom although Japan represents the higher target of South African clothing and textile exports.

This section discussed issues related to import competition in South Africa's clothing and textile industry. The clothing and textile industry has been faced with various challenges, amongst others, cheap and illegal imports mainly from Asia which have stimulated the informal sector and consumers have benefited from lower prices. Although trade between South Africa and China has grown rapidly, a common observation is that the effects of cheap imports have negatively affected South Africa (Edwards and Jenkins 2013:457). As a result, it contributed towards lower producer price inflation, which restrained increases in consumer prices, helped to cut down the production cost increases and reduced the employment intensity of production, raising productivity within industries.

2.12 Summary

In this chapter, the term manufacturing incentives as well as tax incentives were used interchangeably. The literature and relevant research were presented on the research topic. In the South African context, the country is believed to have avoided many of the worst examples through both design, trial and error. However, Barbour (2005:20) suggests that in South Africa, most incentives have detailed policy goals and contain most of the features of a well-designed incentive scheme. Although this might be the case, Kransdorff (2010:177) notes that South Africa's incentive scheme is still regarded as poorly implemented and costly for government and investor, thus leading the South African clothing and textile industries to an ongoing process of de-industrialisation. Kaplan (2010:251) notes that the need for the government to improve capital investment in the manufacturing sector is important as is the need to overcome the obstacles which prevent local and foreign investment.

The next chapter provides a comparison of tax incentives in the clothing and textile industry in South Africa to the ones offered in the remaining BRICS countries.

CHAPTER 3

INTERNATIONAL ASPECTS OF MANUFACTURING INCENTIVES: A COUNTRY COMPARISON OF TAX INCENTIVES IN THE CLOTHING AND TEXTILE INDUSTRY WITH THE BRICS COUNTRIES (BRAZIL, RUSSIA, INDIA, CHINA, AND SOUTH AFRICA).

3.1 Introduction

The aim of this chapter is to describe and provide a thorough understanding of how tax incentives have been applied in the manufacturing sector (clothing and textile industry) among the BRICS countries. It also considers whether the successful tax incentives used in the clothing and textile industry in Brazil, Russia, India, and China could be applied in South Africa's clothing and textile sector. The importance of this chapter to this current study is that it provides a deep analysis of South Africa's position in the BRICS countries.

3.2 Brazil

3.2.1 Introduction

Brazil is one of the largest domestic markets in the world. With its fast-growing economy, the country has managed to attract an ongoing growth within its clothing and textile industry (Carrigg and Alarid 2016: 13). This growth is in most cases interlinked with the constant purchase of modern equipment and technical improvement related to production, as well as the encouragement of its professionals through training programs and increasing productivity. Carrigg and Alarid (2016:13) state that Brazil is the only country in South America that holds an exceptional position in global textile production. This sector comprises around 26 000 companies and employs an average of 1.53 million people in all chains of production (Nascimento 2016:73). It contributes 2.4% to global textile production, earning it fifth place in the global ranking, and is the fourth leading producer of apparel, with 2.6% of global production (Carrigg and Alarid 2016:13). Zimmer, Iata, Souza and Cunha de Almeida (2016:38-41) state that due to the current growth in the Brazilian clothing and textile sector, it is possible to note substantial support by the government in this sector through the granting of tax incentives. In most cases the tax incentives are mostly aimed at companies that export their products (Zimmer et al. 2016:38-41). In addition, the Brazilian clothing and textile industry also enjoyed relative protection by government (mostly by implementing high tariffs on imported goods during the period from 1974 to 1989) which has allowed for an economic adjustment. Nascimento (2016: 73-74) stresses that the Brazilian clothing and textile market is still regarded as being closed to imported goods, with very small competition. He also argues that with the opening to imports, the Brazilian clothing and textile industry was placed in a completely different situation in which the Brazilian domestic market found it difficult to compete with imported products which in most cases were marketed at a low price.

In terms of a recovery strategy related to business competitiveness in the Brazilian clothing and textile sector, Nascimento (2016:74), states that due to tax incentives and the need for lower labour costs, many factories had to relocate to the northeast and north of Minas Gerais, where tax incentives were granted in large scale. On the other hand, states like Ciará opted rather for tax relief and improved industrial infrastructures, besides the modernisation of ports and airports (Nascimento 2016:73). The Brazilian government extends tax benefits for investments, particularly in less developed areas of the country. These tax incentives, however, have been partially successful in attracting investments to areas like the Manaus Free Trade Zone. Other individual states within Brazil have attracted investments through the offering of tax incentives and infrastructure support in the clothing and textile industry. In reality, these tax incentives have encouraged a so-called “fiscal war” amongst the states, with some states challenging the tax benefits as risky fiscal competition (Texperts 2015: 1).

Although Brazil is intensively investing in domestic production with the goal of expanding its operations in the clothing and textile sector, Carrigg and Alarid

(2016:13) note that producing textiles in Brazil is still expensive as the cost of labour is mostly high. In addition to labour costs, energy costs in Brazil are the fourth highest in the world. Thus, the high social costs that burden production and the uneven logistical structure that makes exports difficult are another obstacle to development.

In spite of the above, other factors are the bureaucratic system which is one of the most complicated in the world mainly for the import and export of goods, and apart from Mercosur, there are no other international agreements that facilitate international trade. Furthermore, the tax incentives granted by the government are mostly offered for a short period in a way that discourages long term planning by investors (Pasquinelli 2012:12). The weak Brazilian Real (Brazilian currency), which has continuously lost value against the major world currencies over the past years also affected the Brazilian clothing and textile industry as imported products became more expensive (Carrigg and Alarid 2016:13-14).

Despite its vast economic challenges, Brazil remains one of the world's strongest markets. While this might be the case, Pasquinelli (2012:18) argues that due to the size of the Brazilian domestic market, currently, in terms of international trade the Brazilian clothing and textile industry is very slow as it produces mainly for Brazilian retailers and consumers, and only 15% of the production is exported. The Brazilian domestic market still presents a unique case among the emerging big producers of garments worldwide such as China, India, Vietnam, and Bangladesh, which are all export-oriented economies supplying mainly the USA and European Union (Pasquinelli 2012:1).

Data collected from Textile Outlook International (2017:81-86) reveals that amongst the countries that form part of BRICS, India is regarded as the world's second-largest exporter of textile and clothing since 2015 after China with 4.8% share of global clothing and textile exports. Nevertheless, countries such as India and China are booming (Table 3.1) in terms of exports of clothing and textiles due to the manner in which these countries grow the interest of major international brands in sourcing from Indian and Chinese producers (Textile Outlook International 2017:81-86).

Table 3.1: Countries' ranking of projected clothing and textile exports (2015-2016)		
1) Mexico	9) Belgium	17) Vietnam
2) Canada	10) Korea	18) Chile
3) China	11) Dominican Republic	19) Colombia
4) Germany	12) Brazil	20) Bangladesh
5) United Kingdom	13) Australia	21) Saudi Arabia
6) Japan	14) United Arab Emirates	22) Italy
7) Hong Kong	15) Singapore	23) Costa Rica
8) Honduras	16) India	24) Taiwan
Source: Carrigg and Alarid (2016:12)		

In terms of exports of textiles, China is at a competitive advantage compared to Brazil and India. Factors such as high-end technology, low labour costs, and high production output, could be associated with the fact that China is still on the top position of textile exporters. Unlike other big clothing and textile producing countries such as China, India, and Bangladesh, Brazil seems to behave ethically regarding labour regulations. For example, in the Brazilian clothing and textile industry the minimum wage is normally paid and the government has created an environment where responsible business practices are actively promoted (TexPerts 2015:1).

Notwithstanding the above, the Brazilian clothing and textile sector faces a number of factors which need to be tackled. As analysed by Lectra (2015:5-6), Brazil is known for its large possession of raw material and manufacturing processes, however, the deindustrialisation trend is shifting important resources elsewhere. With the continuous rise in manufacturing costs, some companies find it more advantageous to import finished goods from China, then relabel and resell them rather than producing locally (Lectra 2015:6). The challenges in the Brazilian clothing and textile industry are vast in the face of maintaining its growth levels. More than ever the Brazilian government is still maintaining its cooperative approach towards this industry (Lectra 2015:6). In August 2011 the Brazilian government announced a new industrial policy called "Brazil Maior" (the "Bigger Brazil Plan") which intended to support domestic clothing and textile manufacturers, encourage investment, and stimulate innovation (Lectra 2015:6). While part of the plan has been achieved by using an array of tax incentives and an attractive financing scheme through the National Bank for Economic and Social Development (BNDES), in most cases those tax incentives were extended for investment in less developed areas of Brazil, such as the Amazon region as well as the north-east of Brazil with equal application to domestic investors. So far, it remains debatable whether tax incentives have been beneficial in the Brazilian clothing and textile industry.

Studies done by the United States Department of State (2015:8-9) suggest that the majority of incentives granted for supporting the Brazilian clothing and textile sector have been successful in attracting mostly foreign plants to areas such as Manaus Free Trade Zone. On the other hand, these tax benefits have caused a so-called "fiscal-war" in many states within Brazil. In Poesoro's (2015:1) view, tax incentives require a lot of effort by governments to not only offer favourable incentives but also build a safe environment where existing investments are protected and future ones could be attracted. With regard to tax incentives, Texperts (2017:1) and Lectra (2014:1) note various challenges influencing in the Brazilian clothing and textile industry in the following manner:

- **Red tape and taxes:** Due to the complex administrative system and its high taxes in Brazil, local clothing and textile manufacturers opt to rather travel to Europe or USA to buy garments at half the price of what they would pay in Brazil. International companies find that the additional cost of Brazilian import taxes and the unpredictable administrative system makes it difficult for them to get the maximum out of the domestic market.

- **The cost of outsourcing:** Brazil has a solid manufacturing and raw material history. Recently, the deindustrialisation trend is shifting important resources elsewhere. This has caused many companies to send their goods to be manufactured in China and other Asian countries, meanwhile smaller manufacturers in Brazil continuously import their textiles from Asia. With the cost of manufacturing in Brazil going up, Peru and Colombia have become options for outsourcing production.

- **Lack of structure:** In spite of the Brazilian culture of adaptability and flexibility, there is a lack of positive management in terms of design and development. Additionally, unstable wages, slow productivity growth, rise in energy prices, the low commodity price, corruption, low investor confidence, higher interest rates, and tax increase are all squeezing both local and foreign investors.

This section briefly explained tax incentives in the Brazilian context as well as some of the challenges which the Brazilian clothing and textile sector faces. The next section describes the current state of the Brazilian clothing and textile market.

3.2.2 The current state of the Brazilian clothing and textile market

Since early 2000 when the BRICS came into existence, Brazil was on the leading path to economic prosperity within the BRICS group (Parker 2011:10-11). Currently, Brazil's clothing and textile sector is facing a different scenario which includes factors such as the continuously rising cost of labour and a decreasing workforce (Pasquinelli 2012:1). As Brazil's brands begin to outsource manufacturing to Asian companies, cheap Chinese brands are entering the Brazilian market. Lectra (2014) finds that outsourcing manufacturing to Asian countries might work as a good option; however, in most cases the end results do not meet quality expectations.

In Pasquinelli's (2012:6) view, the Brazilian clothing and textile sector seem to be at a cross-road in spite of its large and untouched potential. As Brazil is one of the few countries in the world where everything needed to produce a garment is available within its borders, Pasquinelli (2012:12) believes that it is possible to make the Brazilian clothing and textile sector more export-oriented like China, Bangladesh, and India.

In order to remain competitive, Pasquinelli (2012:1) suggests that instead of tax incentives being simply available to Brazil's clothing and textile sector, companies should consider developing a favourable trading environment and build up added value through design and development to offer a better and more interesting product. In Brazil, there is opportunity for improvement across the board, as companies are not fully exploiting the opportunities that lie in connecting teams and tasks together (Business Wire 2017:1).

In Pasquinelli's (2012:5) opinion, maintaining the status quo without taking advantage of new developments in technology and ways of working can have consequences ranging from ill-fitting garments and outdated designs to unnecessary rework, longer time to market, inflated costs and late deliveries in the long run resulting in a poor-quality product at a high cost. In spite of the economic recession that has affected the industrial performance in Brazil, recent studies (Business Wire 2017a: 4) reveal that the Brazilian clothing and textile sector is becoming more export-oriented and since early 2017 the country sees its doors opening successfully to exports of clothing (party wear, beachwear and children's wear) and textile mostly to Arabic markets (United Arab Emirates, Algeria, Egypt, Morocco and Lebanon). In the same context, agencies such as The Brazilian Textile and Apparel Industry Association and the Brazilian Trade and Investment Agency (Apex-Brazil) have worked effortlessly, by launching the "TexBrazil" program which aims at incentivizing affiliated exporters and different scale manufacturers to apply a lean manufacturing approach in the entire clothing and textile sector, thus allowing a great amount of flexibility to be built in while waste is squeezed out (Business Wire 2017b: 22).

This section described the aspects of manufacturing incentives (tax incentives) in Brazil's clothing and textile industry. This section also pinpointed the numerous factors constraining the clothing and textile sector in Brazil such as red tape and taxes, the cost of outsourcing, and the lack of structure.

The next section describes the state of the clothing and textile industry in Russia; it also provides detailed information on the challenges and constraints affecting the clothing and textile sector in Russia and considers the tax incentives and policies in Russia's manufacturing sector.

3.3 The clothing and textile industry in Russia

3.3.1 Introduction

There is not much recent literature describing the current state of the clothing and textile industry in Russia. However, with the available literature, it is possible to make some inferences and observations which allow the study to pinpoint different aspects which Russia's clothing and textile industry may or may not share with the remaining BRICS countries. The clothing and textile sector in Russia is its third-largest industry, besides food/ beverages and transportation. These sectors play an important role in the Russian economy.

The clothing and textile sector in Russia has recently gone through some challenges. Cheap wool and cotton supplies from central Asia republics were blocked, consequently prices increased, and factories designed for mass manufacturing had to become more flexible which impacted radically in the decreasing of production volumes almost 3 times in the years 1990-2011 (Paweta and Mikolajczyk 2016: 10-14). The Russian clothing and textile industry is still dealing with the problems of inadequate raw materials, poor design, ergonomics, wear that is inferior to those of imported products, obsolete production equipment, low disposable income levels of the population, lack of interest in foreign direct investment, and the lack of capital (Katz 2015:7) . In regard to innovation in performance, Russia lingers at a relatively low level in relation to the main leading countries such as South Korea, USA, China, and Japan. Nevertheless, its performance is to some extent better than that of South Africa and Brazil (Paweta and Mikolajczyk 2016:10-14).

In Gerden's (2016:1) view, all these factors affecting the clothing and textile industry in Russia are currently contributing towards a low demand in its domestic and international markets. While Gerden (2016:6) sees substantial growth in the technical clothing and textile sector, he argues that in spite of high taxes charged on Russians' clothing and textile manufacturers, the sector is still mostly aimed at manufacturing most of its garments for the construction and defence industry. The Russian military and industrial sectors currently remain the biggest markets of technical textiles in the country, and there is a possibility that the levels of consumption will continue to escalate in the coming years, due to ongoing militarisation (IMF 2008:5).

However, with all these phenomena occurring within Russia's clothing and textile industry, urgent reform requires the government to create more programs to diversify and expand the manufacturing and trade for clothing and textiles in Russia, such as a less bureaucratic tax regime and opening up for more investment incentive policies while encouraging local and foreign direct investment, maintaining an international product quality and design, and finding a way to apply leaning manufacturing techniques (IMF 2008:5).

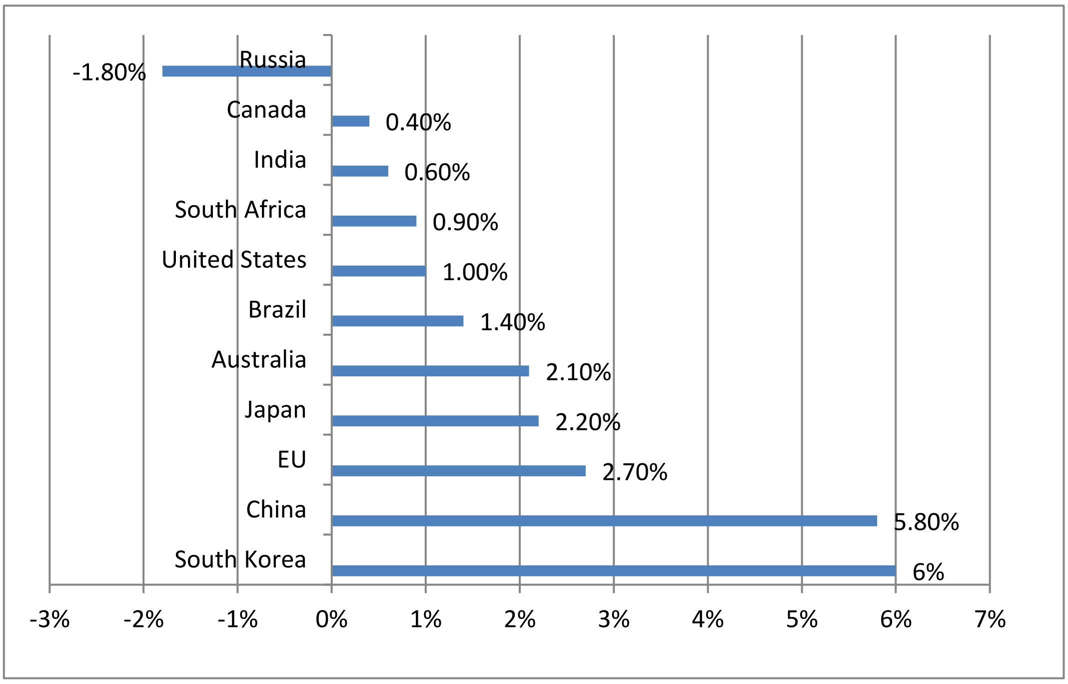
In regard to creating tax incentives and other measures to attract FDI, Poesoro (2015:10) notes that they are costly and usually unproductive if not done properly. He also states that tax incentives may lead the government to surrender the ability to tax domestic taxpayers to escape from unfair treatment. Apart from creating a considerable inequality between individuals or regions in the host country, tax incentives can also create environmental damages as well as trade wars with neighbouring countries.

There are many other issues Russia should work on correcting before engaging in the implementation of tax incentives. In Pogorletskiy's (2017: 34-37) view, Russia will only see the benefits of its tax incentives once the country has achieved a minimum level of human capital, stock structure, addressing issues such as political instability, infrastructure, regulation, reliable legal structure to provide investors more certainty, corruption, and other issues before deciding to apply tax breaks to attract investments. Thus, if managed properly, tax incentives will provide benefits as the investments will create new employment, infrastructures, and transfer of technology (Pogorletskiy 2017: 34-37).

Studies done by the IMF (2008: 5) reveal that Russia remains an attractive market to worldwide retailers who are searching for markets with high potential growth, Russia has significant growth opportunities in the long term. Russia has adopted a combined production method where most of the fabrics and accessories are being purchased abroad and sewed in Russia due to a cheaper cost of sewing (Katz 2015: 5). Since consumers not only value inexpensive prices but also the quality of the garment, factors like modern material and innovation process become important (Figure 3.1), this is where Russian manufacturers struggle to compete at the moment. In recent years, the development of clothing and textile industry in Russia has become one of the priorities for government. As noted by Deloitte (2016:8), since 2015 various textiles and nonwoven producers have received support from the government in the form of tax incentives and benefits. As part of this plan, the government provides most of the benefits to its residents such as reduced rent, consultation services, abolishment of income taxes, property tax, land tax, as well as the reduction of land rent. However, the implementation of these tax incentives and benefits aim mostly at ensuring import substitution.

As a preventive measure, the Russian government has also decided to ban the import of industrial equipment from western countries. According to Arkady Dvorkvich, Deputy Prime Minister of Russia, "the imposition of ban aims at providing vigour for the growth of the national machine-building industry and will provide new orders to it". On the contrary, Gerden (2016: 4), states that imposing a ban on machinery imports from western countries may lead the clothing and textile industry to the edge of a serious crisis. Additionally, the ban on the import of industrial equipment is believed to negatively impact on the Russian clothing and textile industry due to the failure of local manufacturers to replace imported machinery currently. Finally, the imposition of a ban may result in a significant increase in equipment prices in the Russian market, which could be too high for many domestic textile and nonwoven producers who are considering modernisation of their production resources (Gerden 2016:1). On the positive side, the ban of imports may be beneficial in that it could be used as an aid to improve the consumption of local goods, create local employment, foster national security and increase national revenue.

Figure 3.1: Innovation performance in Russia vs other BRICS countries



Source: Paweta and Mikolajczyk (2016:12)

Although Russia leads South Africa and Brazil in terms of innovation and performance, Figure 3.1 shows that its innovation performance is relatively low compared to the top global innovators – Japan, South Korea, US, and China. In most cases, the enterprises in these leading countries tend to invest more in research and innovation as well as combined knowledge creation between the public and private sectors. The next section discusses the use of tax incentives and policy in Russia.

3.3.2 Tax incentives and policy in Russia

The implementation and use of tax incentives has become a subject of important focus in many countries around the world and Russia is not an exception. Taking into consideration that the benefits of tax incentives remain inconclusive, it is important to understand that tax incentives are in most cases used as valuable tools for increasing business profitability and maximising the potential of these opportunities (Deloitte 2016:1). Pogorletskiy (2017: 34-37) argues that since early 2000s the Russian tax reform became one of the best in the world. Even if the global economic crises of 2008- 2009 is taken into account, the Russian tax system coped its consequences better than the tax systems from other countries around the world since the amendment of its tax policies were fast and reasonable (World Tax Summaries 2017:1). The new challenges facing the national tax system required corresponding changes in the character of the tax policy. According to Worldwide Tax Summaries (2017:1), various tax incentives are being granted to support Russia’s local industries, especially the clothing and textile industry as follows:

- Regional incentives in the form of reduced tax rates are granted to certain classes of taxpayers, usually large investors or entities operating in specific industries. The size of an entry investment is usually in the range of around RUB (Rubles) 50 million to RUB 150 million. Some regions require a lesser amount, and some do not require any minimum amount at all.

- Research & Development (R&D): This type of tax incentive has become popular in Russia. This form of indirect government support is also used in Brazil, India, China, South Africa and other countries around the world. Russia currently holds one of the first places in terms of direct government funding for R&D.

- Special economic zones (SEZs): As per Russia's tax laws, special economic zones include industrial zones, port zones, technical research and implementation zones for specific projects, tourism and recreation zones for the development and effective use of Russia's wealth of tourist attractions.

- Advanced development zones (ADZs): Russia established ADZs in order to offer special terms for companies operating in different industries (e.g. agriculture, telecommunication, pharmaceuticals, textile, education, science and technology, etc.), including free customs zones, corporate income tax (CIT), property tax incentives and project financing.

- Free Port Vladivostok: introduced in 2015, the free port of Vladivostok provides a special customs taxation and investment regime for investors in the city of Vladivostok and 15 surrounding municipalities, although four municipalities in other Russian regions in the Far East are also covered by the regime. Residents of the port enjoy the following tax incentives:

a) A reduced regional portion of company's income tax (5% at most during the first five years of profitable sales and at least 10% during the subsequent five years), and

b) Zero rates on the federal portion of company's income tax for a five- year period.

There has been much effort to revive Russia's clothing and textile industry, and taking into consideration that Russia shares many factors similar to the countries within the BRICS group, such as high taxes, unpredictable government regulation and decisions, and lack of business transparency, Hanzl and Havlik (2003:71-72) argue that neither imports restriction nor government assistance could guarantee a long-term solution for Russia's clothing and textile sector.

Paweta and Mikolajczyk (2016: 14) observe that improving innovation performance in the clothing and textile industry in Russia would create value-added for the growth of output and productivity in the industry. However, they also support the idea that undertaking innovative activities and improving clothing and textile industry performance in Russia could be challenging due to the innovation environment in the country. Russia's economy continues to be heavily depending on imports of equipment and machinery, and currently its clothing and textile sector does not appear to have great growth potential, despite the large domestic market. Thus, in Priede and Pereira's (2015:685-688) opinion, the clothing and textile industry in Russia seems to be taking a positive road towards innovation and international quality standards. They believe that in order to reach such goals, Russian government to should consider taking a different institutional and structural reform towards its human capital (education, pension system, and health), which involves fiscal, social, and investment factors. Likewise, Russia needs a new approach to social policy, foreign economic activity and spatial development (Priede and Pereira 2015:685-688).

This section described the diverse phenomena related to tax incentives as well as the policies involved in Russia. It also showed that the clothing and textile industry in Russia face many challenges which South Africa, Brazil, India and China also face. These are ascribed as high taxes, unpredictable government regulation and decisions, and lack of business transparency. The next section describes the clothing and textile industry in India, and provides a SWOT analysis of the industry.

3.4 The clothing and textile industry in India

3.4.1 Introduction

The clothing and textile industry is a key foreign exchange earner in India and occupies a very important place in the country's economy. This industry is the second largest contributor to employment after agriculture (Associated Chambers of Commerce of India 2015:4). Thus, the growth of this industry has a direct bearing on the improvement of India's economy. The strength of this industry flows from its strong production based on a wide range of silk, polyester, viscose, nylon, acrylic, silk and wool (Raichurkar and Ramachandran 2015: 46-47). China, India, Pakistan, and Vietnam are the traditional giants in the manufacturing of textiles products and machinery to the rest of the world (Associated Chambers of Commerce of India 2015:4). In spite of constant competition amongst these countries, India is one of the world's largest manufacturers and exporters of textile products and it has invested in more spinning and weaving equipment than China.

The main aspect which has contributed to it lagging in the cotton industry and throughout the world is obsolete technology of machinery, research and development, and getting skilled labour when compared to positive factors like ecological friendly, good biodegradable cotton, better versatility and export capability (Raichurkar and Ramachandran 2015: 46-47). Sharma and Sehgal (2015:103-106) contend that due to obsolete technology, the constant increase of interest rates, double-digit inflation and low value of Indian Rupee, the cost of production is higher in India compared to China. Joumard, Sila and Morgavi (2015:3-5) argue that India's manufacturing sector has not contributed much towards income growth in the country neither has it brought much new employment. Despite abundant, low-skilled and comparatively cheap labour, Indian manufacturing is surprisingly capital and skill intensive.

Understanding why India's textile and garment sector has not performed better is therefore important for making India's manufacturing sector more dynamic and inclusive in the sense of creating better-paying jobs for relatively less-educated workers. Even though Hasan, Kapoor, Mehta and Sundaram (2017:19-25) support this idea, they also believe that the manufacturing clothing and textile sector in India has not lived up to its potential in terms of exports, productivity, and quality of employment. Studies done by Textile Outlook International (2017:59-65) reveal that in recent years, India's economic development has been remarkable and tipped to provide much of the force behind global economic growth. The clothing and textile industry continues to fulfil a significant role in the country's economy and industrial development. Additionally, much of India's recent economic growth can be attributed to continuous development in the country's industrial sectors such as the automotive industry as well as the information technology sector (Textile Outlook International 2017:59).

While the Indian clothing and textile industry plays an important role in contributing towards employment, industrial output and export earnings, the Associated Chambers of Commerce of India (2015:4), believe that the clothing and textile industry is still facing several challenges including illicit markets, labour-related concerns, raw material shortages, electricity shortages, excise duties on man-made fibres, obsolete machinery and technology. A number of initiatives have been taken by the government to make the industry more competitive locally and internationally. For example, in terms of tax incentives and other programmes the government provides the following:

- **Make in India:** This programme is granted by the Indian government; it includes initiatives designed to facilitate investment, foster innovation, protect intellectual property and build in class manufacturing infrastructure. On the other hand, under the "Make in India" initiative, there are also opportunities for foreign companies and entrepreneurs across the entire value chain of fabric processing set-ups for all kinds of natural and synthetic textiles, technical textiles, garments and retail brands (Kashif and Shoeb 2016:65-66).

- **The revised restructured technology upgrading fund scheme (RRTUFS):** This programme covers manufacturing of major machinery for technical textiles for 5% interest reimbursement and 10% capital subsidy in addition to 5% interest reimbursement also granted to the specified technical textile machinery under RRTUFS (Hasan et al. 2017:73).

- **Research and development incentive (R&D):** For companies engaged in manufacturing, there is a weighted tax reduction of 200% under section 35 (2AB) of the Income Tax Act for both capital and revenue expenditure incurred on scientific research and development. However, expenditures on land and building are not covered under this section for a deduction. Compared to many developed countries, India's investment in research and development per capita is very low and for the textile industry it is even lower as most of the expenditures in R&D are diverted into pharmaceutical and software. Further improvement in the clothing and textile industry will be affected if fewer funds are injected into R&D (Kashif and Shoeb 2016:67).

- **Export incentives:** This type of incentive has been granted by the Ministry of Commerce, Ministry of Finance and the Reserve Bank of India although the number of incentives and its scope is being spread to a larger extent nowadays. The scheme provides both, direct and indirect subsidies including cash compensatory support, replenishment of import license, tax exemption of export income, subsidized export credit and export credit license (Kavitha and Prasad 2016: 12). Even though India has a broad range of export incentives mostly aimed for its manufacturing sector, Ahmad (2016: 101-103) points out the most popular export incentives as:

  a) Duty drawback schemes: These are a major export incentive in the all Asian countries. In India they allow the exporters to have a refund of excise duties and customs duty paid on imported goods where those goods will be treated, incorporated and processed into other goods for export.
  b) Duty entitlement passbook scheme: This scheme is available for manufacturing exporters and merchant exporters. It represents an optional facility granted to exporters who are not interested in having incentives through the licensing route.

Taking into account the above tax incentives provided by the government of India for its clothing and textile industry, and in spite of tax incentives contributing towards progressive improvements (attraction of new investments, increasing of employment, diversification of the economy, etc) in the clothing and textile sector in India, Sehrawat and Dhanda (2015:133-134) find that India does present a complicated tax system due to its separate imposition by union and states. However, they suggest that by adopting a clear and user-friendly tax system, India's clothing and textile sector could be more competitive in both the domestic and global market while creating opportunities for sustainable and long-term growth.

In Chaurasia, Singh and Sen's (2016:241-245) opinion, the use of goods and services tax (GST: an indirect tax levied on the supply of goods and services) is believed to unify all the indirect taxes under an umbrella and will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate the country via a single tax rate. On the contrary, Mawuly (2014:15) sees the use of GST as not beneficial for low-income countries because it does not provide broad-based growth to poor countries. Although GST has replaced many indirect tax laws that previously existed in India, Deo (2017:17) finds that its implementation can be used as an effective tool for fiscal policy management if applied successfully. In addition to this, the implementation of GST will also result in a lower cost of doing business that will make the domestic products more competitive in the local and international market. The next section provides a SWOT analysis of the clothing and textile industry in India.

3.4.2 Strengths, opportunities, weaknesses, and threats for the clothing and textile industry in India

3.4.2.1 Strengths

Sharma and Sehgal (2015:114) describe the strengths within the clothing and textile sector in India as follows:

- Availability of low cost and skilled manpower.
- India is one of the largest exporters of yarn in international markets.
- The clothing and textile Industry has large and diversified segments that provide a wide variety of products.
- Availability of large varieties of cotton fibre and fast-growing synthetic fibre industry.
- The growing economy and potential domestic and economic market.

3.4.2.2 Opportunities

Sharma and Sehgal (2015:114) describe the opportunities of the India's clothing and textile sector as shown below:

- Product development and diversification.
- The growth rate of the domestic textile industry.
- Elimination of quota restriction which leads to a greater market.
- Shifting towards the branded readymade garment.
- Emerging retail industry.
- With the slowdown in the Chinese economy, the cost of textile production in China became slightly high. This has offered India's clothing and textile sector an opportunity to grab the market share of China in the developed world, especially the European Union and the US, which cumulatively includes around 60% of the global export market.

3.4.2.3 Weaknesses

As noted by the Associated Chamber of Commerce of India (2015:43), the following are the weaknesses of the clothing and textile industry in India:

- Raw material shortage.
- Obsolete machinery and technology.
- Impact on the environment.
- Power shortage.
- Labour related concerns.
- Illicit markets.
- Excise duty on manmade fibres.

3.4.2.4 Threats

According to Associated Chamber of Commerce of India (2015:49), the following are regarded as threats within the India's clothing and textile sector:

- Slow progress towards international quality standards and catering changing fashion needs.
- Competition from China and other countries.
- Increased pressure on prices.

From the SWOT analysis described above, it is possible to note that India has had a firm presence in the textile industry for many years. India's textile industry has also proved to be completely self-reliant due to its large cultivation of cotton when compared to its rival competitors such as Vietnam and Bangladesh which are cotton deficient. However, the clothing and textile industry in India faces constant obstacles that prevent this industry from obtaining full benefits of competition. Raw material shortage, bureaucratic tax system, obsolete machinery and technology, power shortage, illicit markets, high energy and power cost, lack of research and development institutions, low product quality and inadequate infrastructure (Sehrawat and Dhanda (2015:132).

This section argued that the government should provide good compensation policy, design and implement transparent tax incentive policies, and implement better welfare schemes for the employees in order to retain them in the industry. The next section provides a description of tax incentives in the clothing and textile industry in China.

3.5 The clothing and textile industry in China

3.5.1 Introduction

China has been the world's largest textile and apparel in both overall production and exports since 1995; its clothing and textile industry constitutes a traditional pillar in the Chinese economy and accounts for 35% of manufacturing jobs (International Trade Administration 2016:1). Private Chinese companies dominate in this labour-intensive industry, accounting for 75% of total industry revenue in textile and 59% in apparel and footwear (Chen, Perry, Yang and Yang 2017:19-23). On the other hand, foreign-invested enterprises mostly from Macau, Taiwan, and

Hong Kong are more concentrated on apparel (40% of revenue share) than textile (22% of revenue share) and have a higher margin in this subsector compared to private Chinese companies (Irum 2017:15).

In spite of China's present potential within its clothing and textile sector, many factories in this sector are constantly facing challenges (Table 3.2) such as inadequate supply of labour, increasing cost of raw material, energy power, lower export tax rebates, higher bills amounting to logistical costs, as well as new government quotas on the import of cotton (Tabuchiaug 2015:1). In regard to export-oriented companies, there has been a weak demand from developed markets as well as slow recovery. Companies that used to buy in China seem to be turning their options on other Southeast Asian countries (Vietnam, Bangladesh, India, Pakistan, and Indonesia), Euroasia (Turkey) and Central America (Zhang, Kong and Ramu 2015:5-18) (See Figure 3.2).

The Chinese clothing and textile industry has undergone significant changes over the last decades. While exports in global markets have expanded strongly since the turn of the millennium its share in China's exports has decreased, which is a result of rapid structural change towards capital and technology-intensive industries in the country (Zhang et al. 2015:17-18). Nevertheless, the sector still maintains its position in the world market. Although many studies describe the Chinese clothing and textile sector as one of the biggest leading exporters and producers around the world, Lu and Dickson (2015: 40) see the Chinese export ratio within the clothing and textile sector continuously declining from over 30% in 2000 to less than 17% in 2011. Lu and Dickson (2015:12) observe that currently in the Chinese clothing and textile market over 80% of related items "made in China" are mostly consumed domestically, within the BRICS' countries, Brazil also faces the same challenge as most of its apparel is consumed locally. As China's apparel retail market starts to boom, expanding domestic sales is likely to become an even more important priority for China's clothing and textile in the future (Irum 2017: 8).

The clothing and textile industry still remains an important pillar for China, however, with the appearance of another more advanced capital and technology-intensive sector, the clothing and textile industry is believed to be playing a less critical role in China's economy nowadays (Lu and Dickson 2015:1). Many factors have contributed towards weakening the success of Chinese clothing and textile sector. Zhu and Pickles (2013:36-43) support the idea that China should opt to shape the future of its clothing and textile sector through urgent government policy.

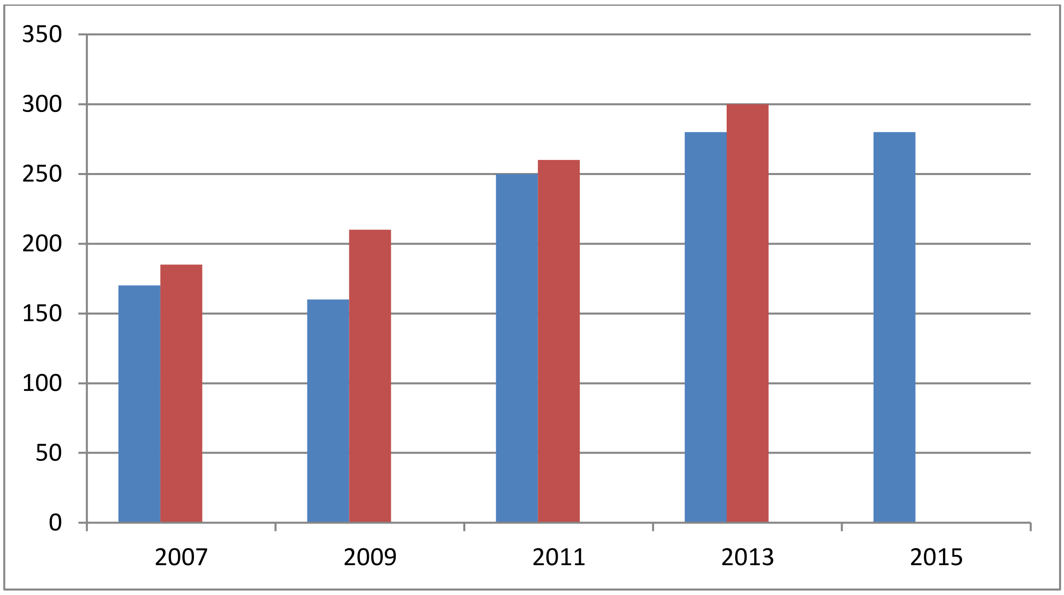
As argued by Lu and Dickson (2015: 1), the Chinese government has in many ways played a significant role in the economy which according to its 12th five years plan (from 2011-2015), a key document which illustrates policymakers' blueprint for the development of China's clothing and textile industry, significant changes happened such as industry upgrading, expanding domestic consumption, building a greener industry by recognising the rising awareness of environmental protection in the country, and reducing consumption of energy, water, and emission of pollutants per GDP. To keep as many jobs as possible, the Chinese government encourages clothing and textile manufacturers on the east coast to move factories to the inner part of China where the local economy is still at the primary stage of industrialisation and cheap labour is still relatively abundant (Zhu and Pickles 2013:42). In addition to this, a variety of preferential policies to support the clothing and textile industry has been implemented by the Chinese government such as the allocation of special funds from the state fiscal budget to support the development of key equipment and technologies, to increase the magnitude of tax deductions, to use tax incentives to encourage research and development (R&D) spending and technological innovation of textile companies, and to implement preferential tax policies for the import of spare parts and raw materials required for the manufacturing of textile machinery as well as encouraging the procurement of domestically produced equipment (Lu and Dickson 2015:22).

Table 3.2: Opportunities and challenges in the clothing and textile industry in China		
	Textile	Apparel
Opportunities	• High-tech specialist fiber and yarn • High-end fabrics • Higher middle-class is anxious to buy brands open-minded with foreigner brands associated with better quality. • Automatic and greener textile machinery	• Specialty boutique • Online boutique • Brand buyout • Higher middle-class anxious to buy brands open-minded with foreigners brands associated with better quality
Market challenges	• Fragmented with a large number of players • Commoditisation • Intense competition in the Chinese market, domestic and foreigner brands	• Commoditisation • Intense competition in the domestic market putting downward pressure on prices and profits • Short supply of quality retail spaces
Success factors	• Designing and adapting fashion to new Chinese consumers much more similar to global textile and apparel markets • Advanced technology and products • Economies of scale • Technical expertise and knowledge	• Quality and branding • Adapted to the local market • Frequent new product development • Economies of scale • Designing and adapting fashion to new Chinese consumers much more similar to global textile and apparel markets
Source: Irum (2017:28)		

Table 3.2 shows the opportunities and challenges in the clothing and textile industry in China. In spite of the industry facing market challenges (e.g. large number of competitors and commodisation) Table 3.2 shows that the same industry also has some positive attributes. For example, in clothing and textile, the industry benefits from high-end fabrics, specialty boutiques, high-end technology and capabilities in

satisfying the tastes of higher-middle-class anxious to buy brands associated with better quality. One of the most remarkable factors of the continuous growth of the Chinese clothing and textile industry is in their market adaptability, technological expertise and knowledge, the use of advanced technology and products as well as high investment into R&D.

Figure 3.2: China's textile export in billions of dollars



Source: Nikkei Asian Review 2016:1

Figure 3.2 shows the trend of China's export of textiles from 2007–2015. There was a slight drop in 2009 due to factors such as the global financial crisis, the negative appreciation of the Yuan and the continuous relocation of textile makers into other countries (mainly Vietnam). It is also believed that China's soaring labour costs played a major role in reducing export numbers (Nikkei Asian Review 2016: 1). The next section provides an overview of tax incentives in the clothing and textile industry in China.

3.5.2 Tax incentives in the clothing and textile industry in China

China has since 1970 applied several tax policies to its domestic and foreign-invested enterprises. As a result, China has attracted considerable investments, mostly foreign and imported advanced technologies but has entrenched deficiencies into its economy and investment environment. This section reviews the development of the tax incentive regime in China focusing mainly on the clothing and textile industry. The section investigates whether the incentives granted in the clothing and textile industry in China are beneficial for potential investors (local and foreign). For over 25 years China has operated a dual tax system with different tax laws and incentive regulations for Chinese and foreign-invested enterprises which have resulted in significant disparities in the effective tax rates generally applicable to domestic Chinese enterprises and to foreign-invested enterprises (Li 2008:1). As a result, foreign-invested enterprises have enjoyed more favourable tax treatments than their domestic counterparts, enjoying preferential tax rates, tax holidays and tax deductions (Li 2008:1). Such discrimination not only forced significantly heavier tax burdens onto domestic investors and violated the principle of double taxation, but also endangered the national revenue base, of which tax revenue comprised an important part (Zuo 2009:29).

However, in order to improve the impact of tax on China's social and economic sphere several tax reforms were carried out (mostly since the period of 1994 and 2008) which played an important role in opening up the Chinese market to the world and promoted a rapid and continued development of China's national economy by unifying income tax laws (25% under the new income tax law on 1 January 2008) for domestic and foreign enterprises (Zuo 2009:29). As argued by Li (2008:24), the unification of domestic and foreign income tax laws in China is likely to play an important role in the sense that it will help to promote a legal atmosphere that supports fair competition, thus promoting improvements and the upgrading of China's clothing and textile industry.

China has opened its market to the world, and its government has seen the need to have flexible and different tax incentives to attract more domestic and foreign investments (Zhang, Chen and He 2017:26-29). However, the implementation of these incentive schemes has been chaotic because some tax incentives granted were planned according to categories of taxes, and others by investment forms, industry, preferred projects or geographic regions (Dorn and Cloutier: 2016:58-62).

In regard to local preferential policies, there are also different tax levels applying in special economic zones (SEZs), new development areas, old urban districts, and coastal port districts. Li (2008:24) argues that by having different levels of preferential tax policies, chances are that confusion and difficulty may arise in the management of the tax system. Although China is seen on its way to achieving long-awaited sustainable development of its economy, it is important to acknowledge that from an economic point of view, the impact of tax incentives on investments in China is still regarded as modest, especially when compared to the frequently hidden costs to the government budget (Dorn and Cloutier 2016:68-72). Although the implementation of tax policies is based on trial and error, Poesoro (2015:7) believes that in most cases, tax incentives entail significant effort from the government not only to offer beneficial tax policies but also to create a safe environment to protect existing investments and to attract future ones.

Due to the extensive size and complexity of its tax system, the Chinese economic system is still regarded as complex (Dorn and Cloutier 2016:20). As a result, it becomes difficult to identify the measures used to support individual companies because in most cases they are often informal and available to investors in a discretionary manner (Dorn and Cloutier 2016:20). China offers an array of supportive measures through incentive schemes which aim at reawakening its manufacturing industries, focusing mostly on the clothing and textile sector. These incentives are described as:

- **Advanced Technology Services Enterprises (ATSEs):** These incentives are available for enterprises registered in the developed east side of China, with some central and western region cities also included. Qualifying ATSEs engaging in service outsourced business are offered preferential corporate income tax which includes a 15% reduced corporate income tax rate and the ability to deduct up to a limit of 8% of total employee expense (KPMG 2017:1).

- **Tax refund on reinvestment:** A refund of 40% is applicable to income tax that has been paid on the reinvestment amount for foreign investors who reinvest their share of profits in the same foreign investment enterprise with an operational period no less than 5 years (KPMG 2017:1).

- **Research and Development (R&D):** Eligible technology enterprises can enjoy a 175% deduction for eligible R&D expenses for corporate income tax purpose, whilst other qualified enterprises can enjoy a 150% deduction for eligible R&D expenses for corporate income tax purpose providing those enterprises satisfy regulatory requirements on R&D management, expense tracking, industry catalogue, etc. for R&D deduction (Global Tax Alert 2017:1).

- **Export incentive program:** In order to increase the Chinese name brand export and limit its dependence on foreign name-brand exports, the Chinese government offers the following incentives: an export brands development fund to develop and promote designated exports, as well as a special assistant to domestic brand name enterprises to establish state-level research and development centres.

- **Go global:** The initial amount of the fund is 1.35 billion Renminbi (RMB) with RMB 560 million dedicated to projects related to technology innovation and restructuring and RMB 800 million for the "Go global" operation.

Judging from the structure of the tax incentives in China, it is noticeable that foreign investing enterprises receive more allowances focusing on manufacturing enterprises, export-orientated enterprises and regional–based enterprises. Although one of the initial goals of China was to attract foreign investment since the time the country opened its doors to the world, China's past foreign-related tax concessions only gave privileges to a few. As a result, it allowed only rigid and uniform allowances in other industrial sectors regardless of their nature. The tax incentives scheme did not attach sufficient importance to high-tech industries and underdeveloped economic areas; likewise, it did not have a gravitational effect on technology-intensive and capital-intensive industries in which the clothing and textile sector forms part (Guan and Yam 2015:279-280). As a result, China weakened the country's overall economic strength and damaged the country's economic security.

Since its restructuring, China has achieved significant economic performance, moving from an underdeveloped country to become the world's fastest-growing major economy and the second-largest economy in the world in just three decades, Guan and Yam (2015:279-280) acknowledge the fact that Chinese government has had a series of reforms implemented for its clothing and textile sector, which to a certain extent have helped the country to achieve economic growth over the past 3 decades. Nevertheless, the implications are that the Chinese government should speed up its reform by changing its tax incentives structure into a more competitive system commonly adopted in market-driven economies (Guan and Yam 2015:279-280).

The next section describes the current position of the clothing and textile industry in South Africa.

3.6 The current position of the clothing and textile sector in South Africa

3.6.1 Introduction

To understand the current position of the clothing and textile sector in South Africa, it is important to know about all the previous development, programmes and arrangements (local and international), which have had an effect on its clothing and textile sector. The clothing and textile industry in South Africa has for many years (1995-2005) been subjected to bilateral quotas negotiated under the Multi Fibre

Arrangement (MFA) in terms of the General Agreement on Tariffs and Trade (GATT) (Cotton SA 2017:4-9). During this phase, many companies (mostly Chinese companies) invested in clothing and textile manufacturing in South Africa. Nevertheless, with the termination of the MFA in 2004 many of these companies closed down and moved back to their homelands. Additionally, the Government's reaction to the influx of imports mainly from China through the imposition of quotas over the period 2007 to 2008, proved for the most part unsuccessful against the surge of low-cost clothing and textile (Cotton SA 2017:4). Although it was suggested that the imposition of quotas could eventually create significant jobs within South Africa's clothing and textile industry, Naudé and Rossouw (2008:738) argue that the imposition of quotas and many other government policies applied to protect the South African clothing and textile sector had rather resulted in significant job losses, ever since 1994 after South Africa started its trade liberalisation. As a result, the South African domestic clothing and textile industry was inefficiently and ineffectively set up for import-substituting industrialisation (Morris and Barnes 2014:12).

The South African clothing and textile industry seems to be under severe threats at many market segment levels. However, there has been substantial support given to South Africa's clothing and textile sector such as the introduction of the Clothing and Textile Competitiveness Improvement (CTCI), as well as the Production Incentive (PI) which was granted by the DTI in 2010. These incentives assisted a considerable number of established firms in upgrading grant support to the textiles industry that supplies South African apparel manufacturers and has also supported the stabilisation of employment within certain segments of the industry (Morris and Barnes 2014:17). However, the local clothing and textile manufacturers did not have enough capacity to supply both the export and domestic markets due to the lack of fabrics, quality garments, and not being able to meet the demand from consumers in terms of time-delivery (Nattrass and Seekings 2013:12). This has forced local manufacturers to buy their supplies in Asian countries, mainly from China. In this regard, support needs to be provided to firms that have the potential to meet evolving domestic retailer demand for speed, flexibility, assured quality standards, and that may even be able to establish themselves as exporting platforms for retailers in Europe, America, and other countries of sub-Saharan Africa (Morris and Barnes 2014:17).

The next section provides a description of tax incentives and the investment climate in South Africa's manufacturing sector, focusing mainly on the clothing and textile industry.

3.6.2 Tax incentives and the investment climate in South Africa's manufacturing sector: A focus on the clothing and textile industry

The manufacturing sector plays a vital role in the South Africa economy. This sector has been considered as being in the front position of an economy with higher levels of innovation and efficiency (Wentzel and Hart 2015:106). The expansion of manufacturing in South Africa is expected to promote economic development and employment, which will ultimately lead to an economically stronger nation (Rodrik 2006:22). This development could be achieved by increased investment in the manufacturing sector by both local and foreign investors, provided that investors are not discouraged by political volatility by the government (Wentzel and Hart 2015: 106). The South African government seems to be well aware of the need to improve capital investment in the manufacturing sector in which the clothing and textile industry belongs. Data extracted from the DTI (2012a:1), reveals that the South African government has introduced various investment incentives (e.g. the Production Incentive, the Enterprise Investment Programme, the Automotive Production, and Development Programme, etc.) to facilitate the growth of certain industries within the manufacturing sector. Taking into account these factors, the country is believed to be an attractive investment location, as well as having an internationally oriented economy (DTI 2012b:1). At the same time, South Africa faces many obstacles (e.g. corruption, high crime rate, extensive labour legislation, inadequate supply of infrastructure, lack of skilled workers and an inefficient government bureaucracy) that may influence companies choosing to invest in the country (Dludla 2018:1). In addition, there is also a general failure amongst South

African government ministries to consult effectively with stakeholders before implementing laws and regulations, which has on occasion produced unintentional but serious consequences that obstruct investors (Bureau of Economic and Business Affairs 2017:1).

South Africa also suffers from a lack of global competitiveness, a private investment strike and the fact that households are financially constricted and many enterprises are financially and operationally dysfunctional (Bisseker 2017:1). Although considerable sums of revenue are set aside to finance incentives in South Africa, relatively small number of enterprises make use of the available incentives due to lack of awareness, limited expertise, and in certain cases, due to the inflexible compliance and detailed application and claiming processes (Engelbrecht and Paluch 2015:1). Wentzel and Hart (2015:107), state that "incentives are frequently among the relatively few measures that can be introduced to minimise the effect of these investment obstacles and to improve the attractiveness of a country as an investment location". While South Africa's incentive regime compares favourably with international best practice, Dludla (2018:1) believes that incentives remain one of the main factors that influence the investment decisions and the South African government is actively using it to promote the country as a chosen investment destination.

As competition continues to influence markets, the South African clothing and textile industry highlights the urgent need to apply policies that would ensure its survival in the global economy (Ramdass 2007:14). According to the Bureau of Economic and Business Affairs (2017:1), there has been several incentive programmes granted by the DTI, these include:

- **The Business Process Service (BPS)** which is aimed at attracting investments and creating employment in South Africa through off shoring activities.

- **The Manufacturing Investment Programme (MIP)** offers 30 percent of qualifying investment costs in machinery, equipment, commercial vehicles, land, and buildings required for production facilities.
- **The Incubation Support Programme (ISP)** supports business incubators for enterprises with the potential to revive communities.
- **The Manufacturing Competitive Enhancement Programme (MCEP)** encourages manufacturers to upgrade production facilities to maintain employment and maximise value-added.
- **The Capital Projects Feasibility Programme (CPFP)** is a cost-sharing grant that contributes to feasibility studies for projects to increase local exports and stimulate the market for South African capital goods and services.

The South African clothing and textile sector faces intense competition not only from Asian countries (China, India, Vietnam, etc) but also from other sub-Saharan countries (Lesotho and Swaziland) (Van Zyl and Matswalela 2016: 385-387). However, if the sector is to survive, the South African government policy has to shift from a centralised, rigid (one size fits all) and inflexible modality to one of greater flexibility, decentralisation and diversity (Morris and Barnes 2014:18). The next section provides insights on the impact of South Africa joining the BRICS countries, focusing mainly on the clothing and textile sector.

3.6.3 The impact of South Africa in joining the BRICS countries: A focus on the clothing and textile industry

This section seeks to investigate the impact of South Africa's inclusion in the BRICS group from a governance, market competition, tax incentives, and trade policy point of view with a specific focus on clothing and textile industry. Parker (2011:4) states that "South African clothing and textile industry is an important sector for the country's economy. Given that the vast majority of unemployed people in the country lack skills to work in the formal sector, the South African government, therefore, sees the industry as a job-creating one requiring low–

medium-skilled and due to its potential, the industry is seen as one worth fighting for".

Since the end of apartheid in 1994, South Africa has been dynamic in making sure that it fosters healthy relations with other nations around the world (Asuelime 2018:115-128). However, after significant diplomatic efforts, South Africa's insertion into the BRICS grouping in 2011 can be regarded as one of South Africa's principal foreign policy achievements over the past years (Oliver 2013:310). Little is known about why South Africa sought BRICS membership, and why it was chosen over larger economies (example: Indonesia) or faster-growing economies (example: Mexico, South Korea, and Turkey). Different authors contend that it is difficult to suddenly understand how South Africa could easily fit into the BRICS group (Oliver 2013:310).

Besada, Tok and Winters (2015:2-3) argue that in terms of GDP, South Africa only represents one-sixteen of China's output, an annual rate of 2, 8% in 2014 (compared to 10.3% for China, 9.7% for India, and 7.5% for Brazil) and a population of approximately 50 million (compared to China's 1.3 billion and India 1.2 billion). South Africa has notably less economic power than the other members (Brazil, Russia, India and China). However, Parker (2011:24) believes that the country plays a vital role in the BRICS grouping due to its strategic location, natural resources, and as part of SADC, South Africa offers access to 14 countries within the SADC region. As a BRICS member, South Africa faces many challenges. These include:

- **Research and development disparities:** BRICS countries have become an important force in promoting science and technology in the world and their innovative competitiveness is expected to maintain steady growth through 2030. According to Sidora (2018:36), Brazil spent 1.04%, Russia 1.28%, India 0.84%, China 1.31%, but only 0.74% was spent on R&D by South Africa.

- **Human capital:** This is another critical factor that has contributed to the BRICS's success. For example, in terms of engineers, China and India produce more than 900 000 a year. Russia has one of the highest levels of education enrolment in the world – almost 99%, whereas South Africa's notorious skills scarcity is a consequence of its inadequate public education sector, which was ranked 137th of 139 by the World Economic Forum (Ardichvili, Zavyalova and Minina 2012:224; Parker 2013:25).

- **Trade and labour disparities:** BRICS member nations are too different and have too few synergies to be a symbol of a solid economic and political power. South Africa's trade numbers with BRICS grouping are very low, despite being in the same grouping with these nations (Movchan 2015:1). Since early 2012, trade between the BRICS group is declining considerably in many areas from clothing (China, India, and Brazil) to economic influence in Africa (China, South Africa, and India) (Movchan 2015:1). For instance, China and Brazil have been intensifying their economic activities in Africa, while India is also coming into Africa, space where South Africa also seeks to dominate in business (Asuelime 2018:119).

While the union of BRICS is unquestionably positive, its role of economic power should not be overestimated (Movchan 2015:1). For most members, the group represents a way to discuss opinions and possibly take a mutual position on areas of common interest (Movchan 2015:1). South Africa's inclusion into the BRICS grouping is believed to have globalised the grouping by making it geographically more diverse, and providing it with superior authority to speak on behalf of the emerging world (Oliver 2013:317).

In Asuelime's (2018: 123) view, the BRICS grouping seems to be affected by challenges that are more internal than external. This ranges from issues of corruption, political instability, high level of unemployment, to a stagnant economic growth (Movchan 2015:1). For instance: "Brazil is wracked by corruption scandals and stagnating output. Russia is in recession, owing mostly to western sanctions imposed in response to its intervention in Ukraine'' (Movchan 2015:1). India has been suffering from a depreciating currency and high public debts. China's GDP grew by only 7.4% last in 2017, its lowest rate in 24 years. South Africa struggles from frequent strikes, which have become the major means of wage-setting which weakens the outlook for business and increases finance costs (Asuelime 2018:121-125). Asuelime (2018) also argues that South Africa's industrial and manufacturing sector is not competitive enough to face the fellow BRICS nations. Oliver (2013:319) states that South Africa's membership in BRICS may lead the clothing and textile sector to be taken over by the established Chinese companies. Asuelime (2018:121-123) states that South Africa appears to have given China the right to continuously de-industrialise the country which is leaving the manufacturing sector less solid day-by-day. In Uzodike's (2016:448-451) view, the reasons for continuous de-industrialisation of the South African manufacturing sector are due to the country's industries not being able to match the high level of productivity and competitiveness associated with industries of its BRICS partners, especially China.

Although the Chinese economy is bigger than the combined economies of its BRICS's partners, Uzodike (2016:448-451) observes that already Chinese products, including clothing and textile materials, are increasingly dominating the South African market. On the same note, Naudé, Szirmai, and Haraguchi (2016:13) believe that in terms of marketing orientation, the manufacturing industries of Brazil, India and South Africa seem to be more oriented towards the domestic market when compared to China and Russia. This poses serious dangers not only to the South African manufacturing sector (clothing and textile industry) but also to the country's economy which risks being taken over by the Chinese economy (Uzodike 2016:450).

The role of the South African manufacturing sector deserves special attention as it is still a crucial sector in economic development in the BRICS, and for South Africa itself. Such transformation is needed not only as a source for higher productivity growth but also to achieve better diversity in terms of economic structure, so as to reduce the country's exposure to poverty and external shocks (Naudé et al. 2016:2).

Despite the above challenges, South Africa’s inclusion into the BRICS group can be regarded as beneficial to all sides. This can also be considered as a practical move to allow changes in geological and socio-economic realities (Oliver 2013:319). The inclusion of South Africa into the BRICS has enabled the country to absorb the shocks and threats of globalisation which have brought up a number of predictions related to trade and market access, FDI, increased negotiation power and a voice in international issues (Asuelime 2018:129). South Africa’s inclusion in BRICS provides important opportunities to build its domestic manufacturing sector (clothing and textile), improve value-added exports, promote technology sharing, support small business development, and increase trade and investment opportunities (Asuelime 2018:139).

Asuelime (2018:130-141) also believes that the inclusion of South Africa into the BRICS has increased the chances for the country to easily establish trade with the BRICS countries, as well as other developing countries (Uzodike 2016:442). This has elevated South Africa’s position regionally, continentally and internationally. Therefore, it can be concluded that the BRICS membership provides South African firms with the platform to expose their potential in the global market. The joining of South Africa into the BRICS countries is also seen as beneficial on a socio-political sphere as this has allowed the country a better position for international relations, being a spokesperson for the African continent’s agenda, and furthering its voice on international issues (global peace and security, climate change, the reform of global governance, and terrorism) (Uzodike 2016:441-447).

BRICS has elevated South Africa’s standing in the world. In support of this claim, Jeppesen and Barnes (2011:245) argue that the South African clothing and textile industry is regarded as well established, diverse and experienced. Nevertheless, both the government and its DTI have faced difficulties with regard to the design and implementation of tax incentive programmes (Jeppesen and Barnes 2011:257). Although this might be the case, areas for progress do exist. The problem is that local manufacturers are not working at the intensity that they should be and are not improving at the speed required to compete and catch up with international manufacturers (Cotton SA 2017:4). This places the industry in a situation of decreased capabilities and lack of investment in the industry, compared to its BRICS partners and other foreign competitors (Jappesen and Barnes 2011:247).

South Africa still has a lot to learn from the BRIC countries. According to Jeppesen and Barnes (2011:255), the reason why Brazil, Russia, India and China have experienced successful results within its clothing and textile sector is mostly that the existent coherence between its government and the industry are close, constructive and of mutual benefit. Furthermore, the governments of those countries have continuously gone to lengths to assist the industry, especially in China, Brazil, and India (Jeppessen and Barnes 2011:255).

On the South African perspective, it is believed that the level of engagement between the government and industry, as well as the ability to reach compromises on which policies to agree on, has decreased radically as argued by Jeppessen and Barnes (2011:255). The South African clothing and textile industry has experienced internal and external challenges since the mid-1990s which allowed the sector to react slowly and have difficulties in aligning with involved parties (Dickson, Blissick, Silverman and Cao 2016:1). Although some companies have fully adapted to the competitive environment, others are still trying to make the transition, while many more have been forced to close (Jeppessen and Barnes 2011:255). Additionally, while some policies at the government level deserve merit, the lack of understanding of the situation in the clothing and textile industry, and the inability to implement relevant manufacturing incentives (tax incentives) has been intense (Jeppessen and Barnes 2011:255). On the bright side, the South African government and its institutions/agencies acknowledge that the clothing and textile sector needs sustainable growth, as well as becoming the hub of job creation in the country again (Blissick et al. 2016:24).

Although South Africa seems to be aware of the successful policies implemented for the clothing and textile industries from its BRICS partners, it is believed that the DTI and the South African government have introduced tax incentives to reawaken the manufacturing sector. However, the incentives have not been stringent at the clothing and textile industry level, failing to address the technology and marketing gaps, and have lacked a sufficient time horizon, often being implemented too late (Jeppessen and Barnes 2011:255). However, in order to compete with its BRICS partners, especially in the domestic market, it is essential that South African clothing and textile manufacturers are able to differentiate themselves and provide something that its competitors (especially China) cannot.

Reawakening the clothing and textile industry, and implementing industrial policies, and tax incentives efficiently is a challenge, but it is not impossible. Whether the South African case develops into an upturn in the years to come or continues on its downturn will be dependent on numerous factors. Still, it is not too late to make transformations which put more emphasis on the alternatives to the present situation on the South African clothing and textile sector.

3.7 Summary

This chapter provided a thorough analysis of how tax incentives have been applied in the BRICS countries focusing on the manufacturing sector. All countries examined have some challenges in the sector, however there is support from their government. This chapter also outlined the impact of South Africa in joining the BRICS countries from governance, market competition, tax incentives, and trade policy point of view with a specific focus on clothing and textile industry. South Africa's bilateral trade with BRICS members is marginal. Although many challenges (cultural disparities, trade and labour disparities, research and development, human capital, etc.) exist within the BRICS' group (Movchan 2015:1), South Africa's inclusion into the BRICS grouping can be regarded as positive. Additionally, South Africa's inclusion into the BRICS grouping may positively shape relations across the various industries in the country, including the clothing and textile sector, as well as positively favour trade and foreign investment in the country (Parker 2013:40).

The next chapter outlines the research methodology.

CHAPTER 4
RESEARCH METHODOLOGY

4.1 Introduction

Chapter 2 revealed that there has been little empirical research into the impact of manufacturing incentives (tax incentives) in the clothing and textile industry in KwaZulu-Natal, in Durban. This chapter describes the research methods and procedures used to capture the opinions of owners and managers of businesses on tax incentives in the clothing and textile industry in Durban. To recap, the objectives of this study are:

- to determine the level of awareness of business owners or managers in Durban in regard to manufacturing incentives,
- to determine the opinions of business owners or managers on the effectiveness of tax legislation on tax incentives, and
- to determine the business owners' or managers' perspectives on the process for granting, monitoring, designing and implementation of tax incentives in South Africa.

The methodology in this study is based on survey research.

4.2 Research design

According to Labaree (2009:1), the research design constitutes the outline for the collection, measurement, and analyses of data. It also relates to the overall approach that is chosen to combine the different components of the study in a coherent and logical way, thereby ensuring that the research problem is effectively addressed. The study used questionnaire to gather primary data. This study also uses cross-sectional design which refers to data that are collected through interviews and questionnaires that are administered to individuals who represent themselves or represent institutions or other social entities at a point in time (Lewis-Beck et al.

2004:230). With the administration of questionnaires, it was possible to collect, compare, and interpret useful data in a relatively short period of time.

This study is quantitative in nature because it focuses on gathering numerical data and generalising it across groups of people or to explain a particular phenomenon. A quantitative study deals in numbers, logic, and an objective stance. Its aim is to classify features, count them, and construct statistical models in an attempt to explain what is observed (Babbie 2010:1).

The study chose to use questionnaire (quantitative study) because a large number of the target population could be reached relatively easily and economically. With the use of questionnaire, it was easier to collect, compare, and analyse data in a relatively short period of time.

In order to understand the level of awareness and the opinions of business owners, and managers about tax incentives in the manufacturing sector (clothing and textile), this study used a descriptive research method. Mitchell and Jolley (2013:31) describe descriptive research as a method which intends to explain or describe relationships against phenomena, situation, or events as they occur. However, they suggest that by using a descriptive approach the collection of data usually allows for gathering more in-depth information on the study in cause. Having said this, descriptive studies that present data in a meaningful form help to understand the characteristics of a group in a given situation, help make simple decisions, and offer ideas to further probe and for research (Sekaran 2003:137).

4.3 Research philosophy

This study uses a positive research philosophy which, according to Dudovskiy (2018:1), adheres to the view that only factual knowledge gained through observation (senses), including measurement, is reliable. In positivism studies, the role of the researcher is limited to data collection and interpretation in an objective way. In these types of studies, research findings are generally observable and quantifiable. The reason why this study chose a positive philosophy is that it allowed the researcher to be independent of the research which allowed the research to be purely objective. In other words, the researcher maintains minimal interaction with participants when carrying out research.

4.4 Research approach

This study uses a deductive research approach. The deductive approach begins with an expected pattern that is tested against observations. This approach is concerned with developing a hypothesis based on existing theory and then designing a research strategy to the hypothesis (Dudovskiy 2018:1). This study opted to use a deductive research approach due to the following reasons:

- the possibility to generalize research findings to a certain extent,
- the possibility to measure concepts quantitatively, and
- the possibility to explain causal relationships between concepts and variables.

4.5 Research strategy

A research strategy introduces the main components of a research project, such as the research topic area and focus, the research perspective, the research design, and the research methods. It refers to how the researcher proposes to answer the research questions set, and how the researcher will implement the methodology (Datt 2016:1). The strategy used in this study is based on survey research.

4.6 The questionnaire

The choice of the questionnaire was motivated for various reasons. According to Bourque and Fielder (2003:3-10), the advantages of administering questionnaires are as follows:

- questionnaires are cost-efficient when compared with other methods, such as in-person, or telephone interview,
- apart from being inexpensive and flexible, questionnaires are also a practical way to gather data, and
- questionnaires allow researchers to gather information from a large audience nationwide as well as worldwide. In this study, the information was gathered from businesses in the greater Durban area.

Sekaran (2016:221) points out some disadvantages of administering questionnaires. These are as follows:

- response rate can be low, or it can lack validity,
- takes personal time, and costs more when a wide geographic region is covered,
- respondents may be concerned about the confidentiality of information given,
- organisations may be reluctant to give up company time for the survey with a group of employees assembled for the purpose, and
- there is no way to check how truthful a respondent is.

4.7 Open-ended, close-ended, and Likert questions

This study used open-ended, close-ended, and Likert scale questions. The study used open-ended questions to allow respondents to give a free-form answer. Open-ended questions allow researchers to find more than they anticipated. For example, people may share motivations that the researcher did not expect, and mention behaviour and concerns which the researcher knew nothing about. When researchers ask people to explain things to them, they often reveal surprising mental models, problem-solving strategies, hopes, fears, and much more (Farrell 2016:1.).

Closed-ended question can be answered with “Yes’’ or “No.’’ or have questions a limited set of possible answers (such as A, B, C…All of the above). A closed-ended question is often good for a survey, because researchers get a higher response rate when respondents do not have to write too much (Farrell 2016). During this study, the respondents were exposed to questions where they could only choose one option, “Yes’’ or “No’’, as well as being able to tick only one answer out of multiple answers provided.

The questionnaire also used Likert scale questions varying from (1) strongly agree; (2) disagree; (3) neutral; (4) agree; and (5) strongly agree. The Likert scale is commonly used in survey research using primary and secondary data to measure the respondents’ attitudes by asking to what extent they agree or disagree with particular questions (Awang, Afthanorhan and Mamat 2016:13).

4.8 Content and layout of the questionnaire

The questionnaire was designed to cover seven areas. These were:

- background information,
- the rationale of tax incentives in relation to the clothing and textile industry in Durban (objective 1),
- opinions of businesses of the effectiveness of tax legislation on tax incentives (objective 2),
- the process for granting tax incentives,
- monitoring tax incentives (objective3),
- challenges in designing and implementing tax incentives (objective 3), and
- the benefits and challenges associated with tax incentives (objective 3).

4.9 Reasons for question choice

The following section discusses the reasons for the question choice. The first section (A) asked respondents to provide details on their background and that of their businesses. The reason for this was to enable a richer analysis of the respondents' opinions on the impact of tax incentives in the clothing and textile industry in Durban. The respondents' opinions were therefore analysed using responses to the following questions:

1) What is your age?

Age (years)	19-29	30-39	40-49	50-59	60 and older

This study used the age of respondents in order to make a reasonable interpretation of how much the respondents knew about the existence of tax incentives based on their age group.

2) What is your gender?

Gender	Male	Female

Based on gender, it may be possible to provide a more detailed statistical interpretation on whether or not more males as compared to females know more about the rationale for tax incentives and vice versa.

3) How many years of working experience do you have?

0-3 years	
3-6 years	
More than 6 years	

This study used the number of years of working experience in order to measure the level of expertise respondents had in regard to tax incentives in the clothing and textile industry.

4) Please indicate the highest level of education you have completed and the field of study

Level of education	Please tick	Field of studies
Senior certificate		
Diploma		
Bachelors		
Postgraduate		
Short courses		

The level of education was used in the questionnaire in order to determine whether the respondents' awareness of tax incentives was related to their level of education.

5) Please indicate your annual turnover

Below R 1 000 000	
R 1 000 000 - R 5 000 000	
R 5 000 001 - R 10 000 000	
Above R 10 000 000	

Annual turnover was used to determine the size of the respondents' business on whether it is a small, medium-sized enterprise or a large enterprise.

6) How many employees do you have?

Below 10	
10-20	
21-40	
41-60	
More than 60	

The number of employees was also used as an indicator of the size of the enterprises which formed part of the research study.

7) How would you classify your organisation?

Private company	
Close corporation	
Partnership	
Sole trader	
Other, please specify	

The type of organisation was used to provide more background information on the business which formed part of the study.

This section focused on collecting as much information as possible from the small and medium-sized enterprises in Durban based on the rationale of tax incentives in the clothing and textile industry.

Section B of the questionnaire was linked to research objective number one of the research study which aimed at determining the level of awareness of business owners and managers in Durban regarding to the existence of manufacturing incentives in the clothing and textile industry. In order for Section B to answer the objective as above mentioned, the following questions were formulated:

8) Do you know what a tax incentive is?

Yes	No

Respondents answering "Yes" were asked to explain in one sentence their understanding of tax incentives. Respondents answering "No" were provided with the following list of possible reasons for not knowing what a tax incentive is and were asked to tick as many as are applicable. Respondents were also able to provide their own reasons.

I was never aware that there are tax incentives	
I do not keep up-to-date with taxation matters	
Other reasons, please specify	

Respondents were next asked if they were aware that the government offers tax incentives for SMEs with the following question:

Are you aware that the government offers tax incentives for SMEs?	Yes	No

Respondents answering "Yes" were then asked to indicate which tax incentives they were aware of. The following list was provided. Respondents could tick as many were applicable and could also insert their own reason.

Employment Incentive	
Manufacturing Incentive Program	
Product Incentive	
Clothing and Textile Incentive	
Export Incentive	
Black Business Supplier Development Program	
SEDA Technology Program	
Women Empowerment Incentive	
Other, please specify	

Respondents' use of tax incentives was next probed with the following question.

Have you ever applied for a tax incentive?	Yes	No

Respondents answering "Yes" were then asked why they had applied for a tax incentive. The following reasons were provided, and respondents were asked to tick as many as were applicable and were also given the opportunity to provide their own unique answers.

As a taxpayer, I am entitled to apply for all applicable tax incentives.	
I use tax incentives as a way to grow my business.	
I use tax incentives in order to create more jobs.	
The cost of machinery becomes cheaper by using manufacturing incentives.	
Other, please specify	

Respondents answering "No" were then asked why they had not applied for a tax incentive. The following reasons were provided, and respondents were asked to tick as many as were applicable and were also given the opportunity to provide their own answers.

I did not know about tax incentives.	
Applying for tax incentives is very time-consuming.	
I would need the help of an accountant which would cost a lot of money.	
As an investor, I do not find incentives to provide me with certainty over their application and longevity.	
Other, please specify	

The next section, Section C, outlined the questions formulated to address objective two of this study which aimed at determining the opinions of business owners and/or managers on the effectiveness of tax legislation on tax incentives using.

A number of questions were provided, and respondents were asked to indicate the extent of their agreement or disagreement with a statement on a 5 point Likert scale from strongly disagree (1) to strongly agree (5). The following statements on the effectiveness of tax legislation on tax incentives were posed:

Statement
Legislation related to tax incentives for SMEs is transparent.
Legislation related to tax incentives for SMEs is easy to understand.
Regulatory tax compliance is costly to small firms.
The benefits of regulatory tax compliance are insignificant.
The existing tax system best promotes SMEs.
South Africa's tax incentives reduce the tax burden of SMEs.
South Africa's tax incentives induce SMEs to invest in particular projects.
South Africa's tax incentives induce SMEs to invest in particular sectors.
There is little awareness amongst potential investors of the incentives available.
Tax incentives help to boost the growth of SMEs.

This was followed by a question asking the respondents for reasons why they thought the South African government uses tax incentives. Reasons were provided and respondents were able to tick as many options as they thought were applicable. Respondents were also given the opportunity to add any other reasons. The following reasons were provided:

Because of neighbouring countries that share a similar economic environment.
Because the government needs to encourage direct investment.
To boost job creation of SMEs.
To boost the growth of SMEs.
To stimulate investment in the desired sector.
To stimulate investment in the desired location.
Other, please specify.

The next section, Section D, outlines the questions formulated to address the first part of objective 3 of this study which was to determine the respondents' perspectives on the process for granting tax incentives.

This section also probed whether the respondents believe whether tax incentives in South Africa should have a sunset provision. Respondents were first asked for their opinions on whether the process for granting tax incentives is an easy process with a Yes or No question as shown below.

Do you believe that the processes for granting tax incentives are made easy for potential investors?	Yes	No

Respondents who answered "No" were asked to explain why they disagreed.

Respondents were next asked for their opinion on sunset provisions with regards to tax incentives with the following question:
Do you believe that tax incentives in South Africa should have sunset provisions, whereby they expire after a number of years and are not automatically extended?

Yes	No

Respondents who answered "No" were asked to explain why they disagreed.

Section E addressed the monitoring of tax incentives. This section outlined the questions formulated to further address the second part of objective 3 of this study which was to identify the factors influencing the monitoring of tax incentives in South Africa. In this section, respondents were asked whether they knew which agencies or departments were responsible for monitoring the enterprises that receive tax incentives to ensure that the enterprises comply with terms and conditions of tax incentives. Further questions probed respondents' knowledge of which laws are used for tax incentives and respondents' opinions on the flexibility between investors and government in terms of renegotiation of tax incentives.

In the first question in this section, the departments or agencies responsible for monitoring those businesses that receive tax incentives to ensure that they comply with the terms and conditions of tax incentives were listed. Respondents were asked to tick which were the appropriate departments or agencies and they could also add any others they thought were applicable.

Departments/agencies	
Department of Trade and Industry	
Small enterprise development agency (SEDA)	
Durban Chamber of Commerce	
Others, please specify	

This was followed by a question probing respondents' knowledge of where the applicable laws for tax incentives were housed. The following laws were suggested:

Description	
a) The tax laws; or	
b) The investment laws; or	
d) Provision for tax incentives is not codified in any law.	
Respondents could only choose one answer	

The final question in this section asked respondents to express an opinion on the flexibility which may exist for renegotiating the tax agreement. The question was as follows:

After incentives are granted, in your opinion, is there flexibility for investors or government to renegotiate the terms of the tax agreement, to reflect changes in business operations or changes in the economic environment?

Yes	No

Section F addressed the challenges in designing tax incentives. This section addressed the third part of research objective 3 of the research study which was to identify the factors influencing the designing of tax incentives in South Africa. In the literature review, matters pertinent to the challenges of designing and effective tax incentive regime for the clothing and textile industry in South Africa were described. However, the objective of the following section was to focus only on manufacturers of clothing and textiles within Durban. Respondents were given the following statements on the benefits associated with tax incentives and were asked to indicate the extent of their agreement or disagreement with each statement using a Likert scale of 1 (strongly disagree) to 5 (strongly agree).

Description
Tax incentives are not frequently changed.
Tax incentives provide investors with certainty over its application and longevity.
Tax incentives boost the growth of enterprises.
Tax incentives cut the cost of purchases of new machinery.
Tax incentives cut the cost of upgrading the skills of workers.
Tax incentives help to increase employment.

To identify the challenges of designing an effective tax incentive regime, respondents were asked to indicate the extent of their agreement or disagreement with the following statements using a Likert scale from strongly disagree (1) to strongly agree (5).

Description
It is difficult to determine one set of incentives that works for different contexts.
Incentives need to be carefully designed to achieve specific policy goals.
Poorly targeted tax incentives are ineffective.
Poorly targeted tax incentives are expensive.

The final section, Section G of the questionnaire, probed the benefits associated with tax incentives, and respondents' opinions on what they consider to be the best type of tax incentive to be applied in South Africa. This section addressed the fourth part of research objective 3 which was to identify the factors influencing the implementation of tax incentives in South Africa. Respondents, who had applied for a tax incentive, were given a list of possible benefits and were asked to tick as many benefits as were applicable. Respondents were also able to add any other benefits they may have experienced. This list is shown below:

The tax incentive(s) helped me to grow my business.
As a result of the tax incentive(s), I employ more workers.
The tax incentive(s) allowed me to increase my turnover.
I intend to apply for more tax incentives in the future.
The tax incentive(s) helped me/my business buy more machinery.
I found the cost of application has exceeded my available resources
Other, please specify.

Lastly, a list of possible scenarios associated with tax incentives was provided and respondents were asked which scenario they considered to be the best type of tax incentives to be applied in South Africa. Respondents could tick more than one scenario.

Tax incentives with a low administrative cost for the government.
Tax incentives with low administrative costs for firms.
Tax incentives which are not frequently changed.
Incentives which provide investors with certainty over its application and longevity.
Tax incentives which are transparent and easy to understand.
Tax incentives with specific policy goals and precisely expressed in the legislation.
Other, please specify.

Having discussed the questionnaire and the reasons for question choice, the next section of this chapter discusses the selection of the target population and sampling strategy

4.10 Selection of the target population and sampling strategy

A detailed list of the clothing and textile manufacturers in Durban was obtained from the yellow pages (yellosa.co.za). Based on the list, there were 704 registered clothing and textile manufacturers in Durban. However, to represent the target population, a sampling strategy was adopted (Castillo 2009:18).

Sekaran (2016:194) defines a sampling strategy as the plan that ensures that the sample used represents the population from which the sample was withdrawn. This study used the convenience non-probability sampling method as it selected a group from a particular population that was chosen based on their accessibility to the researcher (Waltermaurer 2008:236). To determine the sample size, the sampling table by Sekaran (2016:194), as well as an online statistical table were used (National Statistic Service 2014:1). According to Sekaran (2016) and the National Statistic Services (2014), for a population size of 704, an appropriate sample size is 249. However, as the study focused solely on the greater Durban area, a target population of 100 participants was chosen using convenience non-probability sampling.

Having described the target sample, the next section describes the covering letter.

4.11 Covering letter and letter of consent and information

Lavrakas (2008: 166) considers a covering letter to be a useful document that accompanies the survey questionnaire. Its purpose is to provide information about the questionnaire and to provide details of requested actions on the part of the respondent. To help increase the response rate, the covering letter contained information such as the research topic, the supervisor's name, the researcher's name, telephone, student number, email address, and a contact from the Institutional Research and Ethics Committee (IREC) in case the respondent needed further information related to the research. The covering letter also had a section where the researcher and the respondent could sign after reading the information mentioned in the covering letter.

According to Alderson and Morrow (2011:100), the letter of informed consent describes the ethical principles and requirements that those participating in a research study have the right to know, to be told fully informed about the purpose of the research and its potential risks and benefits, and that they can withdraw they participation at any time. In this study, a letter of informed consent was distributed to respondents explaining in detail the purpose of the research as well as giving the respondents the opportunity to withdraw in case they were not comfortable in answering the questionnaire.

4.12 Pre-testing

It is important to pre-test a questionnaire as this helps researchers to determine the strengths and weaknesses of the survey or questionnaire (Willis 2017:2). In addition, pre-testing checks that the questions work as intended and are understood by those individuals who are expected to respond to them (Hilton 2017:21-34). To pre-test the questionnaire, six questionnaires were distributed to three senior Taxation lecturers, one Accounting professor (all from the Faculty of Accounting and Informatics at DUT), one statistician and one student who had recently completed his Master's degree in Taxation. Although the overall outcome was positive, following some revisions to the questionnaire, it was also sent to the research supervisors as well as to three professors in the field of Taxation to assess construct validity. In this manner, several corrections were done in a way that the questionnaire became shorter, more objective, and simpler to interpret. The questionnaire was also designed in a manner that would take an average of 15 minutes to fill in.

4.13 Distribution of the questionnaire

The questionnaire was administered by following all the procedures of research ethics. It included a covering letter, a letter of information and consent, as well as an institutional approval letter which stated in details the authenticity of the study. As the questions in the questionnaire were straight forward; respondents were expected to provide their feedback within two weeks. The first stage of data collection started in May 2016 when 25 questionnaires were emailed to Chief Executive Officers (CEOs) of companies in the clothing and textile industry within Durban. These questionnaires firstly sent with the intention of improvements to efficiently distribute the entire questionnaire in order to get a better response rate. However, from the 25 questionnaires sent 14 were completely answered and emailed back after one month and three weeks. One questionnaire was incompletely answered, and the remaining 10 questionnaires were not returned. After resending (via email) the unanswered questionnaires, three emails had a delivery failure, four participants said they were unable to provide any information pertinent to the research topic and the remaining (three) participants did not give any feedback.

The second stage of data collection started in August 2016. In this period 52 questionnaires were emailed to the participants. Twenty-six questionnaires were fully answered and emailed back, nine questionnaires were received with incomplete answers, and the remaining 17 questionnaires were not returned. To obtain a better response rate it became necessary to adopt a different strategy by approaching some small and independent clothing and/or textiles manufacturers in Durban who were found in the pockets of Umgeni Road, Morningside and Durban Station area.

From August 2016 until September 2017, a concerted effort was made to collect more data. During this period, apart from emailing the questionnaires to different participants, the Southern African Clothing and Textile Workers Union (SACTWU) in Durban (127 Magwaza Maphalala Street, 4001) was approached to obtain a detailed list of registered manufacturing clothing and textile companies in Durban. After identifying only emails and contact numbers of clothing and textile industries within the Durban area, a further sixteen questionnaires were emailed and seven questionnaires were delivered in person to small scale manufacturers of clothing and textiles. Thus, it was possible to receive another three fully answered questionnaires from small scale manufacturers, and seven questionnaires were emailed back with complete answers. Eight questionnaires were not completely answered, and five emails had no response.

4.14 Response rate

The response rate is an important tool to ensure the quality of the data collection. It usually refers to the proportion of people identified for a study who actually participate in it (Boslaugh 2008:918). The response rate was obtained from a total of 100 questionnaires which were distributed to CEOs of companies dealing with the manufacturing of clothing/textile in Durban. Only 50 questionnaires were properly answered. Eighteen questionnaires were discarded as they were not answered properly, and 32 emails were never answered. This allowed the study to obtain an overall response rate of fifty percent (50%) during the period of May 2016 until September 2017.

Table 4.1: Details of questionnaire distribution					
Dates:	Target group	Usable	Incomplete	No response	Response rate
May 2016	25	14	1	10	56%
August 2016	52	26	9	17	50%
August 2016-September 2017	23	10	8	5	43%
Total	100	50	18	32	50%
Note: The 100 potential respondents in the target group are all unique SMEs.					

4.15 Data preparation, processing and analysis

Data preparation involves checking or logging the data in, checking the data for accuracy, entering the data into the computer, transforming the data, developing and documenting a database structure that integrates various measures (Babbie, Wagner and Zaino 2015:14-16). The research data was prepared by using a questionnaire which was designed in a suitable, concise, and objective manner which allowed participants to provide their feedback without finding any difficulties in answering the research instrument. Questionnaires were checked for completeness and usability before being processed.

4.16 Data processing

Rudo (2013:1) defines data processing as the conversion of raw data to meaningful information through a process. Data is manipulated to produce results that lead to a resolution of a problem or improvement of an existing situation. In this study, the data was first entered onto an Excel spreadsheet and thereafter was inputted into the Statistical Package in Social Sciences (SPSS) Version 24.

4.17 Statistical presentation of the data

Since data is usually collected in raw format, the inherent information is difficult to understand. Therefore, raw data needs to be summarised, processed and analysed. This means that no matter how manipulated, the information derived from the raw data should be presented in an effective format, otherwise it would be a great loss for both the research and the readers (Junyong and Lee 2017:267). In this study, the techniques used for data presentation were in textual and tabular form. The textual technique was the principal method used to explain the findings, outlining trends, and providing contextual information on the impact of manufacturing incentives for the clothing and textile industry in Durban. Tables were used to summarise the data.

4.18 Statistical analysis of the data

Statistical data analysis is a process of performing various statistical operations. It applies to quantitative research, which seeks to quantify the data, and normally uses some form of statistical analysis (Statistics Solutions 2009:1). In order to analyse the data, this study used a descriptive approach. Mitchell and Jolley (2013:31) describe descriptive research as a method which intends to explain or describe relationships against phenomena, situation, or events as they occur. However, they suggest that by using a descriptive approach the collection of data usually allows for gathering more in-depth information on the study in cause. Having said this, descriptive studies that present data in a meaningful form will help to understand the characteristics of a group in a given situation, help make simple decisions, and offer ideas to further probe and for research (Sekaran 2016:137).

4.18.1 Cross-tabulations

In this study, cross-tabulations were used in order to find patterns, trends, and probability within raw data. According to Wagner (2010: 23), cross-tabulations allow researchers to evaluate the distribution of two categorical variables together rather than having to examine their frequency distribution separately. Thus, a cross-tabulation builds directly on single variable frequency distributions. Cross-tabulation is most often used to explore whether there is an association between two variables or more. In this study, cross-tabulations were used in order to evaluate the frequency of participants knowing or not knowing the meaning of tax incentives in terms of their age, gender, annual turnover, year of experience, level of education, and the type of organisation.

4.18.2 Measures of central tendency

In general term, central tendency is a statistical measure that determines a single value that precisely describes the centre of the distribution and represents the entire distribution of the scores (Sekaran 2016:138). Central tendency serves as a descriptive statistic because it allows researchers to describe or present a set of data in a very simplified and concise form. In order to measure the central tendency in this study, the researcher had to use the following techniques:

Mean: the mean is the most commonly used measures of central tendency. Throughout this study, the researcher calculated the mean by computing the sum or total for the entire set of score, then dividing this sum by the number of scores (Sekaran 2016:141). **Median:** The median is the middle value when a data set is ordered from least to greatest. However, the computation of the median requires scores that can be placed in rank order (from smallest to largest) (Sekaran 2016:145).

4.19 Reliability and validity

Reliability refers to the extent to which an instrument of the measurement of a test will consistently produce the same result, measure or score if applied two or more times under identical conditions (Suter 2012:257). A technique is reliable if it yields consistent results upon repetition. To ensure reliability, data collection bias was minimised as only the researcher administered the questionnaires. Questions in the questionnaire were also grouped in order to measure the same concept and after collecting the responses, a correlation was run between the questions which were grouped in order to determine if the questionnaire was reliably measuring that concept.

Validity is the process to informally test the questionnaire design with the potential respondents (Drost 2011:114). This study used validity and more specifically face validity which, according to Bolarinwa (2015:195- 201), is an estimate of the degree to which a measure is clearly the construct it purports to assess. It refers to the obviousness of the test and the degree to which the purpose of the test is apparent to those taking it. During the preparation of questionnaires, face validity was checked by a taxation lecturer as well as a statistician.

4.20 Ethical considerations

Ethical clearance was granted by the IREC at DUT in order to conduct a study on the impact of manufacturing incentives in the clothing and textile industry in Durban, KZN. Participants were informed of all the outcomes and consequences of the study before they signed the Letter of Informed Consent. Moreover, participants were also made aware that they could withdraw from the research at any given time in case they were not comfortable at providing any information based on the administered questionnaires. The letter of informed consent, as well as the letter of ethical clearance, are shown in Appendix A and C.

4.21 Confidentiality

Confidentiality was ensured as no one other than the researcher knew who had participated in the study. The researcher also ensured that questionnaires were administered to respondents with the attached letter of information and consent which explained the purpose of the research, the title of the research, the contact of the supervisor, email address of supervisor, the contact of the researcher, email address of researcher, as well as the contact from DUT.

4.22 Anonymity

For the purpose of this study, the mere fact of providing anonymity of information collected from the respondents implies that either the research project does not collect identifying information of respondents or the study cannot relate individual responses with the respondents' identity. Respondents were ensured of anonymity and neither the names of the companies to which participants belonged nor the names of respondents were disclosed.

4.23 Limitations of the study

This research was restricted to analysing the impact of manufacturing incentives for the clothing and textile industry only in the central Durban area, therefore the findings cannot be generalised to all manufacturing clothing and textile industries, but will undoubtedly prove useful into addressing, and understanding the impact of tax incentives in the clothing and textile industry in South Africa. In this research, the sample was also limited in terms of the population and the geographical location.

4.24 Summary

Questionnaires were administered in order to collect the data from the sample of 100 taxpayers. The questionnaire contained both, open-ended and closed-ended questions. The sample included taxpayers in the clothing and textile industry in Durban that have applied for tax incentives and those who have not applied for tax incentives and who were willing to participate in the study. Reliability and validity were maintained by pre-testing the questionnaire before it was administered. Privacy and confidentiality were maintained during the administration of questionnaires.

The following chapter presents and interprets the results from the completed questionnaires.

CHAPTER 5
PRESENTATION AND INTERPRETATION OF THE RESULTS

5.1 Introduction

Chapter four described the research method used for the collection of data. The objective of this chapter is to present the findings related to the impact of manufacturing incentives in the clothing and textile industry in Durban.

The following discussion is split into four sections to address the objectives of this study:

- demographic information of the respondents,
- the rationale, and the level of awareness of business owners or managers in regard to tax incentives (objective 1),
- opinions of business owners or managers on the effectiveness of tax incentives for SMEs in KwaZulu-Natal (Durban) (objective 2),
- business owners' or managers' perspectives on the process for granting, monitoring, designing and implementing tax incentives in South Africa (objective 3).

5.1.1 Demographic information of the respondents

Background information on the respondents is provided in this section. The background information includes the respondents' age, gender, working experience, level of education, number of employees, annual turnover and type of organisation. Table 5.1 shows the age category of the respondents.

Table 5.1: Age		
Age in years	**Number of respondents**	**Percent**
19-29	14	28
30-39	13	26
40-49	10	20
50-59	5	10
> 60	8	16
Total	50	100%

Table 5.1 shows that largest category of the respondents, 14 (28%), were younger than 30 years of age. Thirteen respondents (26%) fell in the category of 30 to 39 years, and ten respondents (20%) were in the category of 40 to 49 years. Table 5.1 shows that few participants (eight respondents, or 16%) were older than 60 years, and five respondents (10%) were in the age category of 50 to 59 years. These results indicate that the respondents who are employed in the clothing and textile industry in Durban were mainly less than 50 years of age (37 respondents or 74%).

Table 5.2 shows the respondents according to their gender.

Table 5.2: Gender		
Gender	**Number of respondents**	**Percent**
Male	17	34
Female	33	66
Total	50	100

Table 5.2 shows that the majority of respondents (33 or 66%) were female whereas 17 respondents (34%) were male. Supporting this is the observation that throughout the data collection process, female respondents were more willing to provide the information related to this study than males were. This may have the unintended consequence of having more female respondents than male respondents in the sample.

Table 5.3 shows the working experience of the respondents.

Table 5.3: Working experience		
Years	**Number of respondents**	**Percent**
0-3 years	11	22
3-6 years	9	18
> than 6 years	30	60
Total	50	100

In terms of years of working experience, Table 5.3 shows that most respondents (30, or 60%) had more than six years working experience, indicating that they were very well experienced within the field of clothing and textiles. On the other hand, 11 (22%) respondents had less than three years of working experience while the remaining respondents (nine, or 18%) had three to six years of working experience. Table 5.3 therefore shows that most respondents had the necessary expertise to answer the questionnaire.

Table 5.4 shows the results of the question which probed the level of education of the respondents.

Table 5.4: Level of education			
Level of education	**Number**	**Percent**	**Rank**
Bachelors degree	12	24	1
Diploma	11	22	2
Short courses (“other’’)	10	20	3
Senior certificate	9	18	4
Postgraduate diploma/Honours degree	8	16	5
Total	50	100	

Table 5.4 shows that in terms of education level, a Bachelors degree was the most common level of education (12 respondents or 24%), followed by diplomas (11 respondents or 22%), and those who had completed other short courses (10

respondents or 20%). Those respondents who chose the “Other” category had attended short courses which were related to sewing, printing, weaving, quality control, and machine operations. Nine respondents (18%) had a senior certificate, and eight respondents (16%) indicated that they had a postgraduate qualification. Table 5.4 therefore shows that all respondents had qualifications at various levels, and were suitable to answer the questionnaire.

To gain some background information on the size of the enterprises, respondents were asked to indicate the annual turnover of the business. This result is shown in Table 5.5.

Table 5.5: Annual turnover

Turnover per year	**Number of respondents**	**Percent**	**Rank**
Below R 1000 000	26	52	1
R 1 000 000-R 5 000 000	11	22	2
R 5 000 001-R 10 000 000	8	16	3
Above R 10 000 000	5	10	4
Total	50	100	

Table 5.5 shows that most of the enterprises (26 or 52%) had an annual turnover below R 1000 000. Eleven enterprises (22%) had an annual turnover ranging from R 1 000 000 to R 5 000 000. Eight or 16% of enterprises had an annual turnover ranging from R 5 000 001 to R 10 000 000. Five enterprises (10%) produced an annual turnover above R 10 000 000. Based on the annual turnover, the South African National Small Business Amendment Act 26 of 2003 defines SMEs varying from the manufacturing to the retail sector as a business which employs from 1 up to 200 people, and a maximum turnover of R 51 million in the manufacturing sector. In terms of annual turnover, all the enterprises fall under the category of SMEs.

Table 5.6 shows the number of employees in the businesses as reported by the respondents.

Table 5.6: Number of employees			
Number of employees	Number of respondents	Percent	Rank
Below 10	34	68	1
10 - 20	7	14	2
21 - 40	4	8	3=
41 - 60	4	8	3=
More than 60	1	2	4
Total	50	100	

Table 5.6 provides a further indicator for determining the sizes of enterprises in the clothing and textile industry in Durban. The majority of the enterprises (34, or 68%) have less than 10 employees. Fifteen enterprises (30%) employed 10 to 60 employees. while one enterprise (2%) employed more than 60 employees. Table 5.6 also shows that in terms of the size of the enterprise, the majority of the enterprises (34 or 68%) fall into the category of micro-sized enterprises due to the fact that they employ not more than 10 employees. In second place, fifteen enterprises (30%) fall into the category of SMEs as they employ from 10 up to 50 employees. However, only one (2%) enterprise falls into the category of a large enterprise as it employs more than sixty employees.

The final background question focused on the type of organisation the enterprise was using for its business.

5.7: Type of organisation			
Organisation by type	Number of respondents	Percent	Rank
Private company	21	42	1
Sole trader	12	24	2
Partnership	9	18	3
Close corporation	7	14	4
Other	1	2	5
Total	50	100	

The data from Table 5.7 reveals that the majority of respondents were operating as private companies (21 or 42 %), twelve respondents (24%) were operating as sole traders, and nine respondents (18%) were operating as partnerships while seven respondents (14%) were operating as a close corporation. However, one respondent (2%) considered their business to be a half private and half voluntary association.

In summary, in terms of background information, the majority of the respondents were below the age of 49 (74%). In terms of gender, they were mostly female (33 or 66%). With regard to working experience, most respondents (30 or 60%) had more than six years of working experience, indicating that they were very well experienced within the field of clothing and textiles. In terms of education, the participants were well educated, with a considerable number of them having a Bachelors degree (12 or 24%), followed by others who had completed their diplomas (11 or 22%) and other short-term courses (10 or 20%).

The annual turnover and the number of employees were used to determine whether the businesses were SMEs or large scale businesses. Thus, in terms of annual turnover, most businesses had an annual income below R 1 million (26 or 52%), while a minority had an annual income of above R 10 million (5 or 10%). Using the number of employees, most respondents were micro-enterprises since most of them employed not more than 10 workers (34 or 68%). However, one enterprise (2%) was regarded as a large scale enterprise as it employed more than 60 workers. The respondents were mostly operating as private companies (21 or 42%) and sole traders (12 or 24%). Although one enterprise was a large scale enterprise, it is included in the analysis which follows.

5.2 The level of awareness of business owners and managers in Durban on manufacturing incentives

The first research objective addressed by the questionnaire was to determine the respondents' level of awareness of manufacturing incentives. To answer this objective a number of questions were posed. The respondents also had an opportunity to provide their reasons for not applying or not knowing about tax incentives. An analysis of these responses addresses the first research objective addressed by the questionnaire.

5.2.1 The rationale and level of awareness of manufacturing incentives (tax incentives) for SMEs in Durban, KwaZulu–Natal

Table 5.8 shows the answers to a question which probed respondents' knowledge of tax incentives.

5.8: Knowledge of tax incentives		
	Number of respondents	**Percent**
Yes	24	48
No	26	52
Total	50	100

Table 5.8 shows that only 24 (48%) respondents knew what a tax incentive is, and the remaining 26 (52%) respondents did not know what a tax incentive is. To provide a deeper understanding of the respondents' knowledge of what a tax incentive is, their responses were analysed using the background information.

Table 5.9 shows a cross-tabulation of knowledge of tax incentive and age.

Table 5.9: Knowledge of tax incentive according to age												
Age	**19-29**		**30-39**		**40-49**		**50-59**		**60 +**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	5	36	7	53	6	60	1	20	5	63	24	48
No	9	64	6	47	4	40	4	80	3	37	26	52
Total	14	100	13	100	10	100	5	100	8	100	50	100

According to Table 5.9, out of the 24 respondents who knew what a tax incentive is, most were between 30–39 years (7 or 14%), followed by six (12%) respondents between the age of 40–49 years, and five (10%) respondents within the age group of 19 to 29 years, and another 5 (10%) respondents who were 60 years or older. Regarding the respondents who did not know what a tax incentive was, the largest category (9 out of 26), were 19-29 years old. In conclusion, respondents who indicated that they knew what a tax incentive is were evenly spread throughout the different age categories, except for the 50–59 years category. However, more of those respondents whose age was 60 years and above (63%), indicated knowledge of what a tax incentive is when compared to the other age categories.

Table 5.10 shows respondents' knowledge of tax incentive according to gender.

Table 5.10: Knowledge of tax incentive according to gender						
Gender	**Female**		**Male**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**
Yes	9	38	15	63	24	48
No	8	31	18	69	26	52
Total	17	69	33	131	50	100

In terms of gender, Table 5.10 shows that the female respondents were more aware of tax incentives than the male respondents. However, these results reflect the consequence of having more female respondents than male respondents.

Table 5.11 shows respondents' knowledge of tax incentives according to years of experience.

Table 5.11: Knowledge of tax incentives according to years of experience								
Years of experience	**0-2 years**		**3-6 years**		**More than 6 years**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	3	13	5	21	16	67	24	48
No	8	31	4	15	14	54	26	52
Total	11	44	9	36	30	121	50	100

With regard to working experience, Table 5.11 shows that the majority of the participants who knew what tax incentive is, were those with more than 6 years of working experience (16 out of 24 or 67%). However, there was a considered amount of acknowledgment of what a tax incentive is by respondents with working experience between 3-6 years of working experience (5, or 21%). The lowest score in knowing what a tax incentive is were in participants with 0-2 years of working experience (3, or 13%).

Based on working experience, the number of respondents who knew what a tax incentive is in most cases outnumbered the number of respondents who did not know about tax incentives, except for those respondents within 0-2 years of working experience. This is to be expected as these employees would be new to the sector and may not be exposed to the notion of tax incentives yet.

Table 5.12 shows respondents' knowledge of tax incentives according to the level of education.

Table 5.12: Knowledge of tax incentives according to the level of education												
	Senior Certificate		**Diploma**		**Bachelors degree**		**Graduate diploma/ Honours degree**		**Other**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	1	11	8	72	6	50	6	75	3	30	24	48
No	8	89	3	28	6	50	2	25	7	70	26	52
Total	9	100	11	100	12	100	8	100	10	100	50	100

In each educational category, except for that of Senior Certificate or "Other", the number of respondents who claimed that they knew what a tax incentive was, equalled or outnumbered the number of respondents who did not know what a tax incentive is. This may indicate that respondents with higher educational qualifications may be working in higher positions in the firm and become more knowledgeable about tax incentives within the sector, or that through their prior education may have acquired some knowledge.

Table 5.13 shows respondents' knowledge of tax incentives according to annual turnover.

Table 5.13: Knowledge of tax incentives according to an annual turnover										
Annual turnover	**Below R1 000 000**		**R 1 000 001 R 5 000 000**		**R 5 000 001 R 10 000 000**		**Above R10 000 000**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	12	46	5	45	3	38	4	80	24	48
No	14	54	6	55	5	62	1	20	26	52
Total	26	100	11	100	8	100	5	100	50	100

Table 5.13 shows that only in the turnover category of more than R 10 million did the number of respondents who knew about tax incentives exceed those who did not. This may indicate that smaller businesses may consider that they are too small to access tax incentives, and therefore do not actively pursue tax incentives.

Table 5.14 shows respondents' knowledge of tax incentives according to the number of employees

Table 5.14: Knowledge of tax incentives according to number of employees												
	Below 10		**10 - 20**		**21 - 40**		**41 - 60**		**More than 60**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	13	38	4	57	3	75	3	75	1	100	24	48
No	21	62	3	43	1	25	1	25	0	0	26	52
Total	34	100	7	100	4	100	4	100	1	100	50	100

Table 5.14 shows that the majority of respondents who knew what a tax incentive is were in firms operating with less than 10 employees (13 out of 24 or 54%). However, this was also the only category where the number of respondents who did not know what a tax incentive is (62%), outnumbered those who did know what a tax incentive is (38%).

Table 5.15 shows respondents' knowledge of tax incentives according to the type of organisation.

Table 5.15: Knowledge of tax incentives according to the type of organisation												
	Private company		**Close corpor-ation**		**Partner-ship**		**Sole trader**		**Other**		**Total**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Yes	12	50	4	17	3	13	5	21	0	0	24	48
No	9	35	3	12	6	23	7	30	1	4	26	52
Total	21	85	7	29	9	36	12	51	1	4	50	100

Table 5.15 shows that most respondents who knew what a tax incentive is fell into the private company category (12 out of 24 or 50%). This is to be expected, as companies are considered taxable entities and as such would have to register with SARS. Close corporations are also taxable entities, and the majority of the

respondents in that category also knew what a tax incentive is. Table 5.15 also shows that only in those two categories does the number of respondents who know what a tax incentive is outnumber the respondents who do not. As indicated previously, this result can probably be expected due to the regulated status of companies and close corporations (as opposed to the unregulated status of sole traders and partnerships).

The respondents were next asked to indicate any reasons for not knowing what a tax incentive is. Only two reasons were supplied. Respondents could tick more than one reason and could also add any other reasons. These results are shown in Table 5.16.

Table 5.16: Reasons for not knowing what a tax incentive is

Statement	Number	Percent
I was never aware that there are tax incentives.	22	59
I do not keep up-to-date with taxation matters.	10	27
Other reasons	5	14
Total	37	100

Note: Respondents could tick more than one reason.

Table 5.16 shows that the most common reason for not knowing what a tax incentive is, was not being aware that there are tax incentives (22, or 59%); this was followed by the option of not keeping up-to-date with taxation matters (10, or 27%). Five other reasons were suggested: these reasons focused on the lack of information related to tax incentives that should be communicated by government and social media.

Table 5.17 shows respondents' awareness of government tax incentives for SMEs.

Table 5.17: Awareness of government tax incentives for SMEs

	Number	Percent
Yes	24	48
No	26	52
Total	50	100

Table 5.17 shows that more respondents (26, or 52%) were unaware of the existence of tax incentives granted for SMEs by the government compared to the respondents who were aware of government tax incentives for SMEs. Although the respondents showed a high level of education, the majority of them had fewer years of working experience and not much expertise in regard to tax incentives. The questionnaire next probed respondents' awareness of the different types of tax incentives. These results are shown in Table 5.18.

Table 5.18: Awareness of government's tax incentives

Types of tax incentives	Number	Percent	Rank
Employment incentive	15	22	1
Manufacturing incentive program	10	14	2=
Clothing and textile incentive	10	14	2=
Export incentive	10	14	2=
Women empowerment incentive	9	13	3
Product incentive	8	12	4
Seda technology program	6	9	5
Machinery export incentive	1	2	6

Note: Respondents could indicate as many incentives as required.
Twenty – four respondents were aware of tax incentives – see Table 5.17.

Table 5.18 shows that out of the total participants who acknowledged an awareness of the tax incentives offered by the government (24 respondents), the majority (15 out of 24 respondents or 62.5%) knew about the "employment incentive". In second place were three incentives: 10 out of 24 respondents or 41.6% knew about the "manufacturing incentive programme"; likewise, another 10 respondents knew about the "clothing and textile incentive". This followed by a further 10 respondents who knew about the "export incentive". Nine out of 24 respondents (37.5%) knew about the "women empowerment incentive"; 8 out of 24 respondents (33%) knew about the "product incentive", while six respondents (25%) knew about the "Seda technology program". However, the lowest response rate was found in respect to the "machinery export incentive" which was only one respondent (4.16%) who knew about it.

The next question asked respondents if they had ever applied for a tax incentive. These results are shown in Table 5.19.

Table 5.19: Respondents applying for tax incentives		
	Number	**Percent**
Yes	7	14
No	43	86
Total	50	100

Table 5.19 shows that out of the total respondents (50), only seven respondents (14%) have applied for tax incentives. If the number of respondents who know about tax incentives is taken into account (24 respondents), this figure is relatively low. It may be necessary for agencies and other organs of the South African government, especially in Durban, to create a platform which provides local investors with information on how to access the incentives available in the clothing and textile industry. This is apart from creating an easy environment towards the process of application of such incentives. The next question asked respondents to indicate their reasons for applying for a tax incentive. These results are shown in Table 5.20

Table 5.20: Reasons for applying for tax incentives			
Statements	**Number**	**Percent**	**Rank**
The cost of machinery becomes cheaper by using manufacturing incentives	6	86	1
As a taxpayer, I am entitled to apply for tax incentives	4	57	2=
I use tax incentives as a way to grow my business	4	57	2=
I use tax incentives in order to create more jobs	2	28	3
Tax incentives are an important key factor which helps them by reducing the costs associated with exporting their clothing and textile	1	14	4
Note: Respondents could indicate more than one reason.			
Only seven respondents indicated that they had applied for tax incentives.			

Table 5.20 shows that within the group of those who have applied for tax incentives, six out seven (86%) respondents stated that their reason for applying for tax incentives was because the cost of their machinery became cheaper by using manufacturing incentives. However, four (57%) respondents suggested that they were entitled to tax incentives and four (57%) respondents indicated that they use tax incentives as it helps them to grow their business. Only two (28%) respondents suggested that the use of tax incentives helps them to create more jobs. One (14%) respondent suggested that tax incentives are an important key factor which helps them by reducing the costs associated with exporting their clothing and textiles. Forty-three respondents stated that they had never applied for tax incentives. Their reasons for this are shown in Table 5.21.

Table 5.21: Reasons for not applying for tax incentives

Statement	Number	Percent	Rank
I did not know about tax incentives.	27	63	1
I would need the help of an accountant which would cost a lot of money.	18	42	2
Applying for tax incentives is very time-consuming.	16	37	3
It is very difficult to apply for tax incentives in South Africa due to the country's burdensome and bureaucratic tax system.	8	19	4
As an investor, I do not find tax incentives provide me with certainty over their application and longevity.	7	16	5

Note: 43 respondents had never applied for tax incentives.

Table 5.21 shows that majority of respondents (27 out of 43 or 63%) had not applied as they did not know of the existence of tax incentives. This was followed by the belief of 18 (42%) respondents who indicated that they would need the help of an accountant which would be costly. In third place (16 respondents or 37%) was the belief that the application of tax incentive is very time-consuming. In fourth place (8 respondents or 19%) was a reason supplied by respondents themselves, that it is very difficult to apply for tax incentives in South Africa due to the country's burdensome and bureaucratic tax system. Finally, seven (16%) respondents indicated that tax incentives do not provide much certainty regarding their application and longevity.

5.2.2 Summary on the rationale and level of awareness of manufacturing incentives (tax incentive)

The results related to the respondent's level of awareness of manufacturing incentives shows that the number of respondents (24 respondents) who knew what a tax incentive is, was lower than the number of respondents (26 respondents) who did not know about tax incentives. In terms of age, the majority of respondents who knew what a tax incentive is were in the age group of 30-39 (53%) years. However, the majority of respondents who did not know what a tax incentive is were in the age group of 19-29 (36%) years. This indicates that the younger the respondents were, there was a great possibility for them to not know what a tax incentive is.

In terms of gender, more female respondents knew what a tax incentive is than male respondents. However, more female respondents answered the questionnaire. This may have affected this result. With regard to working experience, majority of the participants who knew what tax incentive is were those with more than 6 years of working experience (16 out of 24 or 53%). In terms of education, all educational categories except for that of Senior Certificate or "other'', the number of respondents who knew what a tax incentive was, equalled or outnumbered the number of respondents who did not know what a tax incentive is.

In terms of turnover, only in the turnover category of more than R 10 million, did the number of respondents who knew about tax incentives exceeded those who did not know. This may indicate that smaller business may consider that they are too small to access tax incentives, and therefore do not actively pursue tax incentives. In terms of knowing what a tax incentive is, regarding the number of employees' category, majority of respondents who knew what a tax incentive is were in firms operating with less than 10 employees (13 out of 24 or 54%). This was the only category where the number of respondents who did not know what a tax incentive is (62%), exceeded those who did know what a tax incentive is (38%). In terms of measuring the level of awareness of respondents in relation to tax incentives, it was necessary to analyse the type of organisation. Thus, most respondents who knew what a tax incentive is fell into the private company category. In second place were close corporations. This is to be expected as these companies are considered taxable entities and as such would have to register with SARS.

The respondents were also asked to provide their reasons for not knowing what a tax incentive is. The most common reason for not knowing what a tax incentive is was not being aware that there are tax incentives (59%); this was followed by the option of not keeping up-to-date with taxation matters (27%). However, the respondents also indicated other reasons for not knowing what a tax incentive is. These reasons focused on the lack of information related to tax incentives that should be communicated by government and social media (14%).

In terms of awareness of government tax incentives for SMEs, the number of respondents (26, or 52%) who were not aware of the existence of tax incentives granted for SMEs by government outnumbered the respondents who were aware of government tax incentives for SMEs (24 or 48%). In measuring the respondents' awareness of tax incentives, the majority of respondents (15 out of 24 respondents, or 62.5%) knew about the "employment incentive". In second place were three incentives: 10 out of 24 respondents or 41.6% knew about the "manufacturing incentive programme"; likewise, another 10 respondents knew about the "clothing and textile incentive". This followed by a further 10 respondents who knew about the "export incentive". Nine out of 24 respondents (37.5%) knew about the "women empowerment incentive"; eight out of 24 respondents (33%) knew about the "product incentive", while six respondents (25%) knew about the "SEDA technology program". However, the lowest response rate was found in respect to the "machinery export incentive" which was only one respondent (4.16%). In analysing the respondents who applied for tax incentives, it was possible to conclude that the number of those who have applied for tax incentives (7, or 14%) is very low when compared to the number of respondents who had not applied for tax incentives (43%). This shows that South African agencies and other organs of the South African government, especially in Durban, need to create conducive platforms which provide local investors with clear information on how to access and apply for the incentives available for the clothing and textile industry. For the remaining respondents who had applied for tax incentives, six out of seven (86%) applied for tax incentives because the cost of their machinery became cheap. However, four (57%) respondents suggested that they were entitled to tax incentives and four (57%) respondents indicated that they use tax incentives as it helps them to grow their business. Only two (28%) respondents suggested that the use of tax incentives helps them to create more jobs. One (14%) respondent suggested that tax incentives are an important key factor which helps them by reducing the costs associated with exporting their clothing and textiles.

The finding of this research objective corroborates Jordaan's (2012) study where she found that South Africa's tax regime was still not yet in line with international best practice. However, she expressed her concerns by noticing the escalating lack of awareness, especially by small and medium enterprises when it comes to tax incentives granted by the government and other agencies. The findings also corroborate Wentworth's (2012) study where she acknowledges the potential of South Africa's tax system as well as its investment climate. However, she cautions that South Africa still struggles to establish tax incentives that could positively influence investments. Due to its bureaucratic tax system, many investors fail to apply for tax incentives as they find it to be costly, time-consuming and lacking in transparency. The findings also support Parys's (2013) study where he points crucial reasons for firms sometimes failing to apply for tax incentives. According to him, in most cases, firms are concerned about the host country's externalities (corruption, crime, political stability, etc) first before any incentives in their investment decisions. Lastly, the findings of this objective support Jordaan (2012) where, in spite of all, tax incentives can be used as tools to increase investment and growth.

5.3 Opinions of business owners or managers on the effectiveness of tax legislation on tax incentives

The second research objective was to determine the respondents' opinions on the effectiveness of tax legislation on tax incentives. Respondents could express their level of agreement and disagreement for each statement on a Likert scale.

Table 5.22: Respondents' opinions on the effectiveness of tax legislation on tax incentives

Statements	Mean	Median	SD	1	2	3	4	5	No
Legislation related to tax incentives for SMEs is transparent.	2.40	3.00	0.917	11	13	21	4	1	50
				22	26	42	8	2	100%
Legislation related to tax incentives for SMEs is easy to understand.	2.35	2.00	0.863	9	20	17	4	-	50
				18	40	34	8	-	100%
Regulatory tax compliance is costly for small firms.	3.77	4.00	0.751		4	11	28	7	50
					8	22	56	14	100%
The benefits of regulatory tax compliance are insignificant.	2.48	3.00	0.875	7	15	25	2	1	50
				14	30	50	4	2	100%
The existing tax system best promotes SMEs.	2.65	3.00	0.863	6	14	25	4	1	50
				12	28	50	8	2	100%
South Africa's tax incentives reduce the burden of SMEs.	3.25	3.00	0.863	2	7	23	15	3	50
				4	14	46	30	6	100%
South Africa's tax incentives induce SMEs to invest in particular projects.	3.46	4.00	0.874	3	2	21	20	4	50
				6	4	42	4	8	100%
South Africa's tax incentives induce SMEs to invest in a particular sector.	3.40	3.00	0.917	3	3	23	16	5	50
				6	6	46	32	10	100%
There is little awareness amongst potential investors of the tax incentives available.	4.25	4.00	0.786	1	8	19	21	-	50
				2	16	38	42	-	100%
Tax incentives help to boost the growth of SMEs.	3.56	4.00	0.823	1	2	19	21	7	50
				2	4	38	42	14	100%

Note: A Likert scale of 1= strongly disagree; 2= disagree; 3= neutral; 4= agree; 5= strongly agree was used.

Table 5.22 shows the results of the question which probed respondents' opinions on the effectiveness of tax legislation on tax incentives. To interpret the information, the mean for each statement is considered. According to the first statement, the respondents disagreed that legislation related to tax incentives in South Africa is transparent (m= 2.40). In addition, respondents also disagree that the legislation related to tax incentives for SMEs is easy to understand (m= 2.35). The respondents showed some agreement with the statement that regulatory tax compliance is costly for SMEs (m= 3.77). Respondents also disagreed that the benefits of regulatory compliance are insignificant (m= 2.48). There was also disagreement on how well the existing tax system promotes SMEs (m= 2.65). The respondents were mainly neutral towards the statement that South Africa's tax incentives reduce the burden of SMEs (m= 3.25). Respondents showed some agreement with the statement that South Africa's tax incentives induce SMEs to invest in particular projects (m= 3.46).

The respondents also showed some agreement with the statement that South Africa's tax incentives induce SMEs to invest in particular sectors (m= 3.40). In terms of awareness of the available tax incentives, the respondents agreed that there is little awareness by potential investors of the tax incentive available (m= 4.25). There was some support for the statement that tax incentives helped to boost the growth of SMEs (m= 3.56).

Although Table 5.22 shows the rounded off figures for the mean as being similar to the median scores in almost all instances, it is crucial to emphasise that the respondents showed some support for the following statements:

- Regulatory tax compliance is costly to small firms (mean= 3.77; median= 4).
- South Africa's tax incentives induce SMEs to invest in particular projects (mean= 3.46; median= 4).
- There is little awareness amongst potential investors of the tax incentives available (mean= 4.25; median= 4).
- Tax incentives help to boost the growth of SMEs (mean= 3.56; median= 4).

Respondents were next asked for their opinions on the reasons the government uses tax incentives. These results are shown in Table 5.23.

Table 5.23: Respondents' opinions on why the South African government uses tax incentives			
Statements	**N**	**%**	**Rank**
Because of neighbouring countries that share a similar economic environment.	12	24	6
Because the government needs to encourage direct investment.	34	68	2
To boost job creation of SMEs.	36	72	1
To boost the growth of SMEs.	23	46	4
To stimulate investment in the desired sector.	28	56%	3
To stimulate investment in the desired location.	22	44%	5
To promote education and training as well as a manner of attracting foreign direct investment.	7	14%	7
Note: Respondents could choose more than one reason.			

Table 5.23 shows that the majority of respondents (36 or 72%) believe that the government uses tax incentives in order to boost job creation by SMEs. Secondly, 34 respondents (68%) believe that the government uses tax incentives because they need to encourage direct investment. In third place, 28 respondents (56%) argued that the South African government uses tax incentives because they need to stimulate investment in the desired sector. In fourth place was to boost the growth of SMEs (24 respondents, or 46%), followed by to stimulate investment in the desired location (23 respondents, or 44%). In sixth place, the respondents agreed with the statement that the South African government uses tax incentives because of countries that share a similar economic environment (12 respondents, or 24%). Finally, seven respondents (14%) gave other reasons to explain why the South African government uses tax incentives. They firstly believe that South African government uses tax incentives in order to promote education and training. Secondly, they also stated that the government grants incentives as a way of attracting foreign direct investment.

5.3.1 Summary of opinions of SMEs on the effectiveness of tax legislation on tax incentives

To summarise, the statements that respondents gave the most support on the opinions probing the effectiveness of tax legislation on tax incentives were:

- Regulatory tax compliance is costly to small firms (mean= 3.77; median= 4).
- South Africa's tax incentives induce SMEs to invest in particular projects (mean= 3.46; median= 4).
- There is little awareness amongst potential investors of the tax incentives available (mean= 4.25; median= 4).

Although the respondents were mainly of the opinion that the government uses tax incentives to promote job creation, this contrasts with the findings shown in Table 5.20 where only two respondents suggested that they use tax incentives in order to create more jobs.

The findings on the effectiveness of tax legislation on tax incentives corroborate the findings of Calitz et al. (2014). Although their study supports the idea that incentives schemes are usually designed to generate tax benefits, they caution that too often tax policies are implemented with little concern of any cost benefits and opportunity cost of policy interventions.

The findings on why the South African government uses tax incentives corroborate the study done by Jordaan (2012) which suggested that tax incentives are usually granted due to market failures which give the reason for government involvement. Although her study deals with tax incentives in the agro-processing industry in South Africa, she believes that tax incentives can be used as a tool to increase investment and growth, even if the relationships involving each of these is far from proven.

5.4 Granting, monitoring, designing and implementing tax incentives

The third research objective was to determine the business owners' and/or managers perspectives on the process of granting, monitoring, designing, and implementing tax incentives in South Africa. To answer this objective, a number of questions were posed. These were as follows: respondents' opinions on the easiness of the process for granting tax incentives to investors, respondents' opinions whether there should or not be "sunset clause" for tax incentives. An analysis of these responses would address the third research objective. In this section, the third objective will be subdivided into three subsections which are:

- process for granting tax incentives,
- monitoring tax incentives, and
- designing and implementing tax incentives.

5.4.1 Process for granting tax incentives

This section focused on the respondents' opinions on the easiness of the process for granting tax incentives to investors in the clothing and textile industry in KwaZulu-Natal (Durban) as well as their opinions on the existence of sunset provisions on tax incentives and its regular renewal after expiry.

Table 5.24 shows the respondents' opinions on the easiness of the process for granting tax incentives to investors in Durban.

Table 5.24: Easiness of the process for granting tax incentives to investors.

Is the process made easy for potential investors?	Number	Percent
Yes	15	31.25
No	33	68.75
Total	48	100

Note: Only 48 respondents answered this question.

According to Table 5.24, more respondents were of the opinion that the process for granting incentives was not easy for investors (33 or 68.75%) than respondents who considered the process easy (15 or 31.25%). Respondents provided the following reasons as to why they found the process for granting incentives difficult:

- There is a lack of transparency by the government,
- Stability and certainty in the application of tax incentive were often bureaucratic,
- Too many incentives are available on a discretionary basis, and
- Agency problems usually exist between government agencies responsible for attracting investment and those responsible for the more generic business environment.

However, 15 respondents considered the process for granting tax incentives easy because they believed that as long as the applicants comply with the necessary procedures, they would automatically be granted the incentive for which they have applied. They also stated that there many organs and agencies involved with the process of granting incentives but the problem is that investors often fail to visit such organs/agencies in order to get clear information on how to apply for a tax incentive. Therefore, they tend to perceive the process of granting tax incentives as difficult.

The next question probed respondents' views on whether there should be "sunset provision" for tax incentives after expiry. These results are shown in Table 5.25

Table 5.25: Respondents' opinions on Sunset provisions for tax incentives

Do you believe that tax incentives in South Africa Should have sunset provision?	Number	Percent
Yes	43	86
No	7	14
Total	50	100

Table 5.25 shows that 43 respondents (86%) are in favour of seeing South Africa having sunset provisions for tax incentives while the remaining respondents (14%) believe that there should not be a sunset provision for tax incentives in South Africa. The respondents who agreed on the existence of sunset provisions explained that

with a sunset provision on incentives, it would allow the government to either terminate or modify any incentive scheme which fails to achieve its results or objectives. They also considered that by having a sunset provision it would be easier for the government to limit or extend the duration of the tax incentive. The respondents (7 respondents, or 14%) who disagreed with the existence of sunset provision on tax incentives stated that sunset provision provides expiration dates and/or limitations on tax incentives, sunset provision is only effective for a certain period of time, and the implicit cost of expiration it represents, disturbs long-term investments due to the increasing uncertainty and increased costs of rent extraction.

Overall, the findings of the first part of research objective 3 which was to determine the respondents' perspectives on the process for granting tax incentives were as follows:

Most respondents were of the opinion that the process for granting incentives was not easy for investors (33 respondents or 68.75%) for the following reasons:

- there is a lack of transparency by the government, and
- stability and certainty in the application of tax incentive were often bureaucratic.

In terms of sunset provisions on tax incentives, most respondents (43, or 86%) were in favour of seeing South Africa having sunset provisions for tax incentives explaining that a sunset provision on incentives would allow the government to either terminate or modify any incentive scheme which fails to achieve its results or objectives.

The questionnaire next examined the respondents' opinions on the monitoring of tax incentives.

5.4.2 Monitoring tax incentives

This section discusses the results obtained from the questions formulated to address the second part of objective 3 which was to determine the respondents' perspectives on the process for granting, monitoring, and designing and implementing tax incentives in South Africa. To answer this objective, a number of questions were asked. Respondents were asked to indicate if they knew which departments or agencies where responsible for monitoring tax incentives in the clothing and textile industry (see Table 5.26), where the laws for tax incentives were included (see Table 5.27) and their point of view regarding the flexibility between government and investors at negotiating the terms of tax agreement to reflect changes in business operations or changes in the economic environment (see Table 5.28).

Table 5.26: Departments/Agencies responsible for monitoring tax incentives for SMEs

Departments/Agencies	Agree	Rank	Disagree	Rank	Not sure	Rank
Department of Trade and Industry.	37	1	0	4	12	3
	74%		0.00		24%	
Small Enterprise Development Agency (SEDA).	36	2	3	3	9	4
	72%		8%		18 %	
Durban Chamber of Commerce.	27	3	6	2	15	2
	54%		12 %		30 %	
EThekwini Municipality's Economic Development Incentive Policy.	3	4	2	1	3	1
	6 %		4%		6%	

Note: Not all respondents answered this question.
Respondents could tick as many agencies/departments as they thought responsible.

Table 5.26 shows that most respondents were of the opinion that the agency responsible for monitoring those businesses that receive tax incentives to ensure that they comply with its terms and conditions is the DTI (37 or 75.5%). However, 12 respondents (24%) were unsure if the DTI monitors tax incentives for enterprises in South Africa. Thirty-six (72%) respondents stated that the agency responsible for monitoring tax incentives for enterprises is the Small Enterprise Development Agency (SEDA), while three (8%) respondents disagreed, and nine (18%) were not sure. Twenty-seven respondents (54%) mentioned the Durban Chamber of Commerce as the agency responsible for monitoring tax incentives for enterprises.

The results above show that there was a lack of awareness from respondents in terms of the agencies responsible for monitoring those businesses that receive tax incentives with most respondents noting two agencies, the Department of Trade and Industry (75.5%), and SEDA (72%). In order to avoid misconceptions on the agencies or organs responsible for monitoring tax incentives for SMEs, SARS did not form part on the list of agencies as it is a tax-collecting agent of the South African government; its main role is to collect and administer all national taxes, duties and levies, collect revenues which may be imposed under any other legislation as agreed on between SARS and an organ of state or institution entitled to the revenue, facilitate trade, and advise the Minister of Finance on all revenue matters.

Table 5.27: Place of inclusion of provisions in South Africa's tax incentive regime

Where do you think South Africa includes the provision for tax incentive regime?	**Number**	**Percent**
The tax laws.	30	60
The investment laws.	12	24
Provision for tax incentives is not codified in any law.	7	14
Note: only 49 respondents answered this question.		

Table 5.27 shows that most respondents (30 or 60%), are of the opinion that South Africa includes the provisions for the tax incentive regime in the tax laws. Twelve (24%) respondents stated that South Africa includes the provisions for the tax incentive regime in the investment laws, and seven (14%) respondents believed that the provisions for tax incentives are not codified in any South African law. Although all respondents' opinions on where South Africa includes the provisions

for tax incentives were taken into consideration, the results show that there was a higher level of agreement on respondents who stated that South Africa includes the provisions for tax incentive regimes in the South African tax law (30 respondents or 60%). This implies that the respondents who stated that South Africa includes the provision for a tax incentive in the investment laws and those who stated that the provisions for tax incentives are not codified in any South African law were unaware on where exactly South Africa includes the provisions for tax incentives.

The next question (Table 5.28) probed the respondents' opinions on the flexibility between investors and government at renegotiating the terms of the tax agreement.

Table 5.28: Flexibility between investors and government at renegotiating the terms of the tax agreement		
Is there flexibility for investors or government to renegotiate the terms of the tax agreement to reflect changes in business operation or in the economic environment?	**Number**	**Percent**
Yes	25	51
No	24	49
Total	49	100
Note: Only 49 respondents answered this question		

Table 5.28 shows that there is a difference in the opinions of the respondents on how flexible investors and government should be in renegotiating the terms of the tax agreement after incentives are granted. The results show that 25 (51%) respondents agreed that there should be flexibility between investors and government in renegotiating the terms of a tax agreement, while 24 (49%) respondents disagreed. It is possible that an entirely new approach could be implemented whereby the parties share, in the beginning, their financial expectation over the course of the investment project to create a baseline reflecting these expectations. This baseline could be reviewed over the duration of the project in order to determine, objectively, whether there is a need for renegotiation of the tax agreement in cases where either party's financial expectations are not being met (IMF 2008: 58). A flexible renegotiation between investors and the government can

play an important role in managing the relationship between them. Provided that the parties take advantage of the opportunity to renegotiate the terms of the tax agreement, the contract terms and conditions can be readjusted before the parties are desperate and frustrated that the investor decides to stop work and government decides to terminate permits and negotiations (IMF 2008:58).

The next section of the questionnaire focused on the challenges in designing and implementing tax incentives.

5.4.3 Designing and implementing tax incentives

This section discusses the results from the questions formulated to address the third part of objective 3 of the study which was to determine the respondents' perspectives on the process of the designing and implementation of tax incentives in South Africa. In order to determine the extent in which the respondents expressed their level of agreement or disagreement in terms of the challenges in designing and implementing tax incentives, respondents were given a number of statements to answer according to a Likert scale (Table 5.29 and Table 5.30).

Table 5.29: The benefits associated with tax incentives									
Statement	**Mean**	**Median**	**SD**	**1**	**2**	**3**	**4**	**5**	**No**
Tax incentives are not frequently changed.	2.75	3.00	0.887	3	16	22	8	1	50
				6%	32%	44%	16%	2%	100%
Tax incentives provide investors with certainty over its application and longevity.	3.04	3.00	1.010	4	8	25	9	4	50
				8%	16%	50%	18%	8%	100%
Tax incentives boost the growth of enterprises.	3.58	4.00	0.846	2	2	6	26	14	50
				4%	4%	12%	52%	28%	100%
Tax incentives cut the cost of purchases of machinery.	3.67	4.00	0.834	0	2	16	27	5	50
				-	4%	32%	54%	10%	100%
Tax incentives cut the costs of upgrading the skills of workers.	3.73	4.00	0.818	1	1	16	24	8	50
				2%	2%	32%	40%	16%	100%
Tax incentives help to increase employment.	3.54	4.00	0.898	2	2	18	22	5	49
				4%	4%	37%	45%	10%	100%
Note: A Likert scale of 1 = strongly disagree; 2 = agree; 3 = neutral; 4 = agree; 5 = strongly agree was used.									

In terms of the benefits associated with tax incentives, Table 5.29 provides the interpretation of the data for each statement, based on the mean and the median respectively. Thus, the respondents showed disagreement that tax incentives are not frequently changed (mean= 2.75, median= 3). In the second statement, the respondents were neutral towards the statement that tax incentives provide investors with certainty over its application and longevity (mean= 3.04, median= 3.00). In the third statement, the respondents agreed that tax incentives boost the growth of enterprises (mean= 3.58, median= 4). Likewise, there was also agreement about tax incentives cutting the costs of purchases of machinery. The fifth statement also shows a level of agreement that tax incentives cut the costs of upgrading the skills of workers (mean= 3.73, median= 4). In addition, the respondents agreed that tax incentives help to increase employment (mean= 3.54, median= 4).

In summary, it is possible to conclude that there were more respondents showing support for the benefits associated with tax incentives. One of the reasons might be that they had a good level of education, more years of working experience and also that they occupied the top position at the enterprises they belonged to. The respondents who showed less support on the benefits associated with tax incentives in most cases were the ones with a small business which had been established for not more than four years. Some of them lacked solid expertise in the field of taxation, and others were younger than thirty years. The next table probed the respondents' opinions on the challenges of designing an effective tax regime.

Table 5.30: Challenges of designing an effective tax regime

Statement	Mean	Median	SD	1	2	3	4	5	No
It is difficult to determine one set of tax incentives that work for different contexts	4.06	4.00	0.885	1	1	8	23	16	49
				2 %	2%	16%	47%	33%	100%
Tax incentives need to be carefully designed to achieve specific goals	4.25	4.00	0.700	0	1	4	26	19	50
				-	2%	8%	52%	38%	100%
Poorly targeted tax incentives are ineffective	4.21	4.00	0.582	0	0	4	32	14	50
				-	-	8%	64%	28%	100%

Table 5.30: Challenges of designing an effective tax regime									
Poorly targeted tax incentives are expensive	4.15	4.00	0.684	0	0	8	26	16	50
				-	-	16%	52%	32%	100%
Note: A Likert scale of 1= Strongly disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly agree was used.									

Taking into consideration the challenges of designing an effective tax incentive regime, Table 5.30 shows that overall, the respondents were in agreement with each statement since all means were greater than four and all medians were equal to four. This means that all respondents indicated a significant level of agreement with each statement presented.

The next section probed the respondents' opinions on the benefits and challenges associated with tax incentives.

5.4.4 The benefits and challenges associated with tax incentives

This section shows the opinions of the respondents who have applied for tax incentives and which ones were applicable to their business. It also aims to provide an understanding of the respondents' opinions on what they consider to be the best type of tax incentives to be applied in South Africa, and more specifically within the clothing and textile industry located in Durban. Respondents who have applied for tax incentives could tick as many options in a list which were applicable to their business.

Table 5.31: Benefits and challenges associated with tax incentives			
Statement	**Number**	**Percent**	**Rank**
Tax incentives helped me to grow my business.	4	57.14	3
As a result of a tax incentive (s), I employ more workers.	2	28.57	3=
The tax incentive (s), allowed me to increase my turnover.	7	100	1
I intend to apply for more tax incentives in the future.	2	28.57	3=
The tax incentives helped me/my business buy more machinery.	5	71.42	2
I found the cost of application exceeded my available resources.	1	14.29	4=
Tax incentives are costly and they hardly work in the way they are intended to.	1	14.29	4=
Note: Only 7 respondents had applied for tax incentives.			

Table 5.31 shows that the respondents believe that there have been more benefits than challenges associated with tax incentives. Four respondents (57.14%) stated that tax incentives had helped them to grow their businesses. Two respondents (28.57%) stated that as a result of tax incentives, they could employ more workers. However, all seven respondents (100%) suggested that by using tax incentives, it was possible to see gradual growth in terms of turnover within their businesses. Two respondents (28.57%) suggested that they intended to apply for more tax incentives in the future. Five (71.42%) respondents (71.42%) saw the benefits of tax incentives as a way to acquire more machinery for the running of their businesses. One respondent (14.29%) stated that the cost of application for tax incentives exceeded his available resources. There was also one respondent (14.29%) who stated that tax incentives hardly work in the way they are intended to.

The final question in the questionnaire probed respondents' opinions on the best type of tax incentives to be applied in South Africa. Respondents could tick as many statements as were applicable. These results are shown in Table 5.32

Table 5.32: Best type of tax incentive to be applied in South Africa			
Statement	**Number**	**Percent**	**Rank**
Tax incentives with a low administrative cost for the government.	28	56	4
Tax incentives with a low administrative cost for firms.	35	70	1
Tax incentives which are not frequently changed.	23	46	5
Incentives which provide investors with certainty over its application and longevity.	29	58	3
Tax incentives that is transparent and easy to understand.	32	64	2=
Tax incentives with specific goals and precisely expressed in the legislation.	32	64	2=
Tax incentives granted in a non-discretionary manner towards creating a more conducive economic environment relatively low in terms of bureaucracy.	5	10	6

Table 5.32 shows that 35 respondents (70%) believe that tax incentives with a low administrative cost for firms would be the ones most suitable for South Africa. Thirty-two (64%) respondents indicated that tax incentives should be transparent and easy to understand and that they should have specific goals and be precisely expressed in the legislation. Twenty-three respondents (46%) suggested that South African's clothing and textile industry would perform better if the incentives used were not frequently changed. Five (10%) respondents indicated that South African's clothing and textile sector could face a positive shift if the available tax incentives were granted in a non-discretionary manner towards creating a more conducive economic environment relatively low in terms of bureaucracy.

5.4.5 Summary of respondents' opinions on the process of granting, monitoring, designing and implementing tax incentives in South Africa

In finding the respondents' opinions on the process for granting tax incentives in South Africa, this study observed that most respondents (68, 75%) believed that the process for granting tax incentives was not made easy and accessible for investors. They also agreed that the government usually lacks transparency in the process of granting tax incentives. This finding corroborates Barbour's (2005) study where he suggests that South Africa operates a system of investment incentives that are well defined, effectively implemented and evaluated regularly, and is better aligned with best practice than that of most African countries. However, he suggests that South Africa should continue to place focus on the process of rationalisation, and focus all incentives in support of a clearly defined strategy in the application and approval process for tax incentives to allow a quicker and more transparent decision by investors.

The respondents also provided their reasons for not finding the process for granting tax incentives as easy. In most cases, the respondents stated that the process for granting tax incentives are not easy due to the lack of the government's transparency, the ongoing bureaucracy during the application of tax incentives, too many incentives are available on a discretionary basis, and the frequent agency problems between government agencies responsible for attracting investment and those responsible for the more generic business environment. This finding corroborates Jordaan's (2012) study in which she believes that South Africa's tax incentives are not yet in line with international best practice as it might appear. In her study, it was found that too many incentives are still applied in a discretionary manner. The finding of this objective also corroborates Wentworth (2012) where she finds the process for granting tax incentives difficult. She also acknowledges the lack of government's and agencies' transparency when it comes to granting tax incentives. Her study indicated that the South African government still struggles to implement a transparent and economic tax incentive approach. Additionally, her study also suggested that investors found the process for granting tax incentive bureaucratic, and that many investors have to rely on consulting firms to assist them with the application process for tax incentives, making the entire process very expensive.

The finding of this objective also corroborates with Barbour's (2005) study where he notes that South Africa suffers from overlapping government agencies, each with a degree of responsibility of designing, budgeting, and implementing incentives. In determining the respondents' views on whether there should be a "sunset provisions" for tax incentives, there were more respondents (86%) agreeing that South Africa's tax incentives should have sunset provisions, when compared to respondents who did not agree (14%) with the implementation of sunset provisions. The respondents who supported the existence of sunset provisions for tax incentives in South Africa mostly stated that with a sunset provision on incentives, it would allow the government to either terminate or modify any incentive scheme which fails to achieve its results or objectives. This finding corroborates Barbour's (2005) study because he believes that in South Africa, too many incentives lack sunset provisions/clauses for the firms itself and the duration of the benefit provided. Although this might be the case, Barbour (2005) suggests that sunset provision/clause on tax incentives are needed to stop industries or businesses surviving on incentives, rather than using them to simply get started.

The respondents (7, or 14%) who disagreed with the existence of sunset provision/ clause stated that sunset provision provides expiration dates and/or limitations on tax incentives, and it is only effective for a certain period. They also stated that a sunset provision, and the implicit cost of expiration that they represent, disrupt long-term investments due to the increasing uncertainty and increased costs of rent extraction. This finding corroborates Jordaan (2012), Wentworth (2012), Calitz et al. (2014), Barbour (2005) and Parys (2013).

In determining the perspectives of business owners and managers on the easiness of the process for monitoring tax incentives, several questions were asked. Respondents were asked to indicate if they knew which departments or agencies were responsible for monitoring tax incentives in the clothing and textile industry, where the laws for tax incentives were included, as well as their point of view regarding the flexibility between government and investors at negotiating the terms of tax incentives. An analysis of these responses was used to address the second part of research objective 3.

In determining the respondents' level of knowledge on the department and/or agencies responsible for monitoring tax incentives for SMEs, the majority of respondents (74%) pointed the DTI as a department responsible for monitoring tax incentives for SMEs. In the second place, the respondents pointed to SEDA as an agency responsible for monitoring tax incentives. This finding corroborates Barnes (2005:6) which according to him, a number of institutions (e.g. DTI and SEDA) support the South African clothing and textile industry. However, these institutions are fragmented and often act as lobbying associations.

The next step was to probe respondents' opinions on where the laws for tax incentives were included. This study showed that the majority of respondents (60%) suggested "tax law" as the place where provisions for tax incentives are included. In the second place, the respondents (24%) stated that the inclusion for provisions of tax incentives is found in the "investment laws". The lowest score was found on those respondents (14%) who stated that the inclusion for provisions of tax incentives are not codified in any law. This finding corroborates Parys (2013) which according to him, some incentives are especially common in developing countries, as are some unique institutional features. He further cautions that developed countries generally use targeted incentives that are embodied in the income tax law, while developing countries tend to use a combination of targeted and more general incentives which may be included in the income tax law, the investment, and other laws, or simply government decrees.

Secondly, this finding also corroborates Parys (2013) where he noted that governments deliberately try to attract the tax base through the policy decisions they make. However, from the firms' perspectives, Parys (2013) believes that firms rather take into account other factors (e.g. Market size, a country's political stability, the stability of the monetary and fiscal framework and the level of corruption) first, and then tax incentives in their investment decisions. This leads to the perception that there should be flexibility between investors and government in renegotiating the terms of the tax agreement.

The respondents also expressed their opinions on the challenges of designing and implementing tax incentives. In most cases, there were more respondents showing support for the benefits associated with tax incentives. These respondents agreed to the following statements: 1) tax incentives boost the growth of enterprises; 2) tax incentives help to increase employment; and 3) tax incentives cut the costs of upgrading skills of workers.

The respondents' opinions were next probed on the challenges in designing and implementing tax incentives. Based on the respondents' opinions on the benefits associated with tax incentives, and the challenges of designing an effective tax regime, it was found that there were more respondents showing support for the benefits associated with tax incentives. These respondents agreed with the following statement: 1) tax incentives boost the growth of enterprises; 2) tax incentives help to increase employment; 3) tax incentives cut the costs of upgrading skills of workers. This finding corroborates Jordaan's (2012) study, although her study deals with tax incentives in the agro-processing industry in South Africa. She believes that tax incentives can be used as a tool to increase investment and growth, even if the fundamental relation involving each of these is far from proven. Calitz et al. (2014) suggest that incentives schemes are designed to generate tax benefits based on performance criteria, such as job creation, generation of foreign exchange, and decentralisation into particular regions.

In determining the respondents' opinions on the challenges associated with tax incentives, it was found that all respondents indicated a significant level of agreement with each of the statements provided to them. The respondents agreed that a) it was difficult to determine a set of tax incentives that work for different context, b) tax incentives should be carefully designed to achieve specific goals, and c) poorly targeted incentives are usually ineffective, and expensive. This finding corroborates Barbour's (2005) study where he specifically emphasises that a well-designed but poorly implemented tax incentives are ineffective. On the other hand, he cautions that clear and transparent application procedures, and an effective tax administration regime, are crucially important to the ultimate credibility and success of a tax incentive programme. In support of this statement is Calitz et al. (2014) who stated that transparency, accountability and rigorous evaluation of individual incentives could play an important role at measuring the efficacy of tax incentives in attracting investments in South Africa.

5.5 Summary

To summarise, one of the most notable findings from this study was the high percentage of respondents (especially the SMEs) who were unaware of tax incentives. However, in terms of background information, this study noted that there were more females who knew what tax incentives are compared to male respondents. The study also noted that majority of respondents who knew about tax incentives were mostly working for private companies for six years and above. Furthermore, most of the companies employed an average of 10 employees.

Taking into account the objectives of this study, the main findings were as follows:

The first objective of this study was to determine the level of awareness of business owners and managers in Durban in regard to manufacturing incentives (tax incentives). In most cases, the respondents who were not aware of tax incentives outnumbered the ones who were aware. Most respondents justified they reasons for not knowing about tax incentives. Their reasons focused mostly on the lack of information on tax incentives which should be provided by the government and social media, they also said that they were not aware that tax incentives exist as well as they failed to keep up-to-date with matters regarding tax incentives.

The second objective of this study was to determine the opinions of business owners or managers on the effectiveness of tax legislation on tax incentives. Although the respondents supported the idea that the government uses tax incentives to create jobs, they on the other hand agreed that the regulatory tax compliance in South Africa is still regarded as costly to firms.

The third research objective was to determine the business owners' or managers' perspectives on the process for granting, monitoring, designing and implementation of tax incentives in South Africa. In this objective most respondents suggested that the process for granting tax incentives lacks transparency and it is made difficult for investors. In terms of the process for monitoring tax incentives, majority of respondents pointed out the DTI and SEDA as a department responsible for monitoring tax incentives for SMEs. In determining the respondents' opinions on the challenges associated with tax incentives, it was found that all respondents indicated a significant level of agreement with each of the following statements: a) it was difficult to determine a set of tax incentives that work for different contexts, b) tax incentives should be carefully designed to achieve specific goals, and c) poorly targeted incentives are usually ineffective, and expensive. The respondents' opinions were next probed on the process for designing and implementing tax incentives, it was found that there were more respondents showing support for the benefits associated with tax incentives. These respondents agreed with the following statements: 1) tax incentives boost the growth of enterprises; 2) tax incentives help to increase employment; 3) tax incentives cut the costs of upgrading skills of workers.

The next chapter provides the conclusions and recommendations of this study.

CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In the previous chapter, the findings of this study were presented. This chapter provides an overview of the study together with the conclusions drawn and the resulting recommendations. The discussions presented in this study focus on the following aspects: demographic data, the knowledge, awareness and attitude of owners of small-medium enterprises in Durban with regards to tax incentives in the clothing and textile industry; business owners' awareness and attitude in terms of the design and monitoring tax incentives; their reasons for applying or not for tax incentives. The limitations in conducting this study are described and possible avenues for future research are mentioned. The chapter concludes with a summary of the value of this study.

6.2 Summary of the study

The clothing and textile industry plays an important role in the development of South Africa. This sector is important to the expansion of the manufacturing industry in the country. The industry, however, faces significant challenges (Ramdass and Kruger 2010:300). Domestic firms are under pressure to improve efficiency and product quality levels to ensure long-term sustainability when compared to the BRIC countries, especially China and India (Black and Gerwel 2014:250). As a way of reawakening and protecting the clothing and textile industry in South Africa, both the government and the DTI have put in place tax incentives for manufacturing projects such as the CTCP, the PI, the EIS, the Support for Industrial Innovation, the Improved Access to Finance, the Industrial DZs, the creation of an enabling environment for SMEs and the promotion of competition and consumer protection (DTI 2012b:10-18).

As observed by Morris and Barnes (2014:17), the incentives granted for the clothing and textile industry assisted a considerable number of established firms in upgrading grant support to the textiles industry that supplies South African apparel manufacturers and has also supported the stabilisation of employment within certain segments of the industry.

Although this may be true, Nattrass and Seekings (2013:12) believe that the local clothing and textile manufacturers did not have enough capacity to supply both the export and domestic markets due to the lack of fabrics, quality garments and not being able to meet the demand from consumers in terms of time delivery. They also caution that the incentives have not been stringent at the clothing and textile industry level, failing to address the technology and marketing gaps and have lacked a sufficient time horizon, often being implemented too late.

Wentzel and Hart (2015:107) state that "incentives are frequently among the relatively few measures that can be introduced to minimise the effect of investment obstacles and to improve the attractiveness of a country as an investment location". Although South Africa has avoided many of the worst examples in implementing tax incentives through both design and trial and error (Jordaan 2012:10), Barnes (2005:20) believes that in South Africa, most incentives are well-targeted, have a detailed policy goal and contain most of the features of a well-designed incentive scheme.

The aim of this study was to determine the impact of manufacturing incentives (tax incentives) in the South African clothing and textile industry. In the South African context this is important given that unemployment rate is found in the manufacturing industry, and mainly in the clothing and textile sector.

6.3 Achievement of the research objectives

This study set out to determine the level of awareness of business owners and managers in Durban with regard to tax incentives on the clothing and textile sector, their opinions on the effectiveness of tax legislation on tax incentives, and their perspectives on the process for granting, monitoring, designing and implementing tax incentives in South Africa. Conclusions in this regard are provided for each research objective.

Objective 1: To determine the level of awareness of taxpayers in Durban concerning manufacturing incentives on the clothing and textile industry.

This study found that the respondents who did not know what a tax incentive is outnumbered the respondents who knew about tax incentives. However, the respondents who knew what a tax incentive is were mostly females between the ages of 30-39 years. Concerning working experience, respondents' knowledge of tax incentives was mostly noted amongst those with more than 6 years of working experience. In contrast, the lowest score in knowing what a tax incentive is was amongst respondents with less than two years of working experience. This is to be expected as these employees would be new to the sector and may not be exposed to the notion of a tax incentive yet. In terms of education, the number of respondents who knew what a tax incentive is in most cases equalled (except for those with Senior Certificate) or outnumbered the number of respondents who did not know what a tax incentive is. This result could be supported to the fact that respondents with higher educational qualifications may be working in higher positions in the firm and be more knowledgeable about tax incentives within the sector, or that through their prior education may have acquired some knowledge about tax incentives.

In regard to the type of organisation, this study found that the majority of the companies knowing what a tax incentive is were mostly private companies and sole traders. In analyzing the reasons for respondents to have not applied for tax incentives, the study found that respondents in most cases were unaware of the existence of tax incentives. They also stated that apart from not keeping up-to-date with taxation matters, the government is not efficient enough at advertising, marketing, and making incentives available for investors. They also believed that apart from it being a burdensome and a bureaucratic tax system, it is very costly and time consuming to apply for tax incentives. However, for the respondents who were aware of tax incentives granted by the South African government, the study found that in most cases the respondents would acknowledge the "employment incentive", the manufacturing incentive program, the clothing, and textile incentive, but to a lesser extent the "machinery export incentive". They also stated that their reasons for applying for tax incentives were that the cost of their machinery becomes cheaper thus allowing their business to grow and as a taxpayer, they felt entitled to apply for tax incentives. These findings are in line with those of Jordaan (2012), Wentworth (2012) and Parys (2013).

Objective 2: To determine the opinions of business owners or managers on the effectiveness of tax legislation on tax incentives

The second research objective of this study is to determine the opinions of business owners or managers on the effectiveness of tax legislation on tax incentives. In determining the respondents' opinions on the effectiveness of tax legislation on tax incentives, respondents disagreed that the legislation related to tax incentives in South Africa is transparent and easy to understand. They also disagreed on how well the existing tax incentives promote SMEs. Although the respondents agreed that the level of awareness of tax incentives available by potential investors is low, they showed considerable support for the statement that "tax incentives help to boost growth on firms".

The respondents were next asked for their opinions on the reasons why the South African government uses tax incentives. The findings of this research objective suggest that most respondents agreed that tax incentives help to boost job creation. They also agreed that tax incentives are used in South Africa as a way to encourage direct investment. This was followed by the respondents who agreed that South African government uses tax incentives to boost the growth of SMEs. These findings are in line with those of Calitz et al. (2014) and Jordaan (2012).

Objective 3: To determine the business owners or managers perspectives on the process for granting, monitoring, designing and implementing tax incentives in South Africa

The findings on business owners' and/or managers perspectives on the easiness of the process for granting tax incentives showed that there were more respondents (68, 75%) agreed that such processes were not easy compared to the respondents who stated that the process for granting tax incentives is easy (31.25%).

In determining the respondents' views on whether there should be a "sunset provisions" for tax incentives, most respondents (86%) agreed that South Africa's tax incentives should have sunset provisions.

In determining the respondents' level of knowledge on the department and/or agencies responsible for monitoring tax incentives for SMEs, the majority of respondents (74%) saw the DTI as the department responsible for monitoring tax incentives for SMEs. In the second place, the respondents referred to SEDA as an agency responsible for monitoring tax incentives. In third place were the respondents (60%) who suggested "tax law" as the place where provisions for tax incentives are included.

On the flexibility between investors and government at renegotiating the terms of the tax agreement, this study found that most respondents (51%) agreed on the flexibility between investors and government at renegotiating the terms of the tax agreement.

Based on the respondents' opinions on the benefits associated with tax incentives and the challenges of designing an effective tax regime more respondents showed support for the benefits associated with tax incentives.

Lastly, all respondents indicated a significant level of agreement with each of the statements provided to them on the challenges associated with tax incentives. The respondents agreed that it was difficult to determine a set of tax incentives that work for different context, tax incentives should be carefully designed to achieve specific goals, and poorly targeted incentives are usually ineffective, and expensive.

Previous studies such as Jordaan (2012), Calitz et al. (2014) and Wentworth (2012) have shown that the lack of knowledge/awareness of tax incentives, a bureaucratic and less transparent tax system, as well as the frequent lack of rapport between government agencies responsible for attracting investment through the granting of tax incentives, and those responsible for the more generic business environment can have detrimental effects in a country.

A successful history of the benefits of tax incentives in reawakening the clothing and textile industry is shown in countries such as Brazil, Russia, and China. These countries have gone the extra mile in order provide better investment environment with the use of tax incentives. In the case of Brazil, after its government had gone into a lengthy tax reform policy, substantial positive impact was noted in the clothing and textile industry. The Brazilian government opted to extend tax benefits for investments, particularly in less developed areas of the country. These tax incentives, however, have been partially successful in attracting investments, mostly in less developed areas (Lectra 2015:6).

Taking into account the Russian perspective, it is possible to note that the development of its clothing and textile industry has become one of the priorities for the government. As part of this plan, the government provides most of the benefits to its residents such as reduced rent and consultation services, the abolishment of income taxes, property tax, land tax, as well as the reduction of land rent (Pogorletskiy 2017: 34-37). Since early 2000, the Russian tax reform became one of the best in the world. Even if the global economic crises of 2008- 2009 are taken into account, the Russian tax system survived it and its consequences better than tax systems from other countries around the world since the amendment of tax policies were fast and reasonable (World Tax Summaries 2017:1).

China is regarded as the world's largest clothing and textile in both overall production and export since 1995 (International Trade Administration 2016:1). In addition, the Chinese government has in many ways played a significant role in the economy, and mostly, in its clothing and textile sector. According to Zhu and Pickles (2013:42), the granting of tax incentives has brought significant changes such as industry upgrading, expanding domestic consumption, building a greener industry by recognising the rising awareness of environmental protection in the country, and reducing consumption of energy, water, and emission of pollutants. However, to keep as many jobs as possible, the Chinese government encourages clothing and textile manufacturers on the east coast to move factories to the inner part of China where the local economy is still at primary stage of industrialisation and cheap labour is still relatively abundant.

6.4 Recommendations

Based on the findings of this study, the following recommendations are made.

1) South Africa urgently needs to tackle its industrial policy reform and readapt the implementation of tax incentives in a manner that it is made available to applicants who follow the required criteria to apply for the incentives on offer. Therefore, incentives should be designed in a way that is easy to understand. This means that it should contain a sunset clause, must be transparent, free of bureaucracy, have a low administrative cost for business and government, and should also be given in a non-discretionary manner.

2) Although most of South Africa's tax incentives are well designed, well-targeted and have comprehensive guiding principles, it is argued that the incentives on offer usually produce poor results due to implementation deficiencies (Kransdorff 2010:79). Having said this, it is extremely important that the South African government bears in mind the capacity of its tax administration when considering whether or not to implement incentives, and if so, which ones.

3) A successful administration of tax incentives would require the use of well-trained officials, sufficient information technology as well as a clear policy for achieving planned goals by using such incentives. In spite of these resources being extremely important in underpinning the design and administration of tax incentives, without a good implementation strategy or enough political support by government, the design and administration of tax incentives are likely to be inefficiently implemented.

4) Taking into account that the clothing and textile industry in South Africa employs much low-skilled labour and also plays an important role in the economy of the country, resolving the unemployment crisis in these sectors is crucial as is the need to create a policy environment that stimulates growth with labour absorption.

5) The South African clothing and textile sector faces intense competition not only from Asian countries (China, India, Vietnam, etc.) but also from other sub-Saharan countries (Lesotho and Swaziland) (Van Zyl and Matswalela 2016: 385-387). However, if the sector is to survive, much of the South African government policy has to shift from a centralised, rigid (one size fits all) and inflexible modality to one that places more emphasis on greater flexibility, decentralisation and diversity (Morris and Barnes 2014:18).

6.5 Limitations

This study does have some limitations. The sample was restricted only to clothing and textile manufacturing industries that were located in the EThekwini region. Although this is not representative of the entire manufacturing sector in South Africa, the findings shed light on understanding the impact of tax incentives in the clothing and textile sector in South Africa, especially in Durban. The statistical analysis was fairly simple and only descriptive statistics were used. Using more sophisticated statistics may have allowed a deeper analysis of the data.

6.6 Areas for future research

This study has contributed to research on tax incentives within the manufacturing sector in South Africa, focusing mostly on the clothing and textile sector as well as factors influencing business owner's perceptions on the process for granting, monitoring, designing and implementing tax incentives in South Africa. As the nature of research always gives rise to further questions, further investigation is recommended on:

- the current scenario of South Africa's tax incentives for the manufacturing industry (clothing and textile),
- whether tax incentives work effectively in attracting investments in the clothing and textile industry in South Africa, and
- if tax incentives that were previously offered for the clothing and textile industry led to the development of the clothing and textile sector.

6.7 Contribution of the study

This study contributes to the current global literature in this field and the relative importance of tax incentives and its effect on the clothing and textile industry in South Africa. Since not many studies of this nature have been conducted in South Africa, especially in the Durban region, it is suggested that the findings of this study will add value by assisting tax authorities and policymakers in understanding the effects of tax incentives for the clothing and textile sector. The results of this study can inform policymakers on possible ways of designing and effectively implement tax incentives, as well as to understand the importance of educating taxpayers and improving their tax knowledge by providing education programmes, simplifying the current tax system and allowing the application for tax incentives by business owner's to be less bureaucratic, more transparent, and easy to understand.

6.8 Concluding comments

This study provided conclusions related to the literature review and empirical findings. It also provided recommendations emanating from the impact of manufacturing incentives in the clothing and textile industry in South Africa, focusing especially in Durban. This study found that the overall majority of business' owners are unaware of the existence of tax incentives within the manufacturing sector (clothing and textile sector). Additionally, the existing tax incentives were often regarded by business owners as costly, time-consuming, and bureaucratic.

Even though a considerable sum of revenues are set aside to finance incentives in South Africa (Dludla 2018:1), this study however found that in Durban (KZN) a relatively small number of enterprises make use of the available incentives due to lack of awareness, limited expertise, and in certain cases, due to the inflexible compliance and detailed application and claiming processes. This finding supports that of Engelbrecht and Paluch (2015:1).

This study also found that there is a continuous lack of engagement between government and investors in regard to how government advertises, and makes easy and transparent the granting of tax incentives. Therefore, this study sets in motion the need for government to engage with business owners in a wider discussion on the process for granting, monitoring, designing and implementing of tax incentives to be made on a win-win basis.

In conclusion, all the objectives of this study were achieved. The recommendations made in this chapter represent some of the actions that could be taken to improve the successful use of tax incentives in the clothing and textile industry in South Africa, especially in Durban.

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APPENDIX A: LETTER OF CONSENT AND INFORMATION

LETTER OF INFORMATION

The Impact of Manufacturing Incentives in the Clothing and Textile Industry in KwaZulu-Natal: A case study of Durban

Principal Investigator: Alberto Dos Santos Paulo (M Tech Taxation)
Supervisor/s: Prof. Lesley Stainbank (D. COM CA (SA))
Dear participant
I am currently undertaking a research project as part of my studies towards a Master's Degree in Taxation at the Durban University of Technology. The aim of this study is to investigate the impact of manufacturing incentives in the Clothing and Textile Industry in Durban.

Questionnaires will serve as the main research instrument to gather data to meet the aim and objectives of the study.

The questionnaire is directed at CEOs (Chief Executive Officers) in the Clothing and textile industries around the Durban area.
The estimated time to complete the questionnaire is approximately 15 minutes.
Participation is voluntary and you are free to withdraw from the study at any time without giving reasons, and without prejudice or any adverse consequences.
The information given by you will only be used for research purposes and will be aggregated with other responses and only the average information will be used. Your identity will be kept totally confidential.

This study is free from any risks or discomfort during your participation. On the other hand, this study will be highly beneficial to the researcher as well and to you as the study has the potential of making recommendations on strategies capable of underpinning tax policies in the Clothing and Textile Manufacturing Industry of South Africa.

Should you wish to discuss this subject further, please feel free to contact me or my supervisors as follows:

Supervisor: Prof. Lesley Stainbank; Contact: 031-3735740; E-mail: lesleys@dut.ac.za.

Researcher: Alberto Paulo; Cell phone: 078-2993783; E-mail: djamal66@live.com

Institutional Research Ethics Administrator; Contact: 031-3732900.

Yours faithfully

Alberto Paulo

LETTER OF CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Alberto Dos Santos Paulo, about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number: REC 114/15

- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.

- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.

- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.

- I may, at any stage, without prejudice, withdraw my consent and participation in the study.

- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.

- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

Full Name of Participant **Date** **Time**

Signature / Right Thumbprint

I, Alberto Dos Santos Paulo, herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Full Name of Researcher	**Date**	**Signature**
Full Name of Witness (If applicable)	**Date**	**Signature**
Full Name of Legal Guardian (If applicable)	**Date:**	**Signature:**

APPENDIX B: QUESTIONAIRE

Questionnaire on the impact of tax incentive on SMEs in Durban

Section A: Background information - Please tick only one box where applicable

1) What is your age?

Age (years)	19- 29	30- 39	40- 49	50-59	60 and older

2) What is your gender?

Gender	Male	Female

3) How many years of working experience do you have?

0- 3 years	
3- 6 years	
More than 6 years	

4) Please indicate the highest level of education you have completed and the field of study?

Level of education	Please tick	Field of study
Senior Certificate		
Diploma		
Bachelors		
Postgraduate Diploma/ Honours Degree		
Other (please- specify)		

5) Please indicate your annual turnover

Below R 1 000 000	
R 1 000 000-R 5000 000	
R 5 000 001-R 10 000 000	
Above R 10 000 000	

6) How many employees do you have?

Below 10	
10-20	
21-40	
41-60	
More than 60	

7) How would you classify your organization?

Private company	
Close corporation	
partnership	
Sole trader	
Other, please specify	

Section B: The rationale of tax incentives for small and medium-sized enterprises in Durban- KwaZulu-Natal

8) Do you know what a tax incentive is?

Yes	No

8.1) If yes, please explain in one sentence your understanding of a tax incentive.

8.2) If no, please indicate your reasons for not knowing what a tax incentive is (please tick as many as are applicable)

8.2.1	I was never aware that there are tax incentives	
8.2.2	I do not keep up-to-date with taxation matters	
8.2.3	Other reasons, please specify	

9) Are you aware that the government offers tax incentives for SMEs?

Yes	No

If you answered yes to question 9, please indicate which tax incentives you are aware of? (Please tick as many as are applicable)

9.1	Employment Incentive	
9.2	Manufacturing Incentive Program	
9.3	Product Incentive	
9.4	Clothing and Textile Incentive	
9.5	Export Incentive	
9.6	Black Business Supplier Development Program	
9.7	SEDA Technology Program	
9.8	Women Empowerment Incentive	
9.9	Other, please specify	

10) Have you ever applied for a tax incentive?

Yes	No

11) If you answered yes to question 10, why did you apply for a tax incentive? Please tick as many as are applicable.

11.1	As a taxpayer I am entitled to apply for all applicable tax incentives.	
11.2	I use tax incentives as a way to grow my business.	
11.3	I use tax incentives in order to create more jobs.	
11.4	The cost of machinery becomes cheaper by using manufacturing incentives.	
11.5	Other, please specify	

12) If you answered No to question 10, why have you not applied for a tax incentive? Please tick as many as are applicable.

12.1	I did not know about tax incentives.	
12.2	Applying for tax incentives is very time consuming.	
12.3	I would need the help of an accountant which would cost a lot of money.	
12.4	As an investor, I do not find incentives to provide me with certainty over their application and longevity.	
12.5	Other, please specify	

Section C: Opinions of SMEs on effectiveness of tax legislation on tax incentives

13) For each of the following statements, please indicate the extent of your agreement or disagreement:

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
13.1	Legislation related to tax incentives for SMEs is transparent.					
13.2	Legislation related to tax incentives for SMEs is easy to understand.					
13.3	Regulatory tax compliance is costly to small firms.					
13.4	The benefits of regulatory tax compliance are insignificant.					
13.5	The existing tax system best promotes SMEs.					
13.6	South Africa's tax incentives reduce the tax burden of SMEs.					
13.7	South Africa's tax incentives induce SMEs to invest in particular projects.					
13.8	South Africa's tax incentives induce SMEs to invest in particular sectors.					
13.9	There is little awareness amongst potential investors of the incentives available.					
13.10	Tax incentives help to boost growth of SMEs.					

14) Why do you think the South African government uses tax incentives? Please tick as many as are applicable from the following list:

14.1	Because of neighbouring countries that share a similar economic environment.	
14.2	Because government needs to encourage direct investment.	
14.3	To boost job creation of SMEs.	
14.4	To boost growth of SMEs.	
14.5	To stimulate investment in the desired sector.	
14.6	To stimulate investment in the desired location.	
14.7	Other (please, specify).	

Section D: Process for granting tax incentives

15) Do you believe that the processes for granting tax incentives are made easy for potential investors?

Yes	No

If you answered "No" to question 15, please explain why you disagree.

____

16) Do you believe that tax incentives in South Africa should have sunset provisions, whereby they expire after a number of years and are not automatically extended?

Yes	No

If you answered "No" to question 16, please explain why you disagree.

____

Section E: Monitoring tax incentives

17) Which of the following departments or agencies listed below are responsible for monitoring those businesses that receive tax incentives to ensure that they comply with the terms and conditions of tax incentives? (Please tick as many departments or agencies you think are responsible.)

	Departments/agencies	**Agree**	**Disagree**	**Not sure**
17.1	Department of Trade and Industry			
17.2	Small enterprise development agency (SEDA)			
17.3	Durban Chamber of Commerce			
17.4	Others (please specify)			

18) Where do you think South Africa includes the provisions for the tax incentive regime? (Please tick only one box.)

18.1	Description	
18.2	a) The tax laws; or	
18.3	b) The investment Laws; or	
18.4	d) Provision for tax incentives are not codified in any law.	

19) After incentives are granted, in your opinion, is there flexibility for investors or government to renegotiate the terms of the tax agreement, to reflect changes in business operations or changes in the economy environment? (Please tick only one box.)

Yes	No

Section F: Challenges in designing and implementing tax incentives

20) For each of the following statements on the benefits associated with tax incentives, please indicate the extent of your agreement or disagreement with each statement:

	Description	**1 Strongly disagree**	**2 Disagree**	**3 Neutral**	**4 Agree**	**5 Strongly agree**
20.1	Tax incentives are not frequently changed.					
20.2	Tax incentives provide investors with certainty over its application and longevity.					
20.3	Tax incentives boost the growth of enterprises.					
20.4	Tax incentives cut the cost of purchases of new machinery.					
20.5	Tax incentives cut the cost of upgrading skills of workers.					
20.6	Tax incentives help to increase employment.					

21) For each of the following statements on the challenges of designing an effective tax incentive regime, please indicate the extent of your agreement or disagreement with each statement:

	Description	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
21.1	It is difficult to determine one set of incentives that works for different contexts.					
21.2	Incentives need to be carefully designed to achieve specific policy goals.					
21.3	Poorly targeted tax incentives are ineffective.					
21.4	Poorly targeted tax incentives are expensive.					

Section G: The benefits and challenges associated with tax incentives

22) If you have applied for a tax incentive(s), tick as many options in the list below which are applicable to your business.

22.1	The tax incentive(s) helped me to grow my business.	
22.2	As a result of the tax incentive(s), I employ more workers.	
22.3	The tax incentive(s) allowed me to increase my turnover.	
22.4	I intend to apply for more tax incentives in the future.	
22.5	The tax incentive(s) helped me/my business buy more machinery.	
22.6	I found the cost of application have exceeded my available resources	
22.7	Other (Please, specify).	

23) What do you consider to be the best type of tax incentives to be applied in South Africa? (Please, tick as many as possible).

23.1	Tax incentives with low administrative cost for government.	
23.2	Tax incentives with low administrative costs for firms.	
23.3	Tax incentives which are not frequently changed.	
23.4	Incentives which provide investors with certainty over its application and longevity.	
23.5	Tax incentives which are transparent and easy to understand.	
23.6	Tax incentives with specific policy goals and precisely expressed in the legislation.	
23.7	Other (Please specify)	

APPENDIX C: APPROVAL TO CONDUCT RESEARCH

DUT
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9 March 2016

IREC Reference Number: **REC 114/15**

Mr A D S Paulo
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Dear Mr Paulo

The Impact of Manufacturing Incentives in the Clothing and Textile Industry in KwaZulu-Natal: A Case Study of Durban

The Institutional Research Ethics Committee acknowledges receipt of your final data collection tool for review.

We are pleased to inform you that the questionnaire has been APPROVED; you may now proceed with data collection on the proposed project.

Kindly ensure that participants used for the pilot study are not part of the main study.

Yours Sincerely

Professor J K Adam
Chairperson: IREC

DUT DURBAN UNIVERSITY OF TECHNOLOGY
2016 -03- 09
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