

INDUSTRIAL RESPONSE TO GLOBALISATION WITHIN A MEDIUM-SIZED TOWN: A FOCUS ON THE CLOTHING MANUFACTURING SECTOR IN PORT SHEPSTONE

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Introduction¹

The globalisation of the South African economy has impacted in a number of different ways on the domestic manufacturing industry. The effect on sectors has been uneven and often related to the degree of protectionism in the past, the time lag in changes in government support from demand to supply-side measures, and the rate of response of local industrialists to changing market conditions. Furthermore, the location of industry has become increasingly significant in mediating the impact of globalisation as new relationships are developing between the global, regional, national and local arenas. This paper attempts to explore some of these emerging dynamics through a brief discussion on the international literature concerning localities within a 'post-Fordist' paradigm; an analysis of the major findings of a locality-based study on the clothing industry in Port Shepstone; and, finally through drawing out some possible policy implications.

The clothing sector is particularly vulnerable to increased international competition. There are startling news reports of job losses in the formal metropolitan clothing industry through closures, although just as many reports of firms relocating or informalising. The importance of the survival of the industry to South Africa lies in its: capacity for employment generation owing to the relatively low cost of job creation within the sector when compared to other more capital intensive sectors; the large percentage of women employed within the industry with potential for greater upward mobility; the clothing industry's contribution to entrepreneurial development in the country; and its characteristic dispersal to more peripheral geographical locations which provides job opportunities outside the metropole. It is widely agreed (Swart Panel Report,

1994) within the clothing industry that survival depends on competitiveness in both domestic and international markets. This may entail moving into more fashionable and higher value-added goods, with shorter runs, and/or breaking into export markets with possibilities of economies of scale. Those firms which continue to compete solely on the basis of price within the present macroeconomic environment are being particularly badly affected by imports.

Both internationally and nationally, one of the primary responses of the clothing industry to changing market demands has been through geographical shifts. The globalisation of clothing production has been evident through the decentralisation of production functions and the dispersal of sourcing, manufacturing and marketing activities. The question is what factors lie behind such movements and shifts and what local dynamics attract certain industries and production functions. At a national level there appears to be an increase in clothing employment in small towns at the expense of jobs in the urban areas, or of greater concern increasing rates of foreign processing.

Theoretical Underpinnings

There is a growing body of literature (see Cooke, 1989; Sadler, 1990; Chisholm, 1990; Nadvi and Schmitz, 1994) on the significance of industrial regions/localities within a 'post-Fordist' paradigm. Such interest has arisen predominantly from three sources: reaction to centralist neo-liberalism; the negative impact of globalisation on the capacity of the nation state to deliver; and the rise of the 'industrial district' in regions such as the 'Third Italy'. The literature emphasises the uneven impact of globalisation on regions and localities with both the disruption of the economic bases of many localities and the creation of opportunities for others. Local distinctiveness is understood within the context of broader structural factors which help define the social, political and economic composition of the locality. The effect of global forces on a locality are mediated by the specific historical, institutional, cultural, social and political features of the particular locality.

In the literature it is argued that the relatively successful localities have generally been those that: restructure and adapt within the post-Fordist paradigm through the adoption of flexible production methods, privatised modes of ownership and service delivery; stimulate industry through subcontracting networks; focus on addressing skills, training, research and development; provide finance for innovation and information about technology; have support from central and regional government for local initiatives; and have sufficient resources both in financial and human terms. Much successful local intervention has been implemented through forming equal-status partnerships between

government, the private sector and civil society. The success of such local interventions has not, however, matched that of the 'industrial district' (see Nadvi and Schmitz, 1994) during the seventies and into the mid-eighties in breaking into international markets or coping with domestic crises.

The usefulness of this literature in understanding present geographical shifts within the clothing industry is limited in that there is not a marked shift within the international clothing industry from a 'Fordist' to a 'post-Fordist' paradigm. Many geographical shifts can be explained simply on the basis of price competition and low-cost production based on traditional Fordist techniques. However, for countries that cannot compete on the basis of price, or countries targeting developed and segmented markets, the post-Fordist paradigm is increasingly significant in understanding changing market demands and firm responses.

Furthermore, within the complex global web localities do not have to be seen as passive recipients or as excluded from industrial and development processes. Although there is no conclusive evidence as to the successes of 'locality-based' development strategies, there is enough documented research to argue that local initiatives should not be stifled and that given the tremendous diversity between localities 'the task of unlocking local reserves for the economic and social development of the community should be left in the hands of the local actor'. There is a need therefore to consider both the global and the local; to understand broad structural change; and to appreciate the peculiarities of each specific local context.

Consideration of the impact of globalisation on the clothing industry in Port Shepstone, therefore, has to be situated within the complex web of dynamic interlinkages between the global, national, regional² and local spheres of activity.

Contextualising the Clothing Industry - Globally, Nationally and Provincially

Global Trends

The International Labour Organisation (ILO:1995) has highlighted profound shifts in the international clothing industry over the past 20 years: the 'globalisation of production activities and of systems as a whole'; constant geographical movements, intra and inter-state, owing to changes in comparative advantages and marketing demands; and the emergence of 'new forms of competition' (such as the introduction of new technologies) within the industry, as opposed to low wages.³ The MultiFibres Arrangement (MFA)⁴ still governs

the bulk of international trade in textiles and clothing although the conclusion of the Uruguay Round of GATT has provided for the integration of clothing and textiles over a ten-year period. Various illegal trade practices have been identified internationally which have a detrimental and destabilising effect on the clothing industry, such as smuggling, counterfeiting and origin fraud.

South African Clothing Dynamics

The isolation of the South African clothing industry from global economic trends until recently, has meant that the industry has been relatively sheltered from global market changes and much of the subsequent industrial restructuring that took place in the seventies and eighties. The relative total factor productivity of the South African clothing industry compared to its international competitors has been in decline.⁵ The immediate impact of globalisation on the domestic clothing industry has been felt through growing competition from imports, both legal and illegal, in the market. Until very recently the South African clothing industry had provided more than 80 percent of the units consumed domestically and 90 percent of the value of local demand (IDC Data Series, 1993). As to be expected, the lower-income market is the most seriously affected as many of the imported goods are cheap products from the Far East, especially China, although all market segments are facing increased competition.

The current South African trade conditions were illustrated in a press article (*Sunday Times* April 30, 1995) which argued that the existing structure of tariff rebates and duty credit schemes, combined with the administrative complexity of the tariff structure, has reduced the level of effective protection to such a low level that the recent tariff dispute between the clothing and textile industries was purely academic.⁶ Attempts by the government in the late eighties to boost exports through the Structural Adjustment Programme and incentives such as the General Export Incentive Scheme (GEIS) were largely unsustainable and in many instances had the unforeseen consequence of boosting imports.

The textile input cost within the South African clothing manufacturing industry is perhaps the single most significant factor in contributing to South Africa's failure to compete successfully with these imports and within the international market place. The *Monitor Study* (1994) showed that in a number of product categories South Africa is internationally competitive once the fabric costs are removed from the production costs. Restructuring in the South African apparel textile industry, and especially in the relationships between the textile and clothing industries, therefore, remains critical for the survival of the clothing manufacturing industry.

The large number of small, medium and informal clothing enterprises and the growing trend towards decentralised smaller production units, particularly in regions such as KwaZulu Natal, boosts the concentration of power at the output end of the clothing pipeline. This is achieved through the pivotal role the marketing agents' play, together with the large manufacturers, in the clothing supply chain. They have the financial clout to place the large batch and dye orders for fabric and then distribute orders, patterns included, amongst the large numbers of Cut, Make and Trim (CMT) firms. The completed goods are then transported back to the marketing agents or intermediaries (for example, large manufacturers) by the CMTs for distribution. Much of the competition amongst CMTs remains price-based and cut throat as retailers are continually squeezing prices and show limited loyalty. The increased competition from imports has worsened the situation, as firms undercut prices competing for decreasing domestic orders. However, for many CMTs their relationship to large manufacturers and marketing agents lower the barriers to entry within the industry through securing markets and allowing for a constant cash flow in the business.

Clothing firms within South Africa are responding in 'static' and 'dynamic' (Altman, 1994) ways to new market realities. Static responses are once-off accommodations to growing pressure such as increased labour and wage flexibility, or relocation. Static changes can also involve firm-level technological changes which do not impact on relationships with suppliers or markets. 'Dynamic' changes are longer-term changes which consider the long-term competitiveness of the firm through technological innovation, the active restructuring of inter-firm relationships, firm level re-organisation, human resource development, and the movement into upper-market niches through a greater focus on quality, quick response and flexibility.

The KwaZuluNatal Context

The impact of the pressures of globalisation on the KwaZulu Natal (KZN) regional industry can be observed spatially, organisationally and structurally. The region has been particularly badly affected by imports, mainly illegal imports, in the last 3-5 years with a large proportion of production traditionally targeted for the hawker market. Historically regional spatial patterns have followed state regulatory policies, incentives, and differing wage structures. Increasingly, however, globalisation is impacting on these spatial patterns and locational advantages are shifting accordingly.

At present within the KZN region there are a number of clusters of clothing firms in the metropolitan areas and small towns. In 1995 the largest cluster of

clothing firms was still in the metropolitan area - a total of about 420 firms in Durban, 300 of which are CMT. The decline of formal employment within the urban boundaries has coincided with the emergence of numerous '10 person factories' or 'cottage industries'⁸ in the townships surrounding Durban. The exact employment figures within these factories is difficult to quantify owing to their informal and seasonal nature and their avoidance of Industrial Council action.⁹ Only formal, registered firms are regulated by the Industrial Council within its boundaries.

Other clusters of clothing firms are found in the Industrialisation Decentralisation Points which benefited disproportionately from the 1982 Regional Industrial Development Programme (RIDP). Various factors, which include the revision of the RIDP in 1991 and the policies of the KwaZulu Finance and Investment Corporation (KFC)¹⁰, are contributing towards a decline of the clothing industry in these localities and a movement of some firms back to Durban or the relocation of some production functions up the North Coast axis to Verulam and Tongaat or down the South Coast to Umzinto, Umkomaas, Port Shepstone and Margate.

A significant short-term advantage for towns in semi-rural areas, such as Port Shepstone, Newcastle and Ladysmith, is that their clothing firms fall under the Wage Determination Act. Current wages paid in these areas are about 40 percent of those paid in Industrial Council areas. Skilled workers are usually paid according to the Act within these areas because of the shortage of skills, but the abundance of unskilled labour encourages low wages and exploitation. There are also firms within these areas which are unregulated by any wage structure and operate independently. Some firms within these areas are upgrading and targeting upper-market segments owing to fierce competition in the lower-market segments.

At present there are discussions at the Industrial Council level concerning a single national/regional wage structure. There are certain strong lobbying support groups such as the formal CMT industry within the urban areas. The SACTWU is sensitive to the effect that a sudden wage increase would have on these peripheral localities, although its initial offer was 80 percent of metropole wages. One has to consider this debate in the light of international trends in the clothing industry which show simultaneous trends of shifts to low-wage areas and upgrading during restructuring processes. Furthermore, a single national or regional wage structure will not stem the movement towards low-wage areas. Rather this movement will occur across national boundaries or informally within the region. Jobs created through such processes are likely to be even more exploitative.

Port Shepstone: A Locality Study

The main questions to be addressed in the analysis of the Port Shepstone clothing industry are:

- Within the broader environment are there local processes and factors that could impact on, or mediate, the forces of globalisation?
- Does the existence of a cluster of small clothing firms in Port Shepstone offer any particular advantages/disadvantages for increasing competitiveness of the firms?
- How do broader regional and national institutional, policy and regulatory frameworks affect the local environment?

Background

Port Shepstone plays a central administrative, commercial and service role for the Port Shepstone, eZingolweni and Alfred magisterial districts. The KwaZulu hinterland is poorly developed and is characterised by poverty; limited access to social services; high levels of unemployment; and devastating political violence. The only formal settlements within this area of KwaZulu are Izingolweni, a small town which serves as an administrative centre, and Gamalakhe which was established as a township during the 1970s following forced removals.

The Port Shepstone clothing industry has its roots in the town's development from an agriculturally-based local economy to one which now has a reasonably well diversified economic base and manufacturing sector. The clothing industry in the town developed within a protective macroeconomic regulatory environment, with the declaration of the town as a 'growth point' and the 1981 RIDP providing some economic stimulus. Growth in terms of output and employment in the clothing sector remained relatively static during the 1980s and it has only been in the nineties when there has been a 20 percent increase in employment figures. Obviously, the decline in employment figures in the metropolitan area in the same period has had mixed consequences for the local firms. Although certain of the larger firms in Port Shepstone did experience employment losses during this period, there were a few new start-ups in the early-1990s which indicate some subcontracting of work by Durban-based companies to lower-cost areas in response to growing pressures on the provincial industry. But there were also some closures in Port Shepstone as certain contractors to the local industrialists, particularly the wholesalers and independent retailers in Durban, were badly affected by the general political climate, depressed consumer markets and rising imports. The slight revival of the national and regional clothing industries in 1995 saw a significant number of

new start-ups within the Port Shepstone locality. Many smaller firms have sprung from the larger firms but mainly as a consequence of individuals in management branching out independently. Monitoring of start-ups and closures is complicated in the locality by the number of firms which close owing to pressures from creditors or seasonal decreases in order sizes and reopen under a new name in different premises within a short space of time. Besides the recovery of the regional industry, the recent growth in the local industry has been boosted by the revision of the RIDP, and a changing hierarchy of wage levels within the region which has relative advantages for Port Shepstone at the moment over localities such as the old decentralisation points.

Employment levels in the local industry have risen in the nineties, but wage levels have remained low. There are a number of firms, however, targeting the middle to upper-market segments which are increasing their wages above those legally determined. Unskilled workers are in many instances paid below the Wage Determination Act owing to their abundance, whereas skilled workers are highly sought after.

The cluster has shown an ability to survive macroeconomic crises, but in the process has become increasingly dependent on external agents. This consequence has partly been the effect of firms capitalising on external opportunities, such as a growing market of potential contractors in the retailing, wholesaling and designing fields. However, the industry has generally remained reactive to the changing market conditions, rather than following a proactive, long-term strategy.

A Profile of the Local Industrialists

At present¹¹ there are seventeen clothing firms in Port Shepstone, and one textile firm producing hosiery. Ten firms are Indian-owned, and eight white-owned, which includes a firm in transition to becoming 75 percent black-shareholder controlled. Two firms are owned by white women, one by an Indian woman and one by an Indian woman in partnership with her brother. Twelve of the owners had previous experience in the clothing industry, but the remaining had mixed backgrounds: selling fruit and vegetables, chicken and pig farming, and formal employment in other sectors. The low barriers to entry within CMT firms are partially reflected in the owners' own histories. The vast majority of the local clothing firms are CMTs sub-contracting to large Durban-based firms.

Location decisions are a mixture of economic and non-economic factors. At least half of the respondents had spent many years, some since birth, in Port Shepstone prior to entering the clothing industry. The most important economic

factors in influencing location are the low-wage levels and weak union organisation. Only two of the clothing firms¹² had benefited from the RIDP incentives - from the 1982 and 1991 packages respectively. Other economic factors included: the racially mixed composition of the labour force when compared to localities such as Isithebe and Ulundi; proximity to Durban and a fairly good transport infrastructure; better CMT prices; cheaper rentals; and support from other local manufacturers during start-up through the sharing of orders. Non-economic reasons included: the coastal climate; family ties; avoiding city stress; and good community facilities and social infrastructure.

Firm Markets and Performance Trends

The fact that 43 percent of the CMTs in Port Shepstone target the budget market through their relationship with retailers and only 6 percent the upper-market segments, is hugely problematic for the local industry within the present trade environment where the lower-income markets are being most seriously affected by international competition. Most CMTs are subcontracted by more than one, and also more than one type of, marketing agent. This is partly the result of the disloyalty shown by retailers and large firms and their willingness to drop a client for a slightly cheaper CMT price. The fact that CMTs have relatively diversified market and range of potential contractors means that local competition is not felt by all the firms despite the fact that many produce similar products. No firms reported exporting or intentions to export owing to financial constraints and the nature of the CMT industry. Some mentioned that the retailers or large firms they were subcontracted to were exploring export markets.

Relationships between the CMT firms and their respective marketing agents are largely confined to the giving and receiving of production orders. Only four of the CMT firms reported receiving any assistance from these companies in the form of advice on their organisation of production; the lending of machines and equipment; the maintenance of machines; assistance with the transporting of goods; and, advance payments. Even in these instances it was stressed that such assistance is rare. Broken agreements between the CMTs and the marketing agents centre on two issues: late deliveries and poor quality. For late deliveries the most common response is negotiation for an extension, and if this still fails a decision is taken whether to make the order or stop production at the CMT's own expense. Other contractors charge five percent per day per late delivery on the value of the goods. If there is poor quality of the make-up of the clothes and a high reject rate, the goods are returned to the CMT at the CMT's own expense. The overriding reason for firms deciding to operate as CMT, is cash flow and

financial capital problems. Within the CMT business, not only is one's market for one's products relatively secure, but fabric and patterns are supplied.

The local industry produces a variety of styles within broad product categories and few firms produce a single product line. The majority of firms appear to minimise the number of style changes and fabric types within their factories because of the disruption to the production lines and the limitations of their machinery. Most refer to a 'two season' year, and the dedication of certain lines in their factory to particular style runs with particular types of fabric. The type of product affects the CMT price. Seventy-seven percent of firms produce children and infants' clothing (usually as a single line of production within a firm) which normally obtains the lowest CMT prices. At the other extreme, 61 percent of CMTs are engaged in producing men's clothing (ranging from sportswear and casualwear to trousers and long-sleeve shirts) some of which would obtain a relatively high CMT price. The target market and product type impact, therefore, on the competitiveness of the CMT firm and its likely survival.

Trends of growth and decline within individual clothing firms in Port Shepstone vary in relation to their target market, but other factors such as macroeconomic conditions, regional industrial dynamics, seasonal demand, competition on the domestic market, the reliability of customers, wages and labour relations also affect the performance of firms. Although illegal imports were identified by the local CMT industry as a major threat, some firms are ironically dependent on retailers who import their fabric illegally. The tightening of Customs Controls at the beginning of 1996 meant that a number of large containers of illegal textiles were held up at the Durban port, and many CMTs - both in Port Shepstone and elsewhere in KZN - were seriously affected. At least three firms in Port Shepstone that had experienced growth in 1995 had either to move to smaller premises and put their workers on to short time, or close down completely in the beginning of 1996. However, this trend was largely reversed during the last four months of the year.

Firm Size, Labour Composition and Labour Flexibility

The average size of firms in Port Shepstone (excluding three firms which employ 300-) is 62 workers. The firm size in Port Shepstone ranged from seven to 900 workers. The total size of the clothing industry labour force is 2501. In terms of competitiveness, firm size in the locality has implications. Advantages for large firms are: capacity for bulk buying which lowers costs; their ability to undercut CMT prices; and their being able to compete for labour based on slightly higher wages. But disadvantages for large firms include: large financial commitments; management problems; and inflexibility. Small firms emphasised

that the fact that they only compete with large firms in the town in the same product line, and often with only one production line within a large firm, means that it is similar to competing against another small firm anyway.

The racial and gender composition provides stark contrasts. For example, 78 percent of the managerial staff are male, 68 percent are Indian and the remaining are white. This is in contrast to machinists where 99 percent are women, and 98 percent are black, and general workers where 98 percent are women, 97 percent black and the remaining Indian. All respondents stated that they had problems accessing skilled labour in Port Shepstone relating both to middle management (for the larger CMTs), technical capabilities and machinists. The limited number of skilled machinists was seen as a particular problem as CMTs rely on access to skilled labour. This is related to one of the major tensions amongst clothing manufacturers in the town which is the 'stealing' of labour. Training of workers is largely ad hoc and in-house, with no separate budget allocation. Only the largest firm has an in-house training centre.

Labour flexibility is a response by the local industry to the fluctuations in demand and production levels. Small and informal firms tend to have higher proportions of casual workers. In October (1995) when the interviews were conducted, 73 percent of firms responded that their work force was 100 percent full-time.¹³ Workers were said to work a 42 hour week on average. Nevertheless, ten factories, and the number could have been higher, stated that they worked overtime between 6 pm and 12 pm at nights, including/or on Saturdays and Sundays.¹⁴ These so-called 'twilight factories' operate on different pay scales from the day-time workers. 'Twilight' workers were often stolen from other factories so that their own workers were not tired during the day shift. Subcontracting between firms is a relatively common practice to cope with overload. However, subcontracting generally is not formally permitted by the retailers and wholesalers who supply the orders. A further reason for the unpopularity of subcontracting is fear of 'cabbage practice'. This practice, stated to be legal and practiced by some of the local CMTs, involves laying the patterns in such a manner that additional cuts can be made over and above the order, which can then be sold as extra profit for the firm. Another practice which can be used for this end is when a firm falsely reports a fabric shortage once the order has been delivered. The excess garments can then be sold to hawkers or through 'illegal' factory shops at a higher price than the CMT price.

CMT Costing Structures

Within the CMT industry the main costs are labour, trimmings and overheads such as rent, transport and insurance. The average percentage of costs spent on

labour was as high as 46 percent. The reliability of this figure could be questioned owing to the significant deviation between the lowest and highest percentages (25 and 80 percent respectively) reported, but nevertheless CMT work is considered the most labour-intensive in the clothing production pipe-line. The labour intensity of the CMT production function is significant in explaining the geographical shifts of such firms to lower-cost areas.

The low barrier to entry within the local CMT industry is because of the limited financial capital requirements necessary for start-up. The main source of start-up finance was private capital. The lack of institutional support for both start-up capital and to facilitate ongoing cash flow was reported as a serious constraint on the local industry. The smaller firm owners did not have the necessary collateral to access a bank loan and the Small Business Development Corporation was seen as overwhelmingly bureaucratic. Start-up was facilitated in the majority of cases through personal relationships developed in the clothing industry with large firms, retailers or other CMTs, to secure the first order. CMTs usually get paid on a weekly basis so that there is finance for wages on the Friday. Retailers were seen as unreliable in their payments owing to large stocks remaining on store shelves for extended periods. Industrial sewing machine companies have higher-purchase credit schemes which enable a small operator to pay off on 30/60 day terms.

Strategic Responses to Changing Conditions

When strategic responses were being made by firms in Port Shepstone to changing market conditions, they were largely static. For example: outsourcing of lower-cost fabric from countries such as Swaziland and Mozambique by their contractors; greater quality control; changing fabric type; movement into middle-and-upper market segments; incorporating black shareholders; entering less competitive, alternative product lines; greater customisation of products; and, raising firm-level efficiency. An interesting response made by a single firm was an attempt to obtain a formal contract from a marketing agent which would create a secure market. Eight clothing firms in Port Shepstone, however, stated that no strategic responses were being made.

Technological innovation was limited within the Port Shepstone CMTs owing partly to financial constraints and partly to the limited scope for technological innovation within the CMT industry. Internationally technical innovations are largely within the pre-production stages of clothing manufacture and extremely limited within actual production. Only five of the seventeen firms interviewed reported a shift towards new electronic machinery mainly through the introduction of automatic trimmers and tackers. Computers were regarded as

more useful in production functions such as design. A number of firms argued that they were financially constrained in their introduction of new technologies. Improvements in quality and productivity were the main consequences of technological innovations, and employment levels within the firms were not seen to have been affected.

No firm has introduced significant changes in the organisation of production within the firm. The large batch orders received by many of the firms, especially those targeting the lower-income market, may mitigate against the reorganisation of the production process. Firms that were targeting the upper-market segments, and which reported a shrinking in order size as a result, were considering changes.

At present firms in Port Shepstone argue that there is limited scope for them to be involved in product innovation as designs and patterns are supplied to them by their respective contractors. There is only one local designing firm in the town. The potential for capacity building in design amongst CMTs should be considered as a means to encourage more developmental relationships between the retailers and large firms and the CMTs. CMT firms could be engaged in developing and improving on designs for greater productivity gains within the clothing industry and therefore potentially able to secure a higher CMT price.

Co-operation in the Local Industry

The main factors identified, almost on an equal basis, for competitiveness were quality, price, speed and punctual delivery. There is definitely some correlation between the market segment targeted and the factors underlying competitive advantage. For example, quality was a more significant factor in upper-market segments. However, this correlation is blurred because many factories have a mixed target group (eg both the budget and middle market). An interesting comment by one CMT employer indicated that although he had done work for both budget and upper markets, and although the latter had required a far greater time and quality control, the CMT prices for the garments were identical. He argued that it was therefore in his best interest at present to continue in large batch production for the budget market. If this is generally the case, then it is highly problematic as it discourages upgrading within the local industry.

Co-operation between local producers is informal and largely for the use of borrowing trimmings, polybags and hangers. Smaller networks of firms can involve the sharing of transport, the bulk purchase of inputs, and the co-operative employment of mechanics. A few firms interviewed were assisting each other in accessing markets. Cultural ties also play a role in the establishment of informal networks. Many of the owners indicated that industry-wide co-operation in Port Shepstone was difficult as people were sceptical of the reasons for co-operation,

the risk of losing market share or trade secrets, hiding the 'cabbage' practice, and concern over other manufacturers discovering firm inefficiencies and reject rates. Some prefer to build their own relationships with suppliers as they get offered 'breaks' occasionally, such as reject trimmings at a lower cost. Other factors mitigating against co-operation are: the fact that CMTs tend to 'steal' labour from each other; and the history of many of the owners who have worked in the past in other local factories and have now branched out on their own.

No firm belonged to an association of any sort. Despite fears of a lack of co-operation amongst local firm owners, the main prohibitive factor in forming an association is fear of SACTWU having entry into the locality through an organised forum. No interest was shown in considering joining the NCMA because they would then fall under the Industrial Council. Advantages in having an association were: a lobbying forum on behalf of local industrialists when confronting labour or government; co-operation with regard to security for premises; exchange of information and ideas; possible collective transport and purchasing schemes so as to lower costs; and improved labour control.

Institutional Support

There was limited knowledge or utilisation of formal institutions, such as the Clothing Industry Training Board, the Small Business Development Corporation, the KwaZulu Finance and Investment Corporation, the National Productivity Institute and the Department of Trade and Industry, by local industrialists. An important reason for this may be the 'informal' and secretive nature of many of the small CMT operators. Accessing formal services could expose such firms to union pressure, registration or standards that they are unable or unwilling to meet.

No firm was aware of any role played in the past or present by the local authority in stimulating local industrial development. Their lack of involvement was glaringly evident when a copy of the 1982 RIDP incentive package was produced as a current document by the Transitional Local Council. In the past this disinterest may have been owing to the strong centralism of government. It is important that the local authority accept a far more proactive role for local government with regard to industrial development. No firm showed any resistance to such involvement and indeed numerous suggestions were made which showed potential for strong equal-status partnerships between the public and private sectors in Port Shepstone.

Emerging Policy Implications

The final section of this paper is an attempt to draw some policy implications from the research conducted in the Port Shepstone clothing industry. A strategy for the local clothing industry must be considered within the broadly accepted framework (Swart Panel Report, 1994) for the South African clothing industry which argues that the long-term survival of the industry depends upon the ability of firms to move aggressively into middle and upper-market segments through the adoption of flexible production techniques, improved productivity, production of quality goods and the development of niches within international markets. South African firms have to realise that price is no longer the central competitive factor by which they should compete, but that quality, delivery, zero defects, quick response, and flexibility to modify specifications are equally important factors in competitiveness. The target for many products is, furthermore, no longer standardised markets but segmented ones that serve a wide range of consumers. The question of how Port Shepstone, or other clusters of clothing firms, responds to this competitive challenge, and the process and time-frame during which this transformation of the national industry takes place, is critical to our discussion.

There has to be space for a flexible and non-ideological solution for the South African clothing industry. Pressures on the industry at present are leaving limited options. Within the time-frame available it is likely that many of the small to medium-sized firms will perish as they will not have the finances to innovate, relocate or engage in foreign processing.¹⁵ A large proportion which do survive will resort to informalisation. The implications are serious: far from boosting small and medium-sized enterprises in South Africa, the policies of the new government will destroy them in this sector; the serious formal job losses already being reported in the newspapers will worsen; and unregulated, highly exploitative, invisible factories will emerge everywhere - as is already happening. It is better to have CMT sub-contractors in the formal economy with the potential for further regulation, than for them to be pushed into the informal economy for their mere survival. In view of the above scenario, it is necessary to consider a flexible growth path which will result in the upgrading of the standard of living for all South Africans.

This flexibility will be necessary in a number of different areas and will be affected by the specificities of the clothing industry. Such areas would include: labour and wages; regional-local collaboration; local initiative; time-frames for restructuring; spatial organisation; individual firm-level strategies; and, the production function of firms.

Labour

Social relations between employers and workers within Port Shepstone have to be monitored and strengthened. At present, the attitude of management towards unions, training and productivity all reflect very poor social relations within the local clothing industry.

Three main labour-use strategies may be identified within the global clothing industry, which emphasise numerical, financial or functional flexibility respectively (Altman, 1994). Numerical flexibility refers to the adjustment of employment according to cyclical or structural changes in demand. In the global clothing industry this may be achieved through casualisation, subcontracting, the deregulation of employment contracts or the avoidance of redundancy payments. Financial flexibility refers to the pursuit for control over the process of wage and benefits determination. This may be acquired through the use of piece rates, productivity bonuses, subcontracting to sweatshops and excessive use of unskilled labour, illegal immigrants or juvenile labour. Presently numerical and financial flexibility labour strategies have been adopted in the Port Shepstone industry.

A flexible strategy would argue that although some of these strategies will be used in the short to medium term, there must be a growing focus on functional flexibility within the industry. Functional flexibility can refer to multi-skilling and/or multi-tasking. To acquire functional flexibility a firm must be committed to training and reducing labour turnover. Skills-based remuneration schemes may be introduced at a firm level to facilitate this process. Functional flexibility is preferable to ongoing casualisation and informalisation of the clothing work force as it prevents an ongoing downward pressure on wages within the industry. A core-group of skilled workers is the result. In order for a strategy of functional flexibility to be successful, there has to be economic growth in other sectors of the economy to absorb the retrenchments within the clothing sector. If this does not happen, there will be growing numbers of peripheralised unemployed people, many of whom will be women.

Geographic Flexibility and Wages

The importance of wages within the regional clothing industry at present in creating competitive advantage, and the increasing segmentation of the labour force, requires a flexible response. In the government White Paper on the Promotion of Small and Medium-sized Enterprises (SMEs) in South Africa there is an argument proposing a tiered wage structure for SMEs and large firms. Within the clothing industry however, a blanket policy based simply on firm size

may not be beneficial to the local industry. Firstly, firms falling under the Industrial Council (IC) at present, regardless of size, are similarly scaled in terms of wages. It would be extremely difficult to introduce wage reductions in certain categories of IC firms owing to resistance from trade unions who would see this as a challenge to their hard-won gains. Secondly, while there are certain advantages for large firms within the clothing industry, particularly at the pre-production and output ends of the clothing pipeline, within the CMT industry firm size is not an overriding factor in terms of competitiveness, for reasons stated earlier in this paper. Thirdly, a wage structure targeted at small firms may further discourage firms from considering possible dynamic options such as strategic alliances and mergers. Finally, the 'size' of a firm should not only be assessed in terms of numbers of employees, but also in terms of output and productivity.

A proposed alternative to tiered wages based on firm sizes, is for the advantages in the present geography of production to be protected for a defined period and geographically-tiered wage structures to be accepted during this period. This means that instead of firms resorting to foreign processing and informalisation, they would have the option of investing in or subcontracting certain production functions to a lower-wage area. The SACTWU acknowledges the complexity of this issue and has proposed a phased increase of wages in Wage Determination areas towards 80 percent of the urban wages.¹⁶ Any sudden increase in wages will definitely kill the local industry and would result in a serious decline in local employment levels.

These proposals have to be taken seriously in view of the longer-term strategy of developing an internationally competitive industry, and the recognition of the interdependency of the regional and local clothing industries. However, what one does not want to encourage through allowing low-wage areas is reliance on static responses within the clothing industry - at a local or regional level. Policies have to ensure that there is a reasonable time-frame in which change is encouraged to take place, that firms benefiting from low wages are those firms that are performing labour-intensive production functions and not firms that can innovate more effectively, and that inter-firm relationships are stimulating the development of innovative production methods. Relationships between contractors and subcontractors have to encourage inter-firm learning and exchange of ideas, and there has to be a general movement into higher market segments. Such policies and strategies would have to accommodate firm-level business plans and targets. Geographically-tiered wages must not mean that firms that could afford to pay higher wages do not. Neither must wages be marketed as the only competitive advantage to Port Shepstone. Other economic and non-economic reasons for locating in the town should be emphasised.

Regional-local Collaboration

The recognition of the inter-dependence and dynamism of the regional and local clothing industry, and the potential for developmental relationships, requires an improvement in the manufacturing/retailer interface. Strategies should include: a focus on improved communication and relationships; staff exchanges to have a mutual appreciation for each other's work; move to shorter lead times and quick response principles; manufacturers to become more market-orientated and work together with their contractors (for example, on design); focusing and specialising on the part of manufacturers; and the improvement of the administrative sectors within the contracting companies; price incentives for better quality products; and joint export promotion.

Local Initiative

The strengthening of regional-local relationships enhances the role of the locality in stimulating and supporting the local industry. For example, the firm level strategies that will have to be developed with individual firm targets within the broader framework for change, will need to be monitored locally. Furthermore, for a sustainable future for the local industry, and for an improvement in the standard of living for its citizens, Port Shepstone cannot simply rely on a proliferation of CMT firms. There has to be a process of specialisation at the local level as well, with possible developments in the local marketing and designing industry. Also, pressure within the clothing pipe-line for quick delivery and response will require local suppliers and services. As firms move into middle and upper-market segments they may begin reorganising production within the firm and technological support services, training and research services will become even more important for the local industry.

An enabling institutional environment at the local level will be essential. The idea of Local Service Centres (LSCs) proposed in the White Paper on SME promotion is appropriate as part of a sectoral strategy within the clothing industry. The focus on LSCs should be: financial support for small businesses; information on, and access to, new technologies; R&D; assistance in the formulation of firm-level business plans; strengthening local and regional networks within the industry; encouraging investment, both national and foreign, within the area; assistance on quality control and meeting standards; productivity improvements; information on tendering procedures; administrative support; and, information on subjects as varied as labour relations and export promotion. Finance could come either through cross-subsidisation by established firms, and/or through state support.

The importance of equal status partnerships at a local level between the public and private sectors cannot be overstated. What is becoming increasingly clear is that the complexities of the local industry require the involvement and support of local agents, and that if any strategy is to be successful regionally, local implementors have to be involved in the decision-making process. The fact that there is no organised presence (except during wage negotiations) within the local clothing industry is an immediate obstacle. However, there is enough support for a local association amongst the industrialists for such an initiative to be successful. The fear of unions may be dispelled somewhat if a local strategy developed for the sector has the support of all the major stakeholders, both locally and regionally. Regional governments and institutions must, however, provide support and assistance to the local industry and local institutions. Financial support, for example, for local-level activity is fundamental. Other forms of assistance should be through, or in co-operation with, existing institutions, namely the CITB, the NCMA, Clothing Federation, SACTWU and the Natal Industrial Council.

The Industrial Strategy Project (1995) has argued that institutions need to encourage forms of co-operation between management and labour, between firms, and between firms and other economic agents, that can enhance productivity. For this purpose, sectoral associations, local government institutions, or local networks of firms may provide a more effective institutional based than that provided by central or regional government.

The Wider Development Environment

Industrial development policy cannot be created in isolation from other aspects of development policy. Industrial development also needs adequate housing, the provision of water and sanitation, adequate transport infrastructure, good communications, and a stable political environment for its workers. Addressing the ongoing political violence in the Port Shepstone area and the poor social and economic conditions in the rural and peri-urban areas, must form an integral part of an industrial strategy for the town. This implies that industrial policy development in the town requires the participation of a broad range of stakeholders and necessitates sound inter-departmental budgeting and planning at a regional and local level.

The Macroeconomic Environment

The macroeconomic environment is crucial in creating an enabling environment for local change. Tariff reform related to tariff phase-down

schedules, greater customs control, and anti-dumping and countervailing measures, are essential if the strategy proposed in this paper is to be successful. There is ongoing concern that trade liberalisation within the country is proceeding at a pace which is harmful for local industries and that a more cautious approach should be adopted. Furthermore, it is clear that the consequences of the official tariff reform process are blurred by illegal imports and that customs control reforms are urgent and essential for the survival of, and space for restructuring, in the local industry.

Other macroeconomic policies would include the promotion of exports; securing lower input costs domestically; competition policies which discourage the concentration of control within the major retailers; the regulation of employment and wages; encouraging a commitment to productivity from all stakeholders; providing a better physical infrastructure; and the development of the country's skills base. Perhaps one of the most critical ways of creating an 'enabling' environment for industrial growth within localities is, however, to decentralise control so that the local actors are involved and committed to decisions taken.

Conclusion

It is significant that while the national industry has declined over the past few years, there has been some growth in the local clothing industry in Port Shepstone. Admittedly, much of this growth has been in CMTs confined to the assembly stages of the pipeline. Although this growth relates to locality specific factors, it also has to be understood in terms of trends at regional, national and even international levels. For example, trade liberalisation and illegal imports are pressurising the clothing industry in Durban. One response is the relocation of certain functions to a low-wage area such as Port Shepstone. A change in the state's regional incentive programme has also altered the relative competitiveness of localities such as Isithebe and eZakheni vis-a-vis Port Shepstone to the latter's advantage. Port Shepstone is at the moment benefiting from changes in geographical competitive advantage. But competitive advantage is ephemeral and the geography of production inconstant. Port Shepstone cannot simply respond statically to change. It has to work to secure long-term advantage. The question then is what is appropriate.

If a 'high-wage/high-productivity' growth path is followed, and if geographical wage differentials are eliminated in the interests of equity, the clothing industry in Port Shepstone will surely be destroyed with the loss of a couple of thousand jobs. However, the ideal should be regarded as a long-term goal. In the short-term it should be acknowledged that Port Shepstone plays an

important role for the survival of the clothing industry regionally. It is part of a dynamic spatial system.

Clothing manufacturers should not be denied the option of locating parts of the production process in a locality such as Port Shepstone. If they are, they will probably resort to informalisation or relocation outside South Africa. Some degree of geographical wage differentiation should be permitted although the gap should be progressively reduced. However, it is not sufficient merely to permit wage differentiation. There has to be active efforts to upgrade the industry within a locality such as Port Shepstone, particularly in terms of human resource development, technology, the organisation of production and relationships between firms within the supply chain. Deliberate effort is required to ensure that wage differentials will only be a temporary strategy to secure the survival of the local industry and that Port Shepstone's clothing firms will become competitive in their own right and part of a high wage/high productivity growth path.

Institutional development is required at a local level which will involve the local authority, industry and unions in collaborative relationships. Historically, the Port Shepstone local authority had little or nothing to do with promoting industrial competitiveness. This must change if Port Shepstone is to take advantage of the 'locational opportunity' presently available. For the local industrialists, it will be necessary that they too become organised in order for equal status partnerships to be established. It is intended that the fear of organising, owing to union pressure, will be dispelled as all stakeholders become committed to a single course of upgrading.

Finally, it is clear that the impact of globalisation is significant at a locality level, and it offers both opportunities and constraints for local industry. The specificities of the Port Shepstone locality need to interact with global forces in a manner that will develop the locality further and promote sustainable and well-paid employment in the long term. This interaction between the global and local will need to be mediated by effective national, provincial and local institutions to ensure the desired outcome is achieved.

NOTES

1. This article reports on the main findings of research conducted within the cluster of clothing manufacturing firms in Port Shepstone during October/November 1995. The aim was to consider the impact of globalisation on local industry and whether local processes (social, cultural, institutional and economic), or the existence of a cluster of firms, offer any opportunities for enhancing the competitiveness of local industry. Port Shepstone is a medium-sized coastal town in KwaZulu Natal approximately 120 kilometres south of Durban. The town is the primary administrative, commercial and service centre for the Port Shepstone, Alfred and eZingolweni magisterial districts.

2. 'Regional' in the context of this paper refers to a region or province within a nation state.
3. New forms of competition include: a skilled labour force; spatial proximity to suppliers and markets; R&D facilities; customised production; flexibility; reliability; timeous delivery; and new technology.
4. The MFA allows for the use of a safeguard clause under which selective quantitative restrictions may be imposed on textiles and clothing imports, subject to the fulfillment of certain conditions and to multilateral surveillance.
5. Although labour productivity has remained relatively static, capital productivity has shown a constant, although fluctuating upward trend.
6. South Africa's initial offer to GATT involved a sharp reduction of tariff protection on textiles over a twelve-year period. This offer was rejected. The government then set up the Swart Panel on the Board of Tariffs which recommended a ten-year run down. The National Clothing Federation argued that for the clothing industry to be competitive, tariff protection on textiles should be reduced to agreed levels over a mere four years. In June 1995, the Minister of Trade and Industry announced a compromise whereby tariffs would be reduced over an eight-year period to end rates decided on by agreement between the NCF, SACTWU and TEXTFED.
7. For example, the chains, independent retailers, wholesalers and designing houses
8. Interview with Len Smart (NCMA), September 1995
9. The Industrial Council Agreement signed between the Natal Clothing Manufacturers' Association and the SACTWU, the single employers' and workers' bodies respectively, covers the following areas: Stanger, Pinetown, Durban (excluding Hammarsdale), Pietermaritzburg and Amamzimtoti.
10. In the late eighties the KFC's policy was to discourage clothing firms in Isithebe, for example.
11. Study undertaken in October 1995.
12. Interestingly, two of the largest firms in Port Shepstone in terms of employment.
13. The September - November period is the peak season for clothing production in South Africa. A number of the firms interviewed were on short time by January/February 1996.
14. Note that these interviews were conducted during October, a peak production month in the clothing industry
15. Indeed it is the small Cut, Make and Trim's (CMT) contractor that will choose foreign processing.
16. Interview with Mark Bennet of SACTWU, October 1995.

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