The University of Manchester
Global Development Institute

Global Development Institute

Working Paper Series

2020-048

October 2020

ISBN: 978-1-912607-06-8

Covid-19 and the governance of regional apparel value chains: implications for suppliers and workers in Eswatini

Giovanni Pasquali[1]

[1] Global Development Institute, University of Manchester, UK

Email: Giovanni.pasquali@manchester.ac.uk

Shane Godfrey[2]

[2] Labour, Development and Governance Research Unit, University of Cape Town, South Africa

Cite this paper as:

Pasqauli, G and Godfrey, S (2020) Covid-19 and the governance of regional apparel value chains: implications for the suppliers and workers in Eswatini. GDI Working Paper 2020-048. Manchester: The University of Manchester.

Abstract

There is a growing literature on the impact of Covid-19 on commercial and labour conditions at suppliers in apparel global value chains (GVCs). Yet much less is known about the implications for suppliers operating in regional value chains (RVCs) in the Global South. In this working paper we focus on Eswatini, which has grown to become the largest African manufacturer and exporter of apparel to the region. We draw on a combination of firm-level export data and interviews with stakeholders before and after the Covid-19 lockdown to shed light on the influence of private and public governance on suppliers' economic and social up- and downgrading before and during the lockdown. In terms of private governance, we point to the coexistence of two separate structures: one characterised by direct contracts between South African retailers and large manufacturers (ie direct suppliers); the second operating through indirect purchasing via intermediaries from relatively smaller producers (ie indirect suppliers). While direct suppliers enjoyed higher levels of economic and social upgrading than indirect suppliers before Covid-19, the pandemic reinforced this division, with severe price cuts for indirect suppliers. Further, while retailers provided some direct suppliers with support throughout the crisis, this was not the case for indirect suppliers, who remain comparatively more vulnerable. In terms of public governance, the negative consequences of the lockdown on firms' income and workers' livelihoods have been compounded by the state's ineffective response. Our paper contributes to the research on the impact of external shocks on firms in developing countries. It also provides evidence that suppliers and workers in RVCs with end-markets in the Global South do not necessarily face greater challenges than those in GVCs.

Keywords

Covid-19, regional value chains, apparel, governance, upgrading, Eswatini, South Africa

JEL Codes

F23, L23, M11

Acknowledgements

We would like to thank the ESRC-GCRF for the ES/S000453/1 grant to which this paper is linked as part of the project **'**Shifting South: decent work in regional value chains and South–South trade**'**. We are also extremely grateful to Professor Stephanie Barrientos and the anonymous referees for the insightful comments which have significantly improved the paper. Finally, special thanks go to Chris Jordan, Emma Kelly and Robert Dawber for their support with the organisation and dissemination of the paper and the related blog.

1. Introduction

The outbreak of the Covid-19 pandemic is having major implications for the governance of apparel global value chains (GVCs). The actions of international retailers who, in a number of cases, have delayed or cancelled orders, and refused to pay for ongoing production and shipments, has placed immense pressure on suppliers (Anner, 2020). This situation has been compounded by temporary lockdowns by governments to constrain the spread of the virus. The combination of retailers' and governments' actions has led to a number of negative consequences for suppliers' income and the welfare of their labour force, including widespread closures, downsizing and unemployment. Limited state support has meant that these negative consequences have been especially severe in developing countries, where state support for manufacturers is limited (Teodoro & Rodriguez, 2020). In a concept central to GVC literature (Barrientos et al, 2011), the Covid-19 pandemic has therefore translated into economic and social downgrading for suppliers and workers in the Global South.

While increasing attention is being paid to the implications of the pandemic for firms in the Global South supplying retailers in Europe and the US (Devnath, 2020; Kelly, 2020; Mirdha, 2020), we know less about its impact on regional production networks connecting buyers and suppliers in developing countries. In this context, scholars have used the concept of regional value chains (RVCs) to indicate inter-firm networks coordinated and governed by lead firms “primarily operating within one world region” (Barrientos, Knorringa et al,, 2016, p 1280; Krishnan, 2018; Pasquali, 2019). This research has emerged against a backdrop where the value of South–South trade overtook North–South trade in the 2010s, with intra-regional commerce accounting for a large share of the Global South's improved trade performance (Horner & Nadvi, 2018; McKinsey & Co, 2019; Mohanty et al, 2019).

Given the growing importance of RVCs (EIU, 2020; Pasquali et al, 2020), this working paper aims to examine the interaction of both private and public governance in shaping suppliers' economic and social up- and downgrading in RVCs (Alford & Phillips, 2018). Moreover, by focusing on the periods both before and during a large exogenous shock – ie the Covid-19 pandemic – our paper provides a unique comparative account of RVCs' adaptive responses to major shocks.

Previous research suggests that the role of private governance via social codes of conduct and civil society campaigns is more limited in RVCs in the Global South than in North–South GVCs, and that civil society campaigns do not exert pressure on lead firms to police labour conditions at suppliers (Barrientos & Smith, 2007; Barrientos, Knorringa et al, 2016). Similarly, in terms of public governance, enforcement by national governments is usually weak, prompting some scholars to argue that governments have “outsourced the governance of value chains” to transnational retailers, adding that this has often produced questionable outcomes (Mayer & Phillips, 2017, p 134; Alford & Phillips, 2018). Scholars have also argued that South–South value chains are characterised by relatively more price-driven consumer preferences, lower labour standards (Kaplinsky et al, 2011; Staritz et al, 2011), and constrained public resources that limit the extent of state intervention to support firms and workers (Locke, 2013; Goldin, 2018). If all this is true, the negative consequences of Covid-19 for suppliers' economic and social upgrading observed in GVCs are likely to be amplified in South–South RVCs.

In this paper, we focus on Eswatini, the largest regional exporter of apparel into South Africa, in order to address three main questions:

1. How do South African lead firms govern their interaction with Eswatini's apparel suppliers?
2. What have the implications of such governance been for suppliers' economic and social upgrading before and during the Covid-19 pandemic?
3. What has been the role of the state's public governance in shaping the latter?

To answer these questions, we draw on a combination of interviews conducted with suppliers and key stakeholders before and during the pandemic, as well as on a unique dataset of transaction-level export data covering the 2017–20 period.

In the first part of the paper, we focus on question 1 and provide an overview of the Eswatini apparel industry in relation to its participation in RVCs connected to South African retailers. Notably, we point to the coexistence of two separate governance structures: the first characterised by direct contracting between lead firms and comparatively large suppliers (ie direct suppliers); the second operating through indirect purchasing via intermediaries known as design houses, which manage the interaction between retailers and a set of relatively small suppliers (ie indirect suppliers). This division, we argue, has important implications for the economic and social upgrading of local producers, with direct suppliers displaying significantly higher scores on both measures.

In the second part of the paper, we answer questions 2 and 3 by focusing on the impact of the Covid-19 lockdown on suppliers' up- and downgrading, and on how public governance interventions have shaped such impact. Our conclusions suggest that the impact of the lockdown on the Eswatini apparel industry has been severe in terms of firms' income and workers' employment and earnings, therefore resulting in economic and social downgrading. Critically, however, all (but one) South African buyers honoured their contractual agreements with Eswatini suppliers and, in a few cases, provided them with direct support. This evidence differs from the situation in Bangladesh, where many large European and American buyers refused to honour their contractual obligations, with catastrophic consequences for the local industry (Anner, 2020). We therefore provide evidence that warns against necessarily correlating South–South value chains with relatively worse economic and social outcomes (Oldekop et al, 2020).

Nevertheless, as we argue, the situation in the Eswatini apparel sector remains critical and demands a concerted effort from firms (buyers and suppliers), workers' representatives and the government. Despite ongoing negotiations between the government, the main union in the sector and employers, as of June 2020, Eswatini had yet to implement any Covid-related support measures.

2 Governance and upgrading in apparel GVCs and RVCs

Arguably, more has been written on apparel than on any other value chain. As a labour-intensive sector with relatively inexpensive technological requirements, apparel has been identified as a key industry for kick-starting industrialisation in the Global South, through participation in GVCs serving retailers in developed countries (Bair & Gereffi, 2003; Gereffi & Frederick, 2011). This literature has focused on how large retailers in the US and Europe – termed 'lead' firms – manage their interactions with suppliers in developing countries, a process referred to as 'private governance' (Gereffi et al, 2005). Gereffi's (1999, p 40) and Staritz's (2011) seminal works on East Asia's and Southern Africa's apparel sectors point to contrasting ways of governing apparel value chains. In the first, lead firms own and provide the inputs, primarily designs and fabric, for assembly by garment sewing plants that simply cut the fabric and assemble the garments (termed cut, make and trim (CMT) suppliers). In the second, suppliers source the inputs themselves according to buyers' specifications, effectively owning the garment that they package and sell to retailers (known as free-on-board (FOB) manufacturing). It has been argued that the movement from CMT to FOB manufacturing is critical for firms and countries to reap the economic benefits of participation in GVCs (Gereffi & Frederick, 2010). The process of improving products and processes, and taking on higher new production functions "to increase the benefits or profits deriving from participation in GVCs" upgrading' (Barrientos et al, 2011, p 323) has been termed 'economic . Conversely, 'economic downgrading' relates to participation in GVCs that fails to produce economic gains.

Another strand of GVCs literature has been concerned with labour conditions at suppliers in apparel GVCs (Anner, 2015; Godfrey, 2015; Bair, 2017). One focus of this research has been whether and how economic benefits from participation in GVCs translate into welfare gains or losses for the labour force – respectively referred to as 'social up- or downgrading' (Barrientos et al, 2011). On the one hand, scholars have paid increasing attention to the impact of lead firms' codes of conduct and audits on workers in manufacturing plants, which falls under the rubric of private governance. On the other hand, investigation of labour conditions has also seen greater attention paid to the impact that actors 'outside' the value chain – in particular the state and civil society organisations – have on its functioning (Mayer & Phillips, 2017). The concepts of public and social governance have been used to analyse how, respectively, the state and civil society influence the formation and organisation of value chains (Gereffi and Lee, 2016; Alford & Phillips, 2018). Having recognised that civil society campaigns in developed countries played a critical role in pushing lead retailers to impose corporate codes of conduct on their suppliers (Barrientos & Smith, 2007; Lund-Thomsen & Lindgreen, 2014), research on social upgrading sought to understand how public and social governance in the localities where suppliers are based contributed to improved wages and working conditions. Generally, the results have indicated only a limited impact on labour conditions by private governance mechanisms combined with public and social governance: weak labour market institutions in developing countries and the reliance on foreign investments have forced governments to make compromises, with private governance not able on its own to make a significant impact (Locke, 2013; Phillips, 2013; Mayer & Phillips, 2017).

Researchers have also looked at the role of trade policies in shaping firms' participation in apparel GVCs (Curran & Nadvi, 2015). The introduction of the Multi-Fibre Arrangement (MFA) in 1974, which imposed a quota on the quantity of apparel developing countries could export to developed economies, radically shifted the geography of apparel GVCs (Pickles et al, 2015). As their quota ceilings were reached, East Asian manufacturers transferred part of their production to countries with unexploited quotas (including Sub-Saharan Africa), thereby creating apparel sectors through foreign direct investments. It is in this context that 'triangular sourcing' emerged: head offices in East Asia took orders from European and American retailers, purchased the fabric and shipped it for assembly to their production facilities – generally wholly-owned CMTs – in other East Asian countries or in Africa; subsequently the garment was exported to the retailer (Gereffi, 1999; Gibbon, 2008). After more than a decade of the MFA Eswatini, Lesotho, Madagascar and Kenya emerged as major production hubs, more than quadrupling their exports between 1999 and 2003 (Staritz & Frederick, 2013). The firms that were established in this period were sustained through the phase-out of the MFA by the introduction of the Africa Growth and Opportunity Act in 2001, which enabled duty-free apparel exports to the US market to continue.

Much of the above literature has examined value chains linking retailers in the Global North to suppliers in the Global South (Horner & Nadvi, 2018). Value chains oriented towards Southern end-markets have been overlooked until relatively recently (Barrientos, Gereffi et al, 2016; Horner, 2016). Filling this gap is critical considering the unprecedented growth of South–South trade, together with the rise of RVCs (UNCTAD, 2015; Mohanty et al, 2019). In the apparel sector, while a large proportion of international trade remains North–South, RVCs in the South have been growing (Pickles et al, 2015). This is particularly the case in Southern Africa, where intraregional trade now accounts for about 35% of the regional output, up from 8% in 2005 (Morris et al, 2016; Pasquali et al, 2020).

In light of growing South–South trade, the question has been raised of whether we will observe a 'race to the bottom' in terms of prices and labour regulation, as Southern consumers privilege lower prices over ethical considerations (Dobbs et al, 2012; Kaplinsky et al, 2011; Rangel, 2012), particularly given the absence of civil society campaigns about labour conditions in Southern markets (Godfrey, 2015; Barrientos, Knorringa et al, 2016). The Covid-19 pandemic has sharply foregrounded this question. Anner (2020), for example, has shown how European and American retailers in GVCs failed to honour their contractual obligations with suppliers in Bangladesh, leading to widespread closures and labour retrenchments. Similar dynamics have also been reported in Sri Lanka, Cambodia and Pakistan (Narim, 2020; Toppa, 2020). No similar research has, however, been conducted on how the pandemic has impacted RVCs.

Furthermore, few studies have explored how private and public governance interact to shape suppliers' economic and social upgrading (or downgrading) in response to exogenous shocks (Baldwin & Evenett, 2020). This article therefore provides an important and unique contribution to the literature on GVCs, spanning economic geography and international business studies.

3 Data and methodology

In this study we focus on Eswatini's apparel sector, drawing on three data sources. First, semi-structured interviews conducted in July 2019 with all 20 apparel manufacturers in the country. These include 15 small- to medium-sized plants (with less than 1,000 employees) operating mostly via design houses, and five large suppliers (with over 1,000 employees) operating through direct contracts with South African retailers. Interviews were conducted before the Covid-19 crisis and are used to illustrate the structure and governance of Eswatini's apparel value chain, paying particular attention to the commercial and social implications for suppliers operating through direct contracts with regional lead firms (direct suppliers), and suppliers selling into RVCs through intermediaries (indirect suppliers). For this purpose, we considered a set of economic structural indicators, such as firm production capacity and number of employees; basic firm-level indicators of value addition, including functions performed and average mark-ups; and private governance indicators, including the internal structure of the firm and the adoption of private standards. Furthermore, drawing on previous studies on social upgrading, we assessed differences in terms of labour conditions and entitlements (Barrientos & Smith, 2007), including wages, share of workforce that is permanent, union organisation in the firm, access to healthcare facilities, and the presence of regular social audits (Barrientos et al, 2011; Pasquali, 2019). To the extent that women make up over 90% of the sector workforce, we also looked at whether there are gender discrimination policies and committees in the factories (Barrientos, 2019). Data on labour were collected from firms' management and further triangulated with information from interviews with a limited number of workers (ie one or two workers per firm in 15 of the 20 firms), who were approached through the Amalgamated Trade Union of Swaziland (ATUSWA) in July 2019.[1]

Second, we looked at transaction-level customs data for apparel exports collected by the Eswatini Revenue Authority over the 2017–20 (up to 30 April) period. Every observation in the dataset corresponds to an export transaction with information on quantity (kg), real value in ZAR, date of transaction, unique identifiers for exporting and importing firms, country of destination, and the World Customs Organization's Harmonized System (HS) 8-digit code identifying the traded product. For the purposes of this paper, we considered only transactions that took place is the months of March and April 2017, 2018, 2019 and

[1] Eswatini was previously referred to as Swaziland until 2018. The union ATUSWA has retained the old acronym.

2020. We calculated moving averages for the period 2017–19 and compared them to their respective indicators for 2020. We considered four main indicators at the aggregate and the firm level, which were used as indicators of economic up- and downgrading:

Total exported value: We computed the total exported value at the sector level for apparel (including HS levels 61, 62 and 63) and compared it before and during the Covid-19 lockdown. Furthermore, we calculated average exported values at the firm level. Changes in a country's and a firm's total exports in a given sector are an important indicator of economic upgrading (Bernhardt & Milberg, 2012).

Unit values: We used the common practice of measuring product quality using unit values (Schott, 2004; Hallak, 2006). An increase or decrease in unit values has been used as an indicator of economic up- and downgrading, respectively (Bernhardt & Milberg, 2012; Bernhardt & Pollak, 2016; Van Assche & Van Biesebroeck, 2018). This is calculated as the natural log of the transaction's real value divided by the quantity exported.

Market concentration: This was calculated as the aggregate export share of the largest exporters. Previous research has argued that economic and financial shocks often result in market concentration within GVCs, leading to the exclusion or decoupling of smaller suppliers (Staritz et al, 2011) – a dynamic previously linked to economic downgrading (Funcke et al, 2014).

Product diversification: calculated as a firm's average number of exported products at the 6-digit HS level and within the broader apparel HS levels (61–63).[2] An increase in 'related product diversification' across products within the same sector has been associated with increased business performance, and is therefore also an indicator of economic upgrading (Hitt et al, 1997; Chang & Wang, 2007).

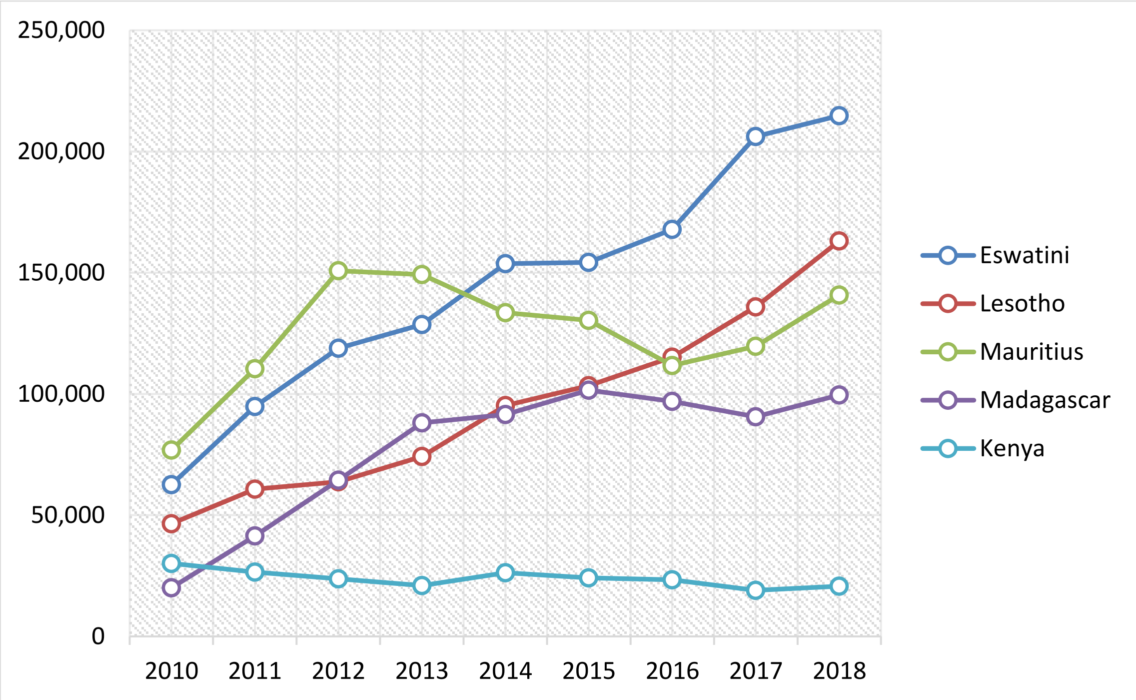
Our third data source took the form of a second round of questionnaires distributed to firms online in June 2020 to triangulate the outcome of the data analysis at the firm level. We sent a short questionnaire to all 20 suppliers interviewed over the previous year. We received eight replies. Because of the relatively small number of responses, we refrain from drawing final conclusions from the online questionnaires. Instead, responses are considered complementary to the evidence emerging from customs data and are used to shed further light on aspects underpinning the impact of the Covid-19 crisis on firms relative to their economic performance and labour situation. A major limitation of this paper is that we did not interview workers in 2020. Our information on labour (post-Covid-19) is based solely on firms' online responses and on interviews with the General Secretary of ATUSWA and the Chair of the Eswatini Textile and Apparel Traders Association (ETATA) in June 2020.

[2] Lubatkin et al (1993) found a strong correspondence between product-count measures and Rumelt's (1974) categorical measures of diversification, which supports the validity of product-count measures.

4 Eswatini apparel RVCs before Covid-19

Apparel represents a crucial source of income for Eswatini's economy, employing over 22,000 people and accounting for 10.5% of the country's 2019 exports. Despite its small size relative to global apparel production, the country is a crucial player in RVCs feeding into the South African market (Staritz et al, 2016). As shown in Figure 1, Eswatini is the largest apparel exporter to the region and the one that experienced the steepest overall growth in terms of regional exports. In 2019, it accounted for 33% of all intraregional apparel exports in Sub-Saharan Africa, followed by Lesotho (26%), Mauritius (21%) and Madagascar (14%) (UN-COMTRADE).[3]

Figure 1: Intra-Africa regional exports by main exporting countries: 2010–18 (US$000)



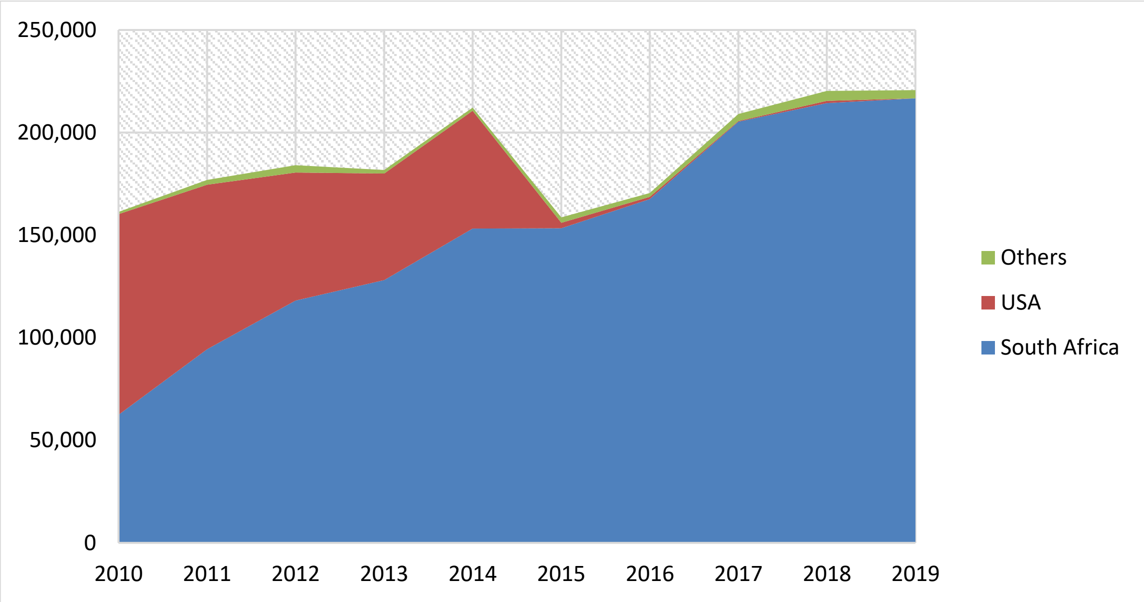
Source: Authors' elaboration based on UN-COMTRADE https://comtrade.un.org/.

An extensive literature has discussed the emergence of the apparel sector in Eswatini, driven by Taiwanese FDIs in the early 1990s taking advantage of unused MFA quotas to access the US market (Staritz & Morris, 2012; Pickles et al, 2015). Despite the phasing out of the MFA, the African Growth and Opportunity Act (AGOA) effectively extended the country's preferential access to the US market starting from 2001 (Morris et al, 2011; Staritz, 2011). However, in the past 15 years, Eswatini's apparel industry has increasingly strengthened its linkages to RVCs via South African investments attracted by lower labour costs and Southern African Customs Union (SACU) preferential trade regulations (Morris et al, 2011, 2016). The country's exclusion from the AGOA in 2014 further accelerated its shift towards the South African market (Pasquali et al, 2020). By

[3] The data exclude South Africa's exports, since over 95% of these are re-exports (Barnes & Hartogh, 2019).

2015, all overseas exporters had successfully shifted to supply large South African retailers, including major brands such as Mr Price, the Foschini Group (TFG), Pepkor, Edcon, Woolworths and Truworths.[4] Despite Eswatini regaining its AGOA status in 2018, as of today, exports to the US have not resumed and South Africa remains the main market for 95% of the country's output (Figure 2).

Figure 2: Eswatini's apparel export share by destination (US$000)



Note: Computed using mirror data.
Source: Authors' elaboration based on UN-COMTRADE.

4.1 Private governance: direct vs indirect suppliers

In 2019, Eswatini had 21 apparel manufacturing plants, with two new firms planned to open in 2020. With the exception of three firms, all manufacturers are managed by foreign investors, whose domestic and regional networks have been shown to differ significantly depending on their origin and end-markets. Previous research categorised suppliers in Eswatini into three groups, depending on their origin and insertion into domestic and regional networks: (1) transnational investors, characterised mostly by Asian entrepreneurs interested in leveraging the country's duty-free access to the US market under, first, the MFA and then AGOA; (2) regional investors from South Africa; and (3) so-called 'diaspora investors', who developed strong domestic and regional linkages while maintaining global linkages favoured by their foreign descent (Staritz, 2011; Morris et al, 2016).[5] According to this research, not only are these three categories

[4] Together, these six retailers account for over 90% of the South African internal market (Barnes & Hartogh, 2019) and have recently begun expanding across Africa and globally (Pasquali et al, 2020).
[5] The latter authors further refer to a fourth category of 'indigenous investors', yet they also acknowledge that: 'Swaziland [Eswatini] ha[s] no significant indigenous owned apparel exporters' (Morris et al, 2016, p 1251).

associated with different end-markets (the US in the first case, South Africa in the second, and a mix of the two in the third), but they have also led to different upgrading outcomes, with regional investors operating smaller plants, and focusing on smaller quantities of more complex products, while also facilitating relatively more knowledge transfer and training (Morris et al, 2016).

We argue, however, that there is another crucial (and possibly more important) distinction underpinning the organisation of Eswatini's apparel industry, which is the *structure* of suppliers' linkages to South African retailers. As discussed above, since the country's loss of its AGOA status, all firms have shifted their export market to South Africa (Pasquali et al, 2020). However, the governance of the value chain varies primarily according to whether contracting is direct or via design houses. On the one hand, six to eight firms have established direct interactions with South African retailers (we refer to these as direct suppliers),[6] which implies the presence of a contract linking the manufacturing unit to the final retailer, as well as ongoing personal engagement.[7] On the other hand, 12–14 firms operate indirectly through design houses (we refer to these as indirect suppliers), which act as intermediaries for South African retailers. In this case, the suppliers never interact with the final retailers and their awareness of the order's final destination is apparent only from the tag applied on the finished clothing.[8] Instead, their relationship operates through third-party agencies that provide the suppliers with the designs and fabric, and deliver the final products to the retailers. The design houses are all based in South Africa. Our data indicate that at least six design houses were active in Eswatini in 2019, with linkages to three large South African retailers – Pepkor, Mr Price and Edcon, ie the major discount retailers. Conversely, TFG, Woolworths and Truworths appeared to operate largely via direct contracts.[9]

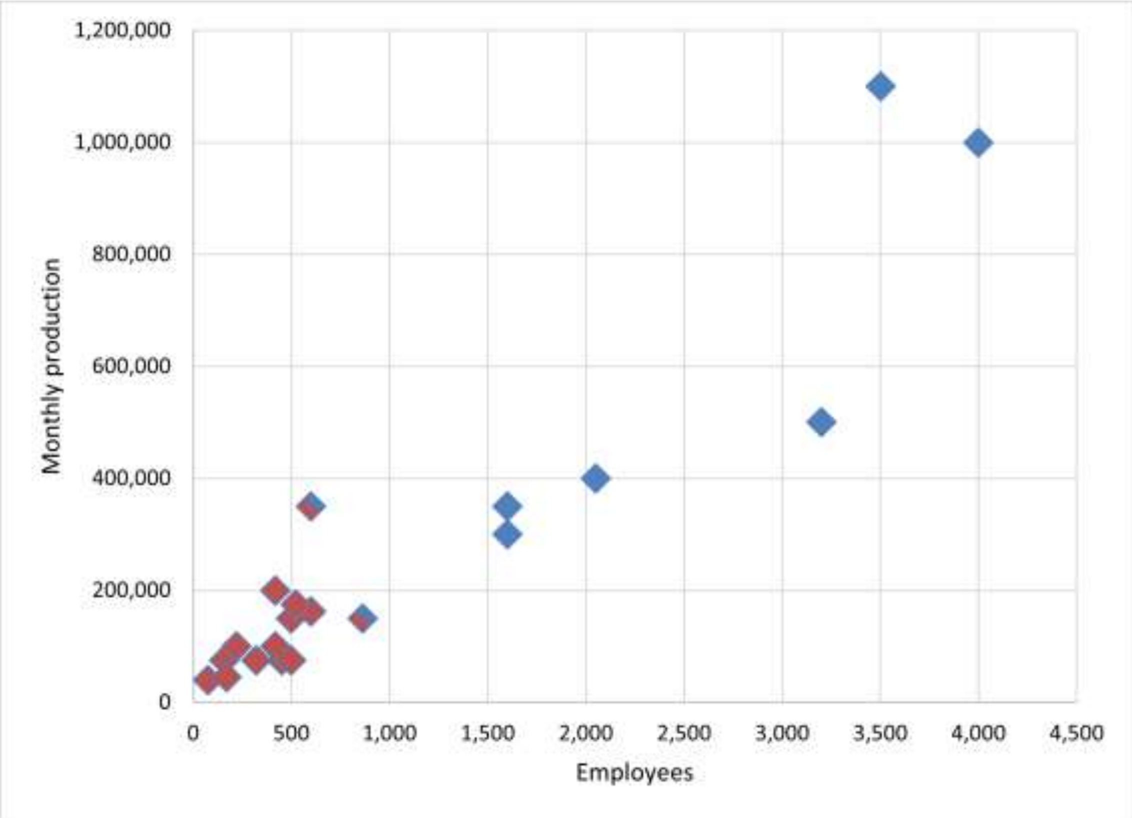
Our pre-Covid-19 survey points to significantly different implications for the economic and social upgrading of direct and indirect suppliers. We examine these in turn below.

4.2 Differences in economic upgrading before Covid-19

In terms of economic upgrading, we identify four major implications for suppliers which differ according to whether they contract directly with retailers or indirectly via design houses. First, direct suppliers are significantly larger than indirect suppliers, with an average of 2,176 employees per firm versus 363 for indirect suppliers, and an average monthly production of 490,000 pieces compared to 120,000 pieces for indirect suppliers (Figure 3).

[6] Two firms operate via both direct contracts and indirectly through design houses.
[7] As for trade in apparel GVCs, some retailers prefer to source directly from manufacturers and bypass intermediaries so as to increase control over quality and delivery time (Gereffi, 1999).
[8] One small firm operates exclusively for the domestic market under its own brand; it is therefore excluded from the analysis.
[9] As of 2019, Pepkor is the only retailer sourcing in Eswatini almost exclusively through design houses. Mr Price and Edcon maintain a mix of direct and mediated interactions.

Figure 3: Direct and indirect apparel suppliers by number of employees and monthly capacity (2019)



Note: Orange and blue blocks indicate indirect and direct suppliers, respectively. Half-coloured blocks indicate suppliers operating both through direct and indirect linkages.
Source: Authors' survey.

Second, firms' size is directly linked to the number of functions performed within the firm (beyond cutting and sewing), including laundering, printing and embroidering (Figure 4). In almost 90% of the cases, direct suppliers perform at least one of these auxiliary functions, whereas this is the case for fewer than 10% of indirect suppliers. Further, 75% of direct suppliers operate as FOB or a mixture of FOB and CMT manufacturers, while all indirect suppliers in Eswatini work exclusively as CMT operations. This has important repercussions in terms of public revenues, as FOB suppliers contribute significantly more to the public purse through direct and indirect taxation. The Manager for Investment Promotion at the Eswatini Investment Promotion Authority (EIPA) argued:

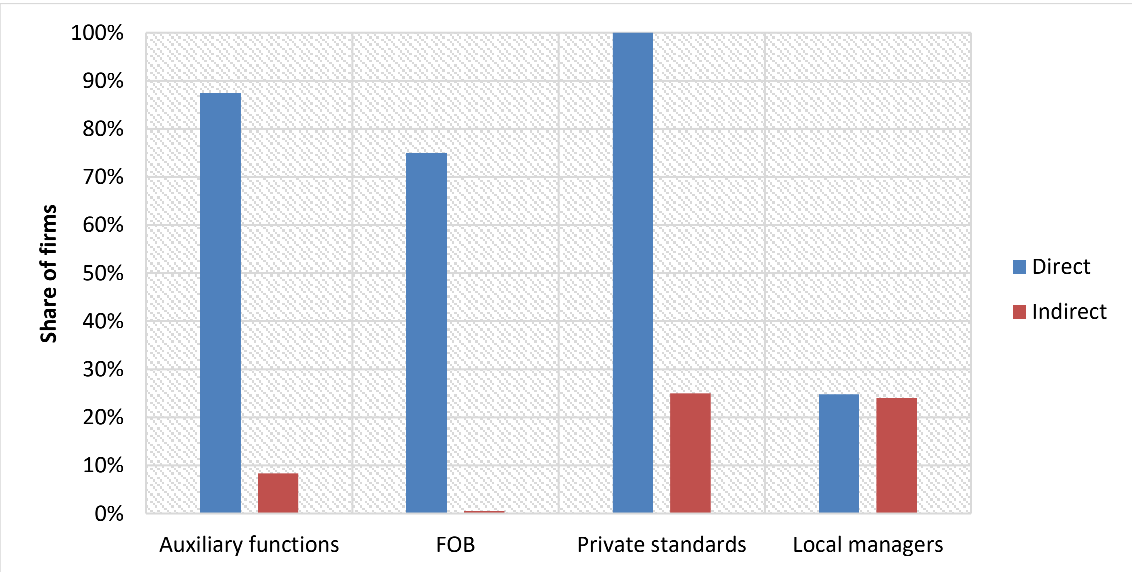
> To a great extent there isn't much direct benefit from CMT factories, beyond employment. FOBs pay taxes because their profits can be monitored, unlike the CMTs because they tell you that, "We don't own these products", to the extent that you don't even know how their accounts are structured. If you do not own the product, it does not appear in your balance sheet and inventory. (Interview, Mbabane, 8 July 2019)

Third, as a consequence of their contracts with South African lead firms, direct suppliers are more likely to undergo private audits from their buyers. All direct suppliers reported being subject to a number of private standards and certifications, including the SEDEX audits (four firms, two of which reported using the ETI base code), WRAP (one firm), ISO-9001 (one firm), and buyers' internal audits, such as Woolworth's gold-silver-bronze-red ranking system (WHL, 2019). These audits benchmark firms based on a wide range of measures beyond production, including health and safety, and labour and environmental standards. Conversely, only 25% of indirect suppliers reported formal auditing, emphasising instead how design houses regularly send their staff to monitor only product quality.

Fourth, although it is difficult to quantify because of the wide range of items produced, direct suppliers tend to specialise in more complex clothing with a higher fashion content (including women's wear and men's woven shirts). This translates into comparatively higher unit values and mark-ups. Data on mark-ups have been disclosed only by a handful of firms, with considerable variations. Nevertheless, while direct suppliers reported mark-ups in the range of 6% to 14%, indirect suppliers reported working on margins as low as 2% and up to 8% (Figure 4).

Finally, we did not find any major discrepancy in terms of local and regional linkages among the two groups. The average number of local linkages that each firm establishes with other local firms within the textile and apparel sector (this includes contracting and subcontracting CMT, laundering, embroidery and printing activities), is similar – ie each supplier interacts on average with one other local firm either through outsourcing or sub-contracting of specialised functions.

Figure 4: Economic upgrading among direct and indirect suppliers (2019)



Source: Authors' survey.

4.3 Differences in social upgrading before Covid-19

Direct and indirect suppliers differ significantly on a number of indicators associated with social upgrading (Figure 5).

First, direct suppliers report undergoing regular social audits – although, as observed elsewhere (Pasquali et al, 2020), these are less rigorous than those previously done by or for US retailers. Fewer than 20% of indirect suppliers reported undergoing audits that included a labour component. As reported by the manager of an indirect supplier operating for a Durban-based design house and producing clothing for a large South African discount retailer: "The agent comes fortnightly to inspect quality. They have a QA person based here. They do not inspect anything to do with workers; that is the government's job" (interview, Matsapha, 24 July 2019).

Second, over 60% of firms across both groups have not recognised a trade union;[10] yet, as reported by a representative of ATUSWA, the number of firms doing so has been slowly increasing over the past few years (interview, Manzini, 15 July 2019). As of 2019, six firms had recognised ATUSWA as the representative of their employees and two firms (large direct suppliers) had signed a collective bargaining agreement (CBA) with the union. All other manufacturers only conformed to the minimum labour conditions as provided by the employment and labour legislation.[11] The legislation also provides that an employer with more than 25 workers may establish a 'works council'. All firms reported having either a works council or similar committee through which workers could engage with management (either established by the employer or by the union). However, while all but one direct supplier held regular meetings with the works council, in 50% of indirect suppliers, meetings were less regular and at management's discretion.

Third, direct suppliers are more likely to have a clinic in the factory providing workers with free or subsidised healthcare services. As a result of their comparatively small size and capital endowments, indirect suppliers often rely on nearby public hospitals, mobile clinics (co-funded by a number of NGOs active locally), and in-firm first-aid support.

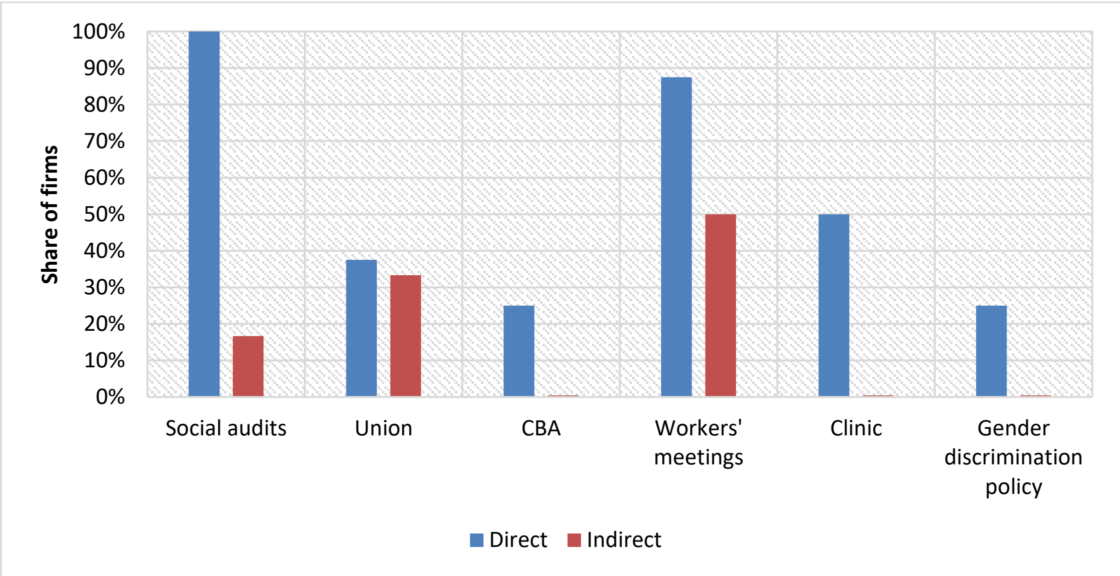
Fourth, despite women accounting for over 90% of the workforce, no firm had a gender committee as of 2019, but two direct suppliers (25%) reported having a gender discrimination policy in place.

Importantly, we did not find any significant difference in a number of social upgrading indicators. This includes the share of the workforce that is permanent as opposed to temporary, where the average varies between 78% and 82% across direct and indirect

[10] Recognition occurs when the employer formally acknowledges a trade union as the representative of the workforce within the factory. In Eswatini recognition is mandatory when 50% or more of the workforce are paid-up members of the trade union.
[11] One firm recognises a different and smaller union, Swaziland Industrial Workers Union (SIWU).

suppliers, respectively.[12] All suppliers but one were paying strictly at the minimum wage rate and complying with the minimum labour conditions as provided by employment and labour law. Bonuses on productivity targets are paid by most suppliers, while only one firm rewards loyalty through bonuses linked to the length of a worker's employment at the company. Similarly, all suppliers experience high labour turnover rates of around 30% per year. Moreover, local (Swazi) managers (excluding supervisors) remain a minority in both groups (25% and 24% among direct and indirect suppliers, respectively), while foreign ownership (beyond the SACU region) is also close to 50% in both groups. Such owners are mainly Taiwanese and South African investors as well as one Filipino and one from Hong Kong – plus three Swazi entrepreneurs.

Figure 5: Social upgrading among direct and indirect suppliers (2019)



Source: Authors' survey.

The data show that the different forms of private governance have important implications for the economic and social upgrading of suppliers. Direct suppliers are comparatively more likely to integrate a larger number of production functions, to be regularly audited, to produce more complex items with higher mark-ups and to contribute more in terms of taxation. Furthermore, while almost all firms pay minimum wages, direct suppliers are more likely to undergo social audits, hold regular workers' meetings, and provide workers with basic healthcare facilities. In the section below, we discuss how this difference determines the uneven impact of Covid-19 on Eswatini's apparel sector.

[12] All firms follow the national labour legislation, which allows an employer to employ a worker for a probation period of up to three months before taking them on permanently.

5 Eswatini apparel value chain during Covid-19

The first Covid-19 case was registered in Eswatini on 14 March 2020, with the number of positive patients growing daily over the next two months. Following WHO recommendations, the government enacted a partial lockdown on 26–27 March, which lasted for six weeks and included the temporary closure of non-essential business and productive activities, the closure of the country's borders to foreigners, heightened screening measures for freight, the banning of non-essential internal travel, and the suspension of all commercial flights (Gardaworld, 2020). The lockdown was partially relaxed on 8 May for productive activities, which enabled most non-essential manufacturing plants to resume activities under stringent health and safety measures and social distancing, including allowing only 50% of the workforce into the factory at any time. Some services (including retail clothing stores) were also allowed to reopen for up to three days a week (Worldaware, 2020).

In the apparel sector, the concept of 'essential production' extends to cover the manufacture of PPE material and infant clothing, which enabled some manufacturers to produce and export these goods over the period of partial lockdown. After 8 May, however, most firms were open and exporting, though at lower capacity.

Critical in this respect has been the relaxation of lockdown measures in South Africa, the main export market for Eswatini's apparel. South Africa introduced a complete lockdown on 26 March, which included the closure of retail stores and borders, effectively stopping all imports with the exception of essential goods – for apparel this meant only PPE could be imported.[13] On 1 May, the South African government partially eased the lockdown, moving to Level 4 and enabling the trade and sale of infants' wear, bedding and winter wear for adults. This move allowed Eswatini's plants to resume some exports. On 1 June, South Africa moved to Level 3, opening up the trade and sale of all clothing categories (Government of South Africa, 2020).

Overall, however, the situation for the country's apparel export sector remains critical, with three plants still closed and a large majority of manufacturers operating at about 50% of their capacity (interview, ETATA, 5 June 2020). The situation has been further exacerbated by the heavy toll the lockdown has taken on South African apparel retailers, in particular Edcon, which officially filed for business rescue in April after failing to pay its suppliers for the previous two months (CNBC, 2020). Before the Covid-19 outbreak, eight Eswatini apparel exporters were supplying Edcon (at varying volumes), exposing themselves to potentially permanent labour retrenchment and even closure. The chair of ETATA noted: "A lot of the companies working for Edcon have been hit with sudden stops. Companies that were already working and had orders ready for shipment were told to stop and hold up. Now we are gradually re-opening, but these factories are in trouble as they actually do not have work" (interview, 5 June 2020).

[13] See South African Government Gazette, 25 March 2020, for a list of exemptions during the lockdown.

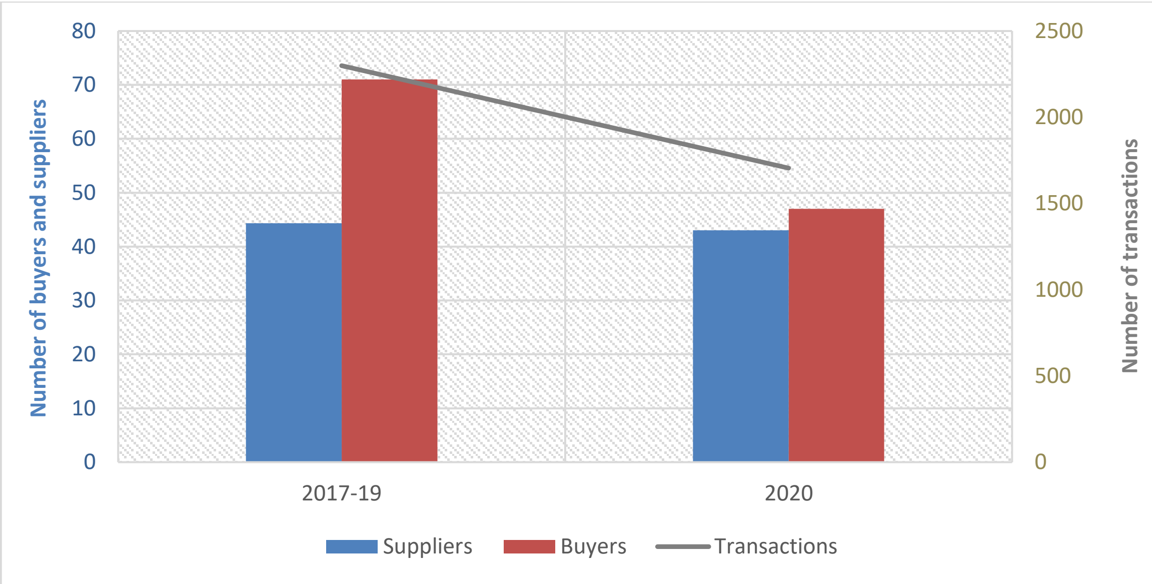
5.1 The impact of COVID-19 on economic up- and downgrading

In order to determine the impact of COVID-19 on economic up- and downgrading we first examine aggregate data for the Eswatini apparel export sector. The total number of exporters in 2020 does not appear to have changed compared to previous years, but the number of businesses sourcing apparel from Eswatini dropped by about 34% (Figure 6).[14] As a consequence, the data also show a 26% drop in the total number of transactions, ie orders. Whereas in the March–April period in 2017, 2018 and 2019 there were on average 2,299 export transactions by apparel firms, the Eswatini Revenue Authority recorded only 1,705 transactions in the same period of 2020. With regard to the destination of exports, we do not observe any major change, with South Africa remaining the main destination for 95% of the country's exports.

In terms of value, Eswatini exported an average of ZAR 461 million in the March–April period in 2017, 2018 and 2019. In 2020, however, this figure dropped by 46% to ZAR 249 million, reflecting the disruptive impact of Covid-19 on one of the country's largest export sectors. The market share of the largest three exporters also dropped, from 56% to 46%. This decline decreases from 10% to 2.7% when we focus on the upper six suppliers, and almost disappears (0.4%) if we extend the sample to the 18 main suppliers. The largest loss of market share, therefore, occurred among the largest suppliers. Although it may still be too early to say with certainty, this evidence contradicts previous research on GVCs in the region following the 2008 global financial crisis, when market concentration increased as buyers consolidated their suppliers' basket of products to reduce costs (Staritz et al, 2011; Staritz, 2011).

[14] The identity of buyers is anonymised in the data. It is therefore not possible to identify which buyers reduced their orders or ceased to source from Eswatini during the lockdown.

Figure 6: Number of apparel buyers and suppliers, and total transactions (March–April)



Source: Authors' elaboration of SRA data.

From the dataset, we further isolated suppliers that exported before and during the Covid-19 lockdown (ie suppliers that exported at least once in the 2017–19 period and once in the 2020 period). To further exclude small and occasional traders, we retained only observations for firms that exported at least 1 million rand's worth of apparel over the 2017–19 period. This resulted in a sample of 18 suppliers. We then computed their average annual exported value, average log unit values, and number of exported products for the period before (2017–19 moving average) and during the lockdown (March–April 2020) period. In doing so, we separated the top six firms and the bottom 12, based on their share of exports in 2017–19 (see appendix Table 1).[15] As noted previously, the top six firms are all large exporters directly contracted with South African retailers, whereas the remaining exporters operate through design houses.[16]

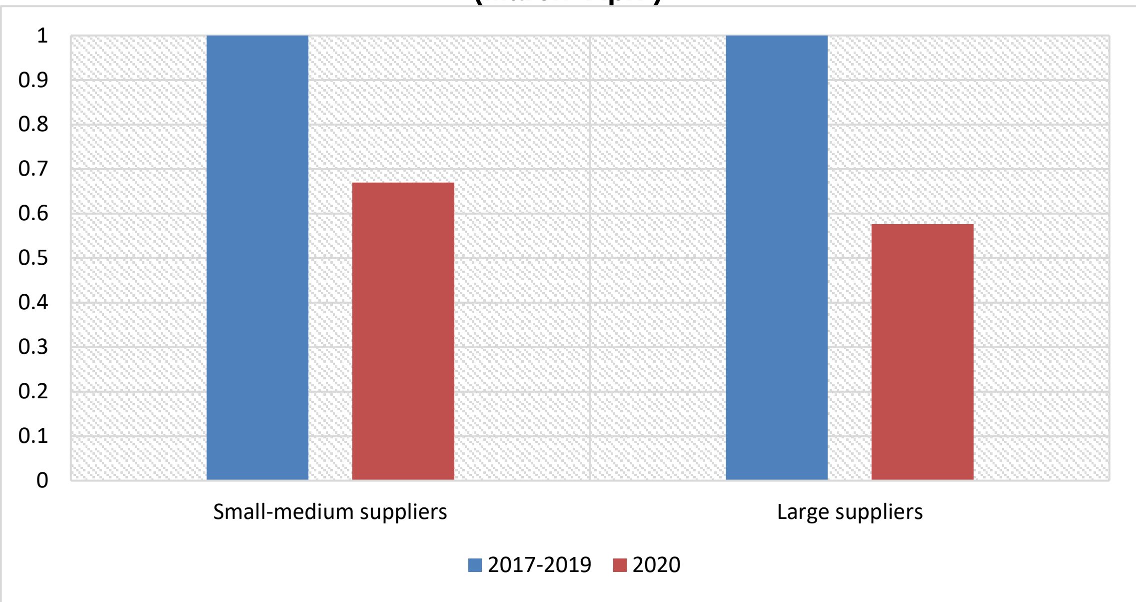
In terms of total exported value, both small and large suppliers experienced a significant drop. For small and medium suppliers, this drop averaged -35% compared to their yearly exports in the March–April period in 2017–19. For the country's largest exporters, the

[15] The top six suppliers have a significantly larger market share across the 2017–19 period. Table 1 in the appendix reports the market share of the top 18 exporting firms, with the largest gap between supplier number six and seven. Nevertheless, extending the upper quartile to include the top seventh and eighth exporters holds consistent results. These numbers are consistent with the structure of the Eswatini apparel industry, where the top six firms account for about 80% of the market share and employ over 1,000 employees each (data matched with authors' 2019 survey).

[16] To the extent that data is anonymised, and we cannot directly match firms to data, we base this statement on the evidence derived from Figure 3 that larger firms are also direct suppliers.

drop was even greater, at -42% compared to their exports in the years predating Covid-19 (Figure 7).

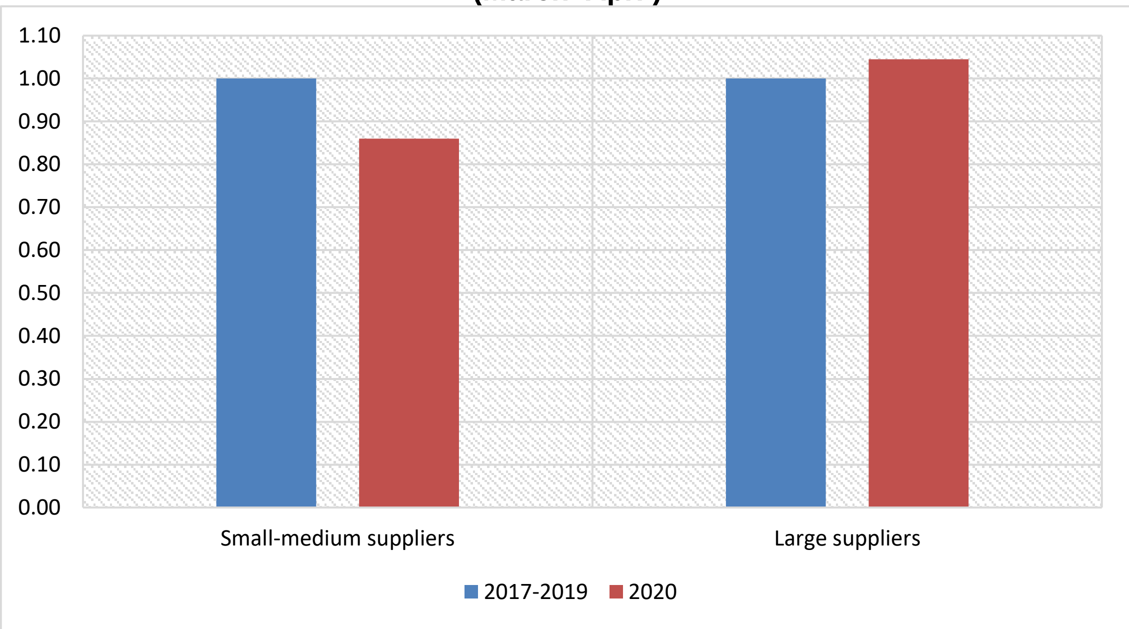
Figure7: Apparel firms' average yearly exports – normalised to 1 in 2017–19 (March–April)



Notes: To facilitate the visualisation, we normalised the average exported value for each group to 1 in the base period 2017–19. The firm's yearly average exported value for the base period 2017–19 for small to medium-sized firms and large firms are ZAR 23.5 million and ZAR 58.7 million, respectively. In 2020, the same values drop to ZAR 13.8 and 33.6 million, respectively.
Source: Authors' elaboration of SRA data.

When it comes to unit values, larger firms reported a marginal increase of 4.5%. Conversely, small and medium exporters suffered an average drop of 14% in March–April 2020 compared to the same period in 2017–19 (Figure 8).

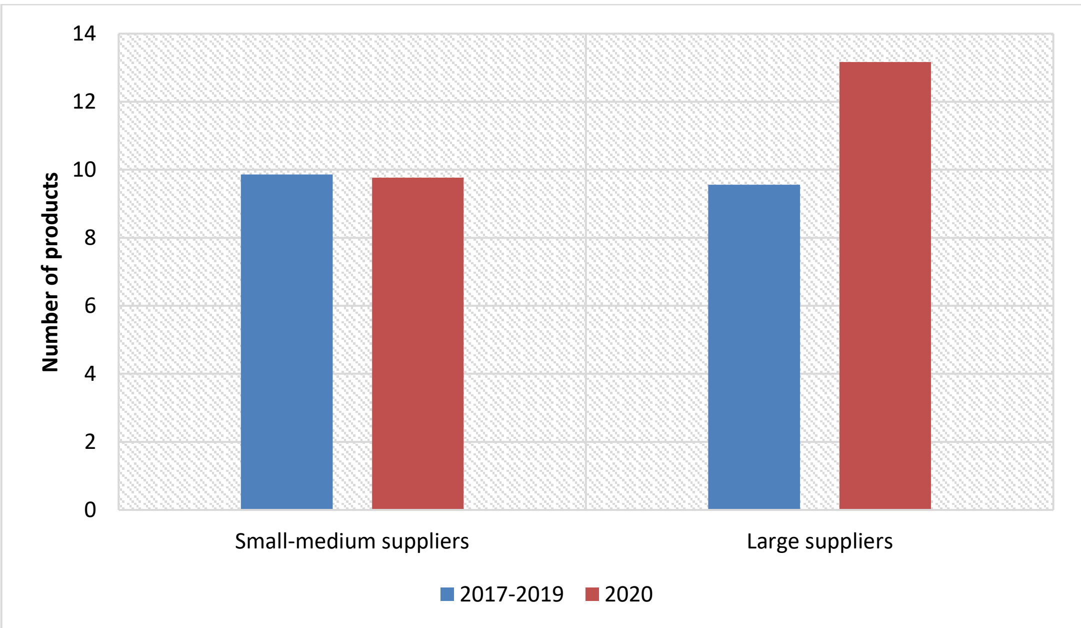
Figure 8: Apparel firms' average unit values – normalised to 1 in 2017–19 (March–April)



Notes: Log unit values are normalised to 1 in the base period 2017–19. This is done to provide a more intuitive graphic representation. Log unit values for the base period 2017–19 for overall, small to medium, and large firms are 7.1, 6.97, and 7.37, respectively.
Source: Authors' elaboration of SRA data.

Finally, the average number of exported products did not change for small and medium exporters. Conversely, large firms considerably broadened their basket of products from an average of 9.5 to 13 – an increase of 37% (Figure 9).

Figure 9: Apparel firms' average number of exported products (March-April)



Source: Authors' elaboration of SRA data.

Overall, we observe that the Covid-19 pandemic and the initial responses by the governments of Eswatini and South Africa translated into a loss of income for Eswatini's apparel suppliers in terms both of total sales and of unit prices and, hence, profitability. Economic downgrading has therefore occurred. This has, however, been different for direct and indirect suppliers, with the latter experiencing a marginally less severe drop in total exports but a significantly more severe drop in unit prices. Arguably, this evidence suggests that, while direct suppliers have reduced their total exports without dropping their overall unit costs, smaller CMT plants may have engaged in cost-driven competition, dropping prices to retain orders. This conclusion is supported by the comments of the chair of ETATA, who is also the owner of a direct supplier: "We have been doing business for 15 years with this buyer and we have a good relationship. They work with us, they do not squeeze us. However, I observed that other companies that do business with those on the other side in Durban [design houses], they are being squeezed and buyers try to get them to sell the same products at lower prices. Other firms in ETATA complained about this" (interview, ETATA, 4 June 2020). Furthermore, while none of the five direct suppliers that responded to our online questionnaire indicated any price reduction by buyers, the opposite is reported by two of three relatively small firms classified as indirect suppliers: "The buyer has reduced orders and prices, I am now working at a loss…This cannot continue" (interview, firm, 12 July 2019).

Despite the drop in exported value, large direct suppliers have also differentiated their product basket significantly more than their counterparts. This is doubtless the consequence of some of these firms converting part of their work to the production of personal protective equipment (PPE). Four out of five direct suppliers introduced (or increased) PPE production for the domestic and (in two cases) the South African export market. As the manager of a direct supplier producing PPE reported: "We got an opportunity to get into producing PPE and face masks and that allowed us to keep working, first for the local market and recently also for export to South Africa, as our main buyer won a tender with the government there" (interview, 6 June 2020).

5.2 The impact of Covid-19 on social up- and downgrading, and the role of public governance

Sectoral data on employment during and following the Covid-19 lockdown is not available. Based on information provided by employers during our fieldwork in 2019, we recorded a total of 21,768 workers for the sector, of which 18,000 were in permanent employment. This is very close to the figure of 22,000 directly employed workers provided by ETATA and the Eswatini Investment Promotion Agency (EIPA). Interviews with key stakeholders in 2020, as well as data provided in response to our online questionnaire, suggest that, as of June 2019, the entire workforce remained employed. But the hours worked and income earned by workers has declined significantly.

Three relatively small indirect suppliers (with about 1,000 employees in total) have not resumed operations since the beginning of the lockdown in March, and it is possible that these firms will close permanently, with the workers being retrenched. In June 2020, most of the other factories appeared to be operating at about 50% capacity, with the labour force split in half and working on rolling shifts (daily, weekly and fortnightly). Workers are paid only for the time they work, so their income is currently about half of what they were earning at the start of 2020: machinists are earning ZAR 900–1000 a month (about US$52–59), significantly below the sector's minimum wage and the country's living wage.[17]

As of June 2020, despite a pledge to support retrenched workers with ZAR 25–30 million, the government had not delivered on its promise. While workers in compliant apparel plants in neighbouring South Africa received full pay for the initial six week lockdown period through the Unemployment Insurance Fund (UIF), Eswatini managers and ATUSWA, the major trade union in the sector, complained of a complete lack of support from the Eswatini government (Government of South Africa, 2020).[18] The General Secretary of ATUSWA stated: "Since the easing of the lockdown, most factories have re-opened and are working with 50% of the staff at factory and with social distancing measures. However, workers are being paid for the time worked only, effectively earning 50% of their normal wage" (interview, 5 June 2020). The Chair of ETATA, who currently represents the sector in the committee for the Post Covid-19 Economy Recovery Plan, warned against the potential consequences of government inaction: "Look at what the South African government has been doing for the textile industry…We are trying hard to explain to the government how much this industry contributes to the Kingdom. I estimate that this crisis could translate into a permanent loss of 30%–35% of the workforce if nothing is done" (interview, ETATA, 4 June 2020).

Eswatini's Employment Act provides for wage security. When starting a business, each employer must pay to government the equivalent of one month's wage for each of its

[17] Legal Notice No. 51 of 2018, under the Wages Act of 1964 (Act No. 16) establishes the minimum wages for the textile and apparel sectors (under section 11). Permanent machinists' minimum wage is set at ZAR 418.18 per week, while the wage for casual labourers is ZAR 283.72. The machinists' wage is 60% below the minimum wage for a machinist in South Africa and 10% below the wage in Lesotho. Furthermore, these wages are significantly below the monthly living wage for Eswatini of ZAR 3,076 per month, calculated in 2016 by the Eswatini Economic Policy Analysis and Research Centre (SEPARC, 2016).

[18] Some reservations have been expressed about whether or how quickly UIF benefits will reach apparel workers in South Africa (Business & Human Rights Resource Centre, 2020). Furthermore, it should be noted that UIF benefits will only go to firms that are registered and compliant with the National Bargaining Council for the Clothing Manufacturing Industry (NBCCI). Previous research has shown the existence of high levels of non-compliance in South Africa's apparel industry, ranging from unregistered factories, registered firms that do not comply with NBCCI's agreements on wages and labour conditions, and firms strategically registered as cooperatives to evade the jurisdiction of the NBCCI (Godfrey, 2013).

employees, which is held in a trust to pay employees if the firm endures financial hardships. However, payment of this security is at the discretion to the Labour Commissioner, who can exempt an employer from making the payment. According to a key informant, many of the apparel firms were given exemptions, leaving the trust almost empty: "We found that in fact very few apparel manufacturers had paid into the fund and to all intents and purposes there is no money available in this fund" (anonymous interviewee).

A second source of funds that the government could tap into is the National Provident Fund (SNPF). Workers and employers must each contribute 5% of the gross weekly wage to the SNPF. Discussions between the government and employers about accessing some of these funds have been ongoing, with some employers having formally applied to lay off workers for the legal maximum of 14 days.[19] However, the amount being proposed would provide only ZAR 230 per month to each worker, which is well short of the amount needed to sustain a household. Crucially, ATUSWA has been largely ignored in the negotiations and, as reported by their general secretary, only three firms consulted (separately) with the union about lay-offs.

Managers are also critical of government over its lack of support for the sector and its general mismanagement of the crisis:

> We as management and staff are fully aware of the dire consequences if utmost care is not taken proactively in combatting this dreaded disease. In this regard every possible measure has been taken to ensure the wellbeing of all personnel…Sadly, our measures are not supported by the government, as during the whole Covid-19 the various ministries charged with this responsibility still remain absolutely silent and shone in their absence. Cases are on the rise and whilst everything is done by us to combat this disease infections are a real possibility and will have as consequence the shutdown of the factory with more lost production. (Firm manager, 12 June 2019)

Employers, however, are not blameless. The Regulation of Wages (Textile and Apparel Industry), issued in terms of the Wages Act of 1964, provides that an employer may lay off workers without pay, for reasons or circumstances beyond his or her control, for a period of up to 14 days. At the end of this period the employer must either re-employ the workers in their original jobs or terminate their employment with notice. We were not told of any firms that had complied with this provision. Instead, workers were left in limbo, neither formally laid off nor retrenched, which meant that they did not receive wages or severance pay, nor could they apply for their provident fund benefits from the SNPF.

While the future is uncertain for some suppliers and the sector as a whole, the likely demise of the South African retailer Edcon is having much more concrete consequences. It is notable that the three firms that have not reopened were indirect suppliers to Edcon, while the other five suppliers working with Edcon will suffer severely because orders

[19] We do not have data on the number and type of firms that applied for lay-offs.

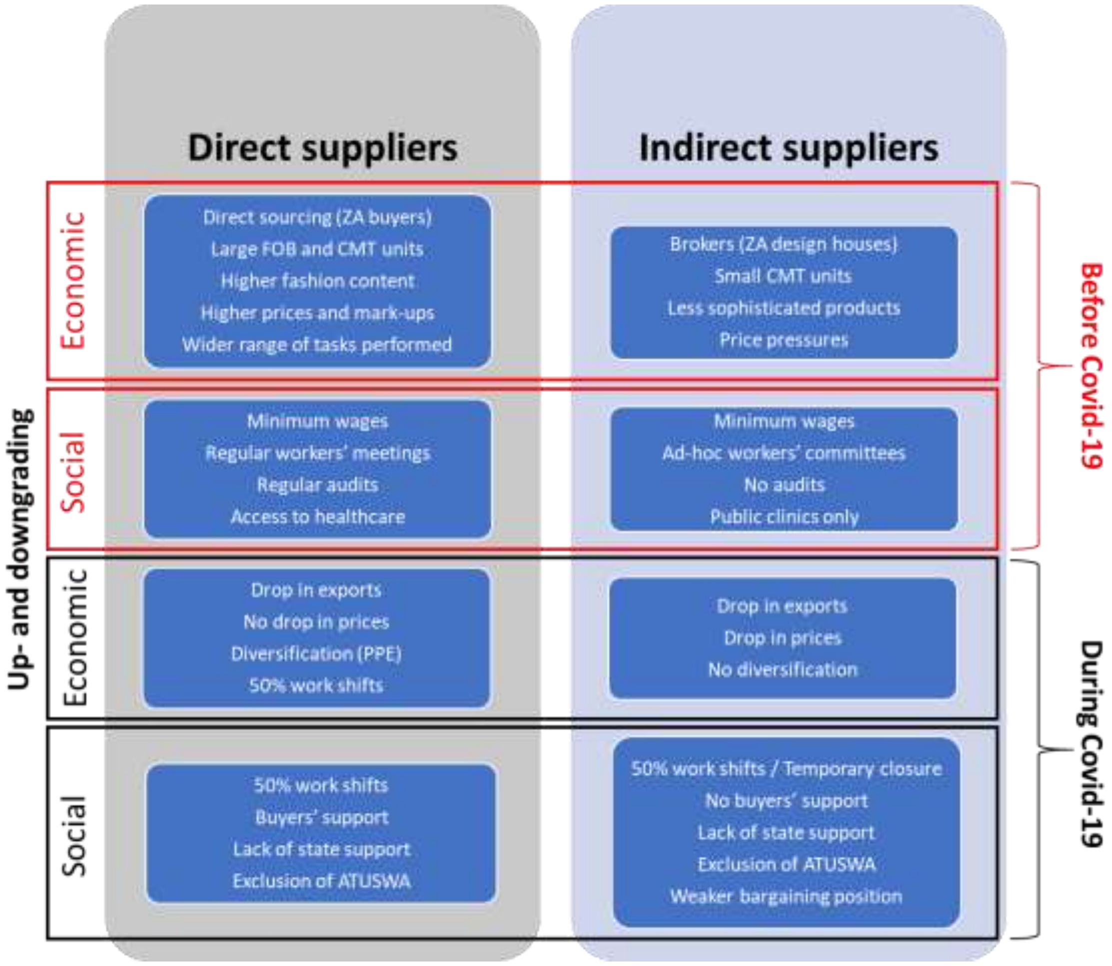
have been put on hold and are unlikely to be resumed. One of these suppliers noted: “The customer cancels or delays orders, raw materials and finished products are backlogged in the factory, and the funds cannot be turned over” (interview, 8 June 2020).

With the exception of Edcon, no other retailer has refused to pay for orders placed, in process or shipped. Furthermore, unlike design houses, no retailer has tried to renegotiate prices downwards. Three direct suppliers further noted that retailers had provided them with some forms of financial assistance: “They assisted me with 80% payment for the staff while I was shut down. They asked me for a list of the staff and they accepted to pay 80% while I was shut. They are also supporting me now by commissioning masks for South Africa” (supplier, 4 June 2019). Similarly, the manager of a large FOB direct supplier emphasised: “Fabric suppliers are [taking] two weeks longer than before and customers’ selling performance is not stable yet. Our main buyer gave us a loan of ZAR 5 million to buy fabric” (firm manager, 12 June 2019)

6 Discussion and conclusion

In this paper we have explored the governance of Eswatini’s apparel value chain with South Africa and the initial impact that Covid-19 has had on the economic and social up- and downgrading of firms and workers. A summary of the situation is shown in Figure 10. Interviews conducted in 2019 with managers at all apparel manufacturers in Eswatini revealed that the private governance of apparel RVCs presents two structures: one entailing direct contracting between large suppliers and the South African retailers; the other characterised by indirect supply to the South African market through design houses, which in turn contract with the retailers. Importantly, suppliers in direct relationships with retailers experienced relatively higher levels of economic and social upgrading.

Figure 10: Eswatini's apparel suppliers' economic and social up- and downgrading before and during Covid-19



Source: Authors' compilation.

An important finding of our subsequent interviews in 2020 with key informants and from a short email survey, together with detailed trade data supplied by SRA, is that Covid-19 has had a severe impact on clothing manufacturers in Eswatini and that workers have borne the brunt of the impact. This is unsurprising, given the imbalance in the relationships between retailers and suppliers, and between suppliers and their workers that characterise apparel value chains (Pickles et al, 2015). A value chain is, after all, a mechanism through which lead firms exert power, distributing rewards and risks in their favour (Dallas et al, 2019).

A second key finding is that, just as levels of economic and social upgrading varied between direct and indirect suppliers before Covid-19, the impact of the pandemic has diverged along the same fault line. While all firms experienced economic and social downgrading, indirect suppliers and their workers have been relatively worse off. The pandemic's impact was therefore influenced by the private governance of the value chain, with those firms (and their workers) in weaker bargaining positions suffering the most. This finding is again unsurprising. The global financial crisis of 2008–10 also led to tighter relationships developing between lead firms and first tier suppliers, often resulting in second and third tier suppliers being cut out of the value chain or having their bargaining position undermined (Staritz et al, 2011; Gereffi, 2014).

The third finding is that public governance by the Eswatini state has been ineffective in its response to Covid-19, failing to provide any support to the apparel sector and, in particular, to workers. This is in part because, as observed in a number of studies, developing countries' governments often have limited resources and restricted fiscal room to manoeuvre (Whitfield et al, 2015; Tyce, 2019). It is the case, for example, that earlier decisions by the Eswatini state to favour foreign investment by exempting investors from paying the required wage security are now having serious consequences for workers in the sector, who cannot rely on such funds. The state's ineffective response, however, has been compounded by its autocratic nature, which has seen it largely ignore statutory provisions regarding lay-offs, to the detriment of workers, and exclude ATUSWA from the deliberations about relief measures. This finding underscores previous studies suggesting that, in the absence of strong public policy, private governance is not up to the task of dealing with the impact of a shock of the scale of Covid-19 (Anner, 2020).

While, as of June 2020, only three firms remained closed and there had not been a major loss of employment, the non-payment of wages during the initial lockdown and the current half-time work arrangement have had a disastrous effect on workers' livelihoods. Standard machinists' wages were among the lowest in Southern Africa, and 33% below Eswatini's living wage before the pandemic occurred. Now, as a consequence of reduced working times, wages are more than 66% below the living wage. Despite this critical situation, no targeted support measures have been introduced. The risk is therefore that the industry might still suffer further harm. Failure to enable firms, government and workers to reach an agreement in the near future will result in permanent losses for all three parties in terms of private and public income, as well as employment.

Compared to the situation for global value chains, however, Eswatini has come off relatively lightly. In Bangladesh, for instance, European and US lead retailers cancelled over 70% of their orders and refused to honour their contractual obligations for orders already in transit, leading to the shutdown of factories within weeks of the beginning of the crisis (Anner, 2020). By contrast, with only one exception, all South African buyers have honoured their contractual agreements with Eswatini suppliers and, in a few cases, have provided them with direct support. This occurred despite the less pronounced role of corporate social responsibility and civil society campaigns in the South African market than in the EU and US markets (Godfrey, 2015, 2013).

Literature from the pre-Covid-19 period proposed that the absence of corporate social responsibility and weaker labour regulation in value chains connected to end-markets in the Global South would result in a 'race to the bottom' (Kaplinsky & Farooki, 2011; Kaplinsky et al, 2011). However, our earlier research on Eswatini does not support this contention (Pasquali et al, 2020) and, although the impact of Covid-19 on suppliers and workers in Eswatini has been severe, the situation compares favourably in a number of respects with the example of Bangladesh (Anner, 2020). This suggests some support for the argument made in recent research that “the COVID-19 pandemic has highlighted the falsity of any assumption that the global North has all the solutions to tackle global challenges” (Oldekop et al, 2020).

Unfortunately, it seems that Covid-19 is going to be around for a lot longer than some predicted. Its impacts are not over and ongoing research is therefore required to shed further light on how the crisis is affecting suppliers and workers in least developed countries, and what policy mechanisms are needed to mitigate its effects. For Eswatini’s apparel sector, in particular, we suggest that future work should focus on the medium- and long-term impact of the crisis, given the current precarious state of the sector.

References

Alford, M. and Phillips, N. (2018). ‘The political economy of state governance in global production networks: change, crisis and contestation in the South African fruit sector’. *Review of International Political Economy 25*, 98–121.

Anner, M. (2015). ‘Worker resistance in global supply chains’. *International Journal of Labour Research 7*, 292–307.

Anner, M. (2020). ‘Abandoned? The Impact of Covid-19 on Workers and Businesses at the Bottom of Global Garment Supply Chains’. *PennState Center for Global Workers’ Rights (CGWR)*, (29 March).

Bair, J. (2017). ‘Contextualising compliance: hybrid governance in global value chains’. *New Political Economy 22*, 169–185.

Bair, J. and Gereffi, G. (2003). ‘Upgrading, uneven development, and jobs in the North American apparel industry’. *Global Networks 3*, 143–169.

Baldwin, R. and Evenett, S.J. (2020). ‘Introduction’. In Baldwin, R.E. and Evenett, S.J. (eds), *COVID-19 and Trade Policy: Why Turning Inward Won’t Work* (pp. 1–19). London: CEPR Press/ VoxEU.org.

Barnes, J. and Hartogh, T. (2019). *Status Quo Analysis of the South African Retail–CTFL Value Chain*. Report from B&M Analysts. Department of Trade and Industry, Republic of South Africa.

Barrientos, S. (2019). *Gender and Work in Global Value Chains: Capturing the Gains?*. Cambridge: Cambridge University Press.

Barrientos, S. and Smith, S. (2007). ‘Do workers benefit from ethical trade? Assessing codes of labour practice in global production systems’. *Third World Quarterly 28*, 713–719.

Barrientos, S, Knorringa, P., Evers, B. and Visser, M. (2016). ‘Shifting regional dynamics of global value chains: implications for economic and social upgrading in African horticulture’. *Environment and Planning A: Economy and Space 48*, 1–36.

Barrientos, S., Gereffi, G. and Pickles, J. (2016). ‘New dynamics of upgrading in global value chains: shifting terrain for suppliers and workers in the global south’. *Environment and Planning A 48*, 1214–1219.

Barrientos, S., Gereffi, G. and Rossi, A. (2011). ‘Economic and social upgrading in global production networks: developing a framework for analysis’. *International Labour Review 150*, 319–340.

Bernhardt, T. and Milberg, W. (2012). ‘Economic and social upgrading in global value chains: analysis of horticulture, apparel, tourism and mobile telephones’. *SSRN* 6.

Bernhardt, T. and Pollak, R. (2016). ‘Economic and social upgrading dynamics in global manufacturing value chains: a comparative analysis’. *Environment and Planning A: Economy and Space 48*, 1220–1243.

Business & Human Rights Resource Centre (2020). ‘Minister exposes companies withholding govt. unemployment funds meant for workers during COVID-19 & warns against similar practices’. *So. Africa*, 13 May [available at https://www.business-humanrights.org/en/so-africa-minister-exposes-companies-withholding-govt-unemployment-funds-meant-for-workers-during-covid-19-warns-against-similar-practices].

Chang, S.-C. and Wang, C.-F. (2007). ‘The effect of product diversification strategies on the relationship between international diversification and firm performance’. *Journal of World Business 42*, 61–79.

CNBC (2020). ‘Edcon files for business rescue as COVID-19 lockdown brings it to its knees’. *CNBC Africa*, 29 April [available at https://www.cnbcafrica.com/coronavirus/2020/04/29/edcon-files-for-business-rescue-as-covid-19-lockdown-brings-it-to-its-knees/].

Curran, L. and Nadvi, K. (2015). ‘Shifting trade preferences and value chain impacts in the Bangladesh textiles and garment industry’. *Cambridge Journal of Regions, Economy and Society 8*, 459–474.

Dallas, M., Ponte, S. and Sturgeon, T. (2019). 'Power in global value chains'. *Review of International Political Economy 26*, 666-694.

Devnath, A. (2020). ‘European retailers scrap $1.5 billion of Bangladesh orders’. *Bloomberg*, 23 March [available at https://www.bloomberg.com/news/articles/2020-03-23/europe-retailers-cancel-1-billion-of-bangladesh-garment-orders].

Dobbs, R. et al (2012). ‘Urban World: Cities and the Rise of the Consuming Class’, *McKinsey Global Institute*.

Economist Intelligence Unit (EIU) (2020). *The Great Unwinding: Covid-19 and the Regionalisation of Global Supply Chains*. London: EIU [available at: https://www.eiu.com/n/campaigns/the-great-unwinding-covid-19-supply-chains-and-regional-blocs/].

Funcke, A., Mascarenhas, G., Wilkinson, J. and Pereira, P. (2014). *Social and Economic Up and Downgrading in Brazil’s Hortifruiticulture*. Capturing the Gains Working Paper 41. Manchester: University of Manchester.

Gardaworld (2020). ‘Eswatini: partial lockdown comes into effect March 27’ [available at https://www.garda.com/crisis24/news-alerts/326956/eswatini-partial-lockdown-comes-into-effect-march-27-update-1].

Gereffi, G. (1999). ‘International trade and industrial upgrading in the apparel commodity chain’. *Journal of International Economics 48*, 37–70.

Gereffi, G. (2014). 'Global Value Chains in a Post-Washington Consensus World'. *Review of International Political Economy 21*, 9-37.

Gereffi, G. and Frederick, S. (2010). *The Global Apparel Value Chain, Trade and the Crisis: Challenges and Opportunities for Developing Countries*. 5281.

Gereffi, G. and Frederick, S. (2011). ‘The global apparel value chain, trade, and the crisis: challenges and opportunities for developing countries’. In Cattaneo, O., Gereffi, G., and Staritz, C. (eds), *Global Value Chains in a Postcrisis World: A Development Perspective* (pp. 157–208). Washington DC: World Bank.

Gereffi, G., Humphrey, J. and Sturgeon, T. (2005). ‘The governance of global value chains’. *Review of International Political Economy 12*, 78–104.

Gereffi, G. and Lee, J. (2016). ‘Economic and social upgrading in global value chains and industrial clusters: why governance matters’. *Journal of Business Ethics 133*, 25–38.

Gibbon, P. (2008). ‘Governance, entry barriers, upgrading: a re-interpretation of some GVC concepts from the experience of African clothing exports’. *Competition & Change 12*, 29–48.

Godfrey, S. (2015). ‘Global, regional and domestic apparel value chains in Southern Africa: social upgrading for some and downgrading for others’. *Cambridge Journal of Regions, Economy and Society 8*, 491–504.

Goldin, I. (2018). *Development: A Very Short Introduction*. Oxford: Oxford University Press.

Government of South Africa (2020). *Disaster Management Act – Regulations: Alert level 3 during Coronavirus COVID-19 lockdown*. Gazette 43364 [available at: https://www.gov.za/documents/disaster-management-act-regulations-alert-level-3-during-coronavirus-covid-19-lockdown-28].

Hallak, J. (2006). ‘Product quality and the direction of trade’. *Journal of International Economics 68*, 238–265.

Hitt, M.A., Hoskisson, R.E. and Kim, H. (1997). ‘International diversification: effects on innovation and firm performance in product diversified firms’. *Academy of Management Journal 40*, 767–798.

Horner, R. (2016). ‘A new economic geography of trade and development? Governing South–South trade, value chains and production networks’. *Territory, Politics, Governance 4*, 400–420.

Horner, R. and Hulme, D. (2017). ‘From international to global development: new geographies of 21st century development’. *Development and Change 50*, 347–378.

Horner, R. and Nadvi, K. (2018). ‘Global value chains and the rise of the Global South: unpacking twenty-first century polycentric trade’. *Global Networks 18*, 207–237.

Jayaram, K. et al. (2020) ‘An unfolding health and economic crisis that demands bold action’, *McKinsey Global Institute*, (April). Available at: https://www.mckinsey.com/featured-insights/middle-east-and-africa/tackling-covid-19-in-africa.

Kaplinsky, R. and Farooki, M. (2011). *How China disrupted Global Commodities: The Reshaping of the World’s Resource Sector*. London: Routledge.

Kaplinsky, R., Terheggen, A. and Tijaja, J. (2011). ‘China as a final market: the Gabon timber and Thai cassava value chains’. *World Development 39*, 1177–1190.

Kelly, A. (2020). 'Garment workers face destitution as Covid-19 closes factories'. *Guardian*, 19 March [https://www.theguardian.com/global-development/2020/mar/19/garment-workers-face-destitution-as-covid-19-closes-factories].

Krishnan, A. (2018). 'The origin and expansion of regional value chains: the case of Kenyan horticulture'. *Global Networks 18*, 238–263.

Locke, R. (2013). *The Promise and Limits of Private Power: Promoting Labor Standards in a Global Economy*. Cambridge: Cambridge University Press.

Lubatkin, M., Merchant, H. and Srinivasan, N. (1993). 'Construct validity of some unweighted product-count diversification measures'. *Strategic Management Journal 14*, 433–449.

Lund-Thomsen, P. and Lindgreen, A. (2014). 'Corporate social responsibility in global value chains: where are we now and where are we going?'. *Journal of Business Ethics 123*, 11–22.

Mayer, F.W. and Phillips, N. (2017). 'Outsourcing governance: states and the politics of a "global value chain world"'. *New Political Economy 22*, 134–152.

McKinsey & Co (2019). *Globalization in Transition: The Future of Trade and Value Chains*. New York: McKinsey Global Institute [available at https://www.mckinsey.com/~/media/mckinsey/featured insights/innovation/globalization in transition the future of trade and value chains/mgi-globalization in transition-the-future-of-trade-and-value-chains-full-report.ashx].

Mirdha, R.U. (2020). 'H&M comes to its garment suppliers' rescue'. *Daily Star*, 30 March. [https://www.thedailystar.net/business/news/hm-comes-its-garment-suppliers-rescue-1887454?amp].

Mohanty, S.K., Franssen, L. and Saha, S. (2019). *The Power of International Value Chains in the Global South*. Geneva: International Trade Centre (ITC).

Morris, M., Plank, L. and Staritz, C. (2016). 'Regionalism, end markets and ownership matter: shifting dynamics in the apparel export industry in Sub Saharan Africa'. *Environment and Planning A 48*, 1244–1265.

Morris, M., Staritz, C. and Barnes, J. (2011). 'Value chain dynamics, local embeddedness, and upgrading in the clothing sectors of Lesotho and Swaziland'. *International Journal of Technological Learning, Innovation and Development 4*, 96–119.

Narim, K. (2020). 'Police block garment workers marching to Hun Sen's house'. *Camboja News*, 23 July [available at https://cambojanews.com/police-block-garment-workers-marching-to-hun-sens-house/].

Oldekop, J., Horner, R. and Hulme, D. (forthcoming, 2020). 'COVID-19 and the case for global development'. *World Development*.

Pasquali, G. (2019). 'Rethinking the governance of labour standards in South–South regional value chains'. *Global Networks*.

Pasquali, G., Godfrey, S. and Nadvi, K. (forthcoming, 2020). ‘Understanding regional value chain dynamics through the interaction of public and private governance: insights from Southern Africa’s apparel sector’.

Phillips, N. (2013). ‘Unfree labour and adverse incorporation in the global economy: comparative perspectives from Brazil and India’. *Economy and Society 42*, 171–196.

Pickles, J. et al (2015) ‘Trade policy and regionalisms in global clothing production networks’. *Cambridge Journal of Regions, Economy and Society 8*, 381–402.

Rangel, M. (2012). ‘South–South foreign direct investment flows: wishful thinking or reality?’. In Najam, A. and Thrasher, R. (eds), *The Future of South–South Economic Relations* (pp. 111–131). London: Zed Books.

Rumelt, R.P. (1974). *Strategy, Structure and Economic Performance*. Cambridge MA: Harvard University Press.

Schott, P.K. (2004). ‘Across-product versus within-product specialization in international trade’. *Quarterly Journal of Economics 119*, 647–678.

SEPARC (2016). *Quantifying the Living Wage in Swaziland: A Case of the Handicraft Sector*. SEPARC Working Paper. Mbabane: Eswatini Economic Policy Analysis and Research Centre.

Staritz, C. (2011). *Making the Cut? Low-income Countries and the Global Clothing Value Chain in a Post-quota and Post-crisis World*. Washington DC: World Bank.

Staritz, C. and Frederick, S. (2013). ‘Sector case study: apparel’. In Farole, T. and Winkler, D. (eds), *Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness in Global Value Chains* (pp. 209–244). Washington DC: World Bank.

Staritz, C. and Morris, M. (2012). *Local Embeddedness, Upgrading, and Skill Development: Global Value Chains and Foreign Direct Investment in Lesotho’s Apparel Industry*. Working Paper 32. Vienna: Austrian Research Foundation for International Development.

Staritz, C., Cattaneo, O. and Gereffi, G. (2011). ‘Editorial’. *International Journal of Technological Learning, Innovation and Development 4*, 1–12.

Staritz, C., Plank, L. and Morris, M. (2016). *Global Value Chains, Industrial Policy, and Sustainable Development – Ethiopia’s Apparel Export Sector*. Geneva: International Centre for Trade and Sustainable Development (ICTSD).

Teodoro, A. and Rodriguez, L. (2020). ‘Textile and garment supply chains in times of COVID-19: challenges for developing countries’. *UNCTAD Transport and Trade Facilitation Newsletter 53* [available at: https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2380].

Toppa, S. (2020). ‘Fast fashion: Pakistan garment workers fight for rights amid Covid-19 crisis’. *Guardian*, 27 May [https://www.theguardian.com/global-development/2020/may/27/fast-fashion-pakistan-garment-workers-fight-for-rights-amid-covid-19-crisis].

Tyce, M. (2019). ‘The politics of industrial policy in a context of competitive clientelism: the case of Kenya’s garment export sector’. *African Affairs 1*, 1–27.

UNCTAD (2015). *Global Value Chains and South–South Trade: Economic Cooperation and Integration among Developing Countries*. Geneva: UNCTAD.

Van Assche, A. and Van Biesebroeck, J. (2018). ‘Functional upgrading in China’s export processing sector’. *China Economic Review 47*, 245–262.

Whitfield, L. et al (2015). *The Politics of African Industrial Policy: A Comparative Perspective*. Cambridge: Cambridge University Press.

WHL (2019). *2018 Good Business Journey Report*. Woolworths Holdings Ltd [available at https://www.woolworthsholdings.co.za/wpcontent/uploads/2018/09/WHL_2018_GBJ_Report_2018.pdf].

Worldaware (2020). ‘COVID-19 alert: Eswatini begins partially easing lockdown measures May 8’ [available at https://www.worldaware.com/covid-19-alert-eswatini-begins-partially-easing-lockdown-measures-may-8].

Zeng, D. Z. (2020) ‘How will COVID-19 impact Africa’s trade and market opportunities?’, *World Bank Blog*, 2 June. Available at: https://blogs.worldbank.org/africacan/how-will-covid-19-impact-africas-trade-and-market-opportunities.

Appendix

Table 1: suppliers' export share in the period 2017–19

	Supplier	Export share (2017–19)
1	SRA 22852	28.00%
2	SRA 47817	16.02%
3	SRA 35805	13.76%
4	SRA 13940	9.87%
5	SRA 34718	9.55%
6	SRA 44270	8.33%
7	SRA 17680	2.69%
8	SRA 33645	2.06%
9	SRA 50004	1.62%
10	SRA 26529	1.32%
11	SRA 21061	1.22%
12	SRA 50151	1.17%
13	SRA 42395	1.00%
14	SRA 30864	0.95%
15	SRA 26967	0.71%
16	SRA 97003	0.68%
17	SRA 21604	0.46%
18	SRA 50262	0.38%

Notes: The table excludes firms that do not appear as registered exporters in 2020.
Source: Authors' elaboration based on SRA data.