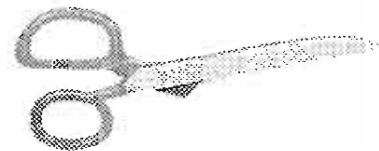


# **SECTORS, CLUSTERS and REGIONS**

## **A Study of the Cape Clothing Industry**

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## FOREWORD

*The first phase of the Industrial Strategy Project commenced in 1992. The Project has its origins in the Congress of South African Trade Union's (COSATU) efforts to develop policy responses to the malaise afflicting South African manufacturing.*

*The first phase of the ISP submitted its final report in 1995. This comprised 11 sectoral studies, a number of cross-sectoral studies, and a synthesis volume that proposed an overall industrial strategy for South Africa.*

*The ISP is now in its second phase and comprises four research themes. One of these examines the relationship between industrial development and the environment, a second focuses on firm-level innovation, a third examines issues in human resource development, and the fourth is concerned with identifying mechanisms to strengthen manufacturing competitiveness at regional and local levels.*

*This paper is one of a series of five working papers that examine regional sectoral agglomerations drawing on the well-documented international experience of industrial districts. These studies, supplemented by additional research in this area, will be synthesised in an overall analysis of regional and local industrial strategies. While the first phase of the Project was cognisant of these issues they have assumed particular pertinence in the context of the new constitutional dispensation. The studies are principally, although by no means exclusively, directed at provincial and local government and non-governmental structures attempting, with few resources and little local experience, to promote industrial development in their areas of jurisdiction.*

*These are working papers intended to catalyse policy debate. They express the views of their respective authors and not necessarily of the Industrial Strategy Project.*

*The second phase of the ISP is funded by the FES, HITVOS, the IDRC and the Olof Palme International Centre.*

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## EXECUTIVE SUMMARY

The Western Cape Clothing industry is South Africa's (SA) largest regional clothing concentration, accounting for 45% of SA clothing production and 50% of exports. It is also significant in a regional context and accounts for 20% of the Western Cape region's manufacturing employment. The region is also the primary location for the production of high quality fashion and tailored clothing, mainly aimed at the mid-to upper-ends of the market.

The aim of this study is to establish what role regional and local institutions can play in upgrading and strengthening regional clusters. The Industrial District Model, which has been successful in terms of growth and employment, is used to assess whether the region compares with the stylised model and to what extent support strategies usually found in industrial districts can be applied.

The study has revealed that the region's clothing sector differs from the stylised model in key respects. Unlike the typical industrial district, the region is highly segmented with developed large- and medium-sized firms combined with a weak and uncompetitive small firm sector. A large number of small firms are subcontractors with weak technological marketing and design capacity. The capacity to export is also limited. Institutional forms of co-operation and the provision of real services by employers, private or government institutions is weak and undeveloped.

Firms do, however, gain from their concentration and location in the region. The study has identified a number of different forms of inter-firm co-operation ranging from co-operation with exports to information sharing. The existence of

specialised services and a large number of subcontractors in the region also allows for flexibility and specialisation. A large pool of skilled labour was also identified as a key advantage.

In addition this study notes the importance of the retail sector. The presence of almost all of SA's major retailers in the region has had contradictory effects on the industry. On the one hand, the high standards set by SA retailers has had a positive impact on the production of high quality, fashion clothing. The oligopolistic nature of the retail sector and the reliance of most of the region's manufacturers on these retailers has however led to an imbalance in power between retailers and manufacturers which has resulted in low profit levels and an inability to maintain brands.

### Regional Policy

Whilst international competition and weak customs controls is the region's most serious threat and can only be addressed at a national level, there is a need for a regional industrial policy based on strengthening local agglomerations of industry. The main argument of this study is that the Western Cape clothing industry has inherent strengths and is potentially competitive in the production of high quality fashion clothing and that local and regional policies should be aimed at enhancing this capacity. There is therefore a need re-orientate traditional local economic strategies. In this context, this study recommends the provision of real services to assist, especially small firms, to improve their competitiveness. It is further recommended that a Regional Desk or Agency be established jointly by local and regional government to co-ordinate the establishment of sector based real service centres and develop and implement strategies to strengthen local clusters.

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## 1. INTRODUCTION

### 1.1 Background to this report

In terms of economic development, regional and local government strategies in South Africa (SA) have focused on the attraction of foreign direct investment and promoting tourism. Historically the focus of regional policy at a national level has been the deconcentration of economic activity from developed metropolitan areas with a view to promoting industrial development in depressed regions. These approaches to regional development have had limited success and have not achieved the goal of sustainable regional development.

The 'Industrial District Model' represents a different approach to regional development. This model emphasises endogenous local development through the strengthening of local industrial agglomerations. The rationale for this approach is that 'Industrial Districts' or ideal type spatial agglomerations of industry realise a range of competitive advantages which flow from the clustering of similar economic activity.

This paper aims to contribute to a small but growing literature on local clusters and new approaches to regional development by focusing on one of the largest industrial agglomerations in SA, the Western Cape Clothing industry. It assesses the applicability of the industrial district concept to this regional cluster. It also explores the advantages and opportunities flowing from agglomeration. A final aspect of this paper is to explain and apply

the policy implications of the industrial district model to the Western Cape.

This paper is structured as follows. Section 1 tries to unpack the economies that may arise in clusters. After unpacking the economic efficiencies, an attempt will be made in Section 2 to test to what extent the Western Cape clothing industry fits into the industrial districts model. In order to arrive at this, it is necessary to sketch both a picture of the industry and to understand its forms of industrial organisation. The final Section explores regional policies and strategies that can enhance the exploitation of these economies of agglomeration.

### 1.2. Methodology

This research paper is based on interviews with 13 clothing manufacturers, the four largest retailers, a supplier, and discussions with officials of the two employer organisations, The Cape Clothing Manufacturers' Association (CCMA) and Garment Manufacturers' Association (GMA). The firms interviewed included a cross section of small companies, CMTs (cut, make, and trim), and medium and large companies.

The approach adopted in this study is similar to that used by Schmitz (1994) in his study of the footwear industry in the Sinos Valley in Brazil. This involves an investigation into whether the features most often associated with industrial districts are present in the studied area. This includes an assessment of the level of concentration in a specific industrial area, the presence of a strong small- and medium-sized sector and the extent of co-operation and the existence of self-help organisations.

## 2. AGGLOMERATION THEORY AND INDUSTRIAL DISTRICTS

This Section looks at the industrial district concept and the competitive advantages which flow from agglomeration.

### 2.1 Definitions and features of industrial districts

Industrial districts are a particular form of agglomeration and can be defined as clusters that realise the economies flowing from external relations, joint action and agglomeration economies (Schmitz, 1993).

According to Sengenberger and Pyke (1992)

the industrial district comprises in one and the same local area all the various activities required for the development, manufacturing and commercialisation of a product. These include the final assemblers, the producers of parts and components, or firms engaging in one of the successive stages of production, of machinery and equipment, product designs, export specialists, marketing firms and banks. That is the district contains all the activities and services upstream and downstream from the final product.

In addition to this geographic concentration, industrial districts are characterised by a large presence of small firms, high levels of competition and co-operation, and the presence of self help organisations and institutions.

### 2.2. The usefulness of the 'industrial district' concept

The widely perceived failure of traditional local and regional economic strategies

(such as dispersal strategies and attraction of foreign investment) has forced local and regional authorities to focus on endogenous local development. Industrial districts can therefore serve as a guide or model on which local industrial strategies can be based.

Industrial districts have been elevated to a model of local development for a number of reasons. Among these are the fact that the areas which have been characterised as industrial districts such as the so called Third Italy Italy, Baden Wuttemberg, and West Jutland have been successful in a number of respects. Firstly, these areas registered impressive growth records in the 1970s and 1980s compared to a number of other regions. Secondly, these areas maintained their international competitiveness in the industries where it is generally believed that low wage economies would dominate. Thirdly, growth in these regions was based on the enhancement of technological and human resources rather than the suppression of factor costs (Schmitz, 1993; Sengenberger and Pyke, 1992).

Industrial districts are particularly relevant to the clothing industry. Italy, despite its high labour costs, remains one of the world's leading clothing exporters. Part of its success can be attributed to the concentration of its industry in various industrial districts. The towns of Capri and Como illustrate this:

Capri consists of 2 000 small clothing and knitwear firms producing 25% of Italy's knitwear output, while Como, specialising in silk, has 3 000 weaving and clothing firms employing 40 000 workers.

(Mazzonni, quoted in Pyke, 1992).

The industrial district concept is also useful from a policy perspective in that it

identifies a clear role for local policy interventions. It provides insights into the gains in competitiveness arising from inter-firm and inter-filiiere co-operation. It also provides new perspectives on how small businesses can become competitive.

### 2.3 Advantages of agglomeration

Insufficient theorisation blunted the conceptual tools necessary to unravel the economic efficiencies of industrial concentration. The late 1980s and 1990s however saw attempts at creating a theoretical framework in which to conceptualise local economies (see, for example Brusco, 1992, Pyke and Sengenberger, 1992, Schmitz, 1994, Visser, 1994). Alfred Marshall was one of the first economists to argue that efficiencies arise from the concentration of economic activity. He attributed the gains of 'industrial districts' to external economies. External economies can be defined as technological and/or pecuniary spillovers arising from an interdependence of productive functions of several firms (Visser, 1994). External economies, however, refer to the external relation between firms and do not only arise in

clusters even though their impact may be more significant (Schmitz, 1993).

Agglomeration economies and collective efficiency have emerged as concepts to extend and deepen the advantages flowing from agglomeration. Schmitz (1994) has recently coined the term 'collective efficiency' to incorporate both external economies as well as active forms of co-operation occurring in clusters.

According to Humphreys (1994) collective efficiency incorporates three aspects.

These are:

- Unplanned external economies. These include a supply of labour, easy access to suppliers of raw materials, components, and new machinery, and to second-hand equipment and spare parts.
- Co-operation between firms either vertically or horizontally (e.g. sharing of equipment or orders).
- Collective action by groups of firms or local institutions.

### 3. THE WESTERN CAPE CLOTHING INDUSTRY

After contextualising the Western Cape clothing industry, this section discusses the industrial structure of the region in relation to firm size, firm structure, levels of specialisation and flexibility as well as the types of inter-firm co-operation found in this clothing district. This section will also consider factors (mainly the retail sector) that impact on and form an essential part of the region.

#### 3.1 Sector Profile

##### 3.1.1 Brief Background

Until the 1920s clothing in SA was either imported or tailored. The major impetus for local clothing production was the

to 13 204 in 1950. Factory employment exceeded bespoke tailoring for the first time in 1954. By the 1950s the national clothing sector produced 87% of local demand and growth slowed down. The 1980s saw another period of significant growth. This was partly the result of a depreciating Rand which reduced imports. Local production in this period accounted for 93% of total domestic demand.<sup>2</sup>

Since the early 1990s the industry has been in a major crisis. Employment in the Western Cape region declined from 54 267 to 46 868 between 1990 and 1994. Clothing production declined by 20%, whilst clothing retail sales increased at a healthy pace (7% per annum).

The decline in production was mainly due to an increase in imports of new and second hand clothing. By 1993 the industry seemed to have recovered and had

TABLE 1<sup>1</sup>

DATE	NO. OF FACTORIES	NO. OF EMPLOYEES
1935	30	3 500
1940	40	4 772
1950	104	13 204
1960	166	19 787
1970	253	37 743
1980	332	53 421
1990	433	54 267
1994	538	46 868

supply restrictions experienced during the World War I. During the 1930s employment grew by 5 percent a year. Employment increased from 3 500 in 1935

a growth rate of 3%. Similar growth rates occurred in 1994. Tariff reductions as well as illegal imports have however led to further reductions in employment in 1995/6.

<sup>1</sup> Source : Industrial Council For The clothing Industry (Cape). Note: Since 1989 firms employing less than 5 employees have been granted automatic exemption from Industrial Council Agreements and are not normally included in Industrial Council statistics. Figures provided by the Industrial Council for 1994 have therefore been amended to include establishments employing less than 5 workers.

The early 1990s also saw a significant increase in exports albeit off a low base. SA exports (of which 50% or more originate from the Western Cape) grew from R118m in 1989 to R460m in 1992. Exports however only account for about

<sup>2</sup> Wesgro, 1992.

10% of local production and make up 0,4% of world trade.<sup>3</sup>

**3.1.2 The Western Cape clothing industry in a national and regional context**

In terms of spatial concentration, the Western Cape resembles an industrial district.

The South African clothing industry is concentrated in two large regional agglomerations. According to Table 2, the Cape and Natal account for 76% of SAs clothing production and 54% of textile production. The bulk of clothing production is however located in the Western Cape. This area alone produces 45% of SAs clothing and accounts for half of SAs total clothing exports<sup>4</sup>. It also accounts for a higher proportion of SAs higher quality, fashion clothing.

**3.1.3 Composition of the cluster<sup>7</sup>**

In 1994 there were 538 registered clothing manufacturing firms directly employing 46 868 workers.

Together with its supporting and supplying industries, the region had over 718 firms employing roughly 70 000 workers.

The Western Cape and its surrounds also has a strong textile industry. The local industry is the second largest textile region and accounts for just over 20% of SAs textile production. This industry consists of approximately 180 firms. The region produces the full range of textile products and is especially strong in the production of knitted and worsted fabrics. The clothing industry obtained 22,4% of its intermediate inputs in the region.<sup>8</sup>

Within the region there are also a large number of specialist firms linked to the

**TABLE 2 Output by Metropole<sup>5</sup>**

REGION	CLOTHING	TEXTILE
CAPE	45%	25%
NATAL	31%	29%
PWV	25%	13%
E.CAPE	2%	8%

Within the Western Cape region, clothing is the most important manufacturing industry, employing 20% of all manufacturing workers and accounting for 10% of the region's manufacturing output value. The clothing and textile industries account for slightly more than one third of the region's manufacturing employment<sup>6</sup>

clothing industry. This includes fabric printers, suppliers of trims, sellers of new and second hand machinery, specialist embroiderers, pleaters etc. All machinery used in the industry is imported. There are approximately six suppliers of machinery. Local suppliers do however make specialised attachments or folders. This enables a machine to be converted to perform a specialised function. The Western Cape is also the home of almost all SAs major clothing retailers (Pepkor,

<sup>3</sup> NCF, 1993.

<sup>4</sup> NCF, 1993.

<sup>5</sup> Source: Development Bank of SA.

<sup>6</sup> Bridgeman, Palmer and Thomas, 1992.

<sup>7</sup> The data used in this sections was obtained from the records of the Industrial Council for the Clothing industry (Cape).

<sup>8</sup> Wesgro, 1992.

Woolworths, Truworths, Foschini, Markhams, Bergers). Cape based retailers account for over 50% of SAs clothing retail sales.<sup>9</sup>

The region also has a number of institutions and organisations. There are two established employer organisations, as well as a branch of the UK based Clothing Institute. There is a single trade union representing workers in the clothing and textile industries, a long established Industrial Council, a training board and a number of design training centres.

Cape clothing cluster where the average firm size in 1994 was 87 employees. The average firm size in SA is amongst the highest in the world.<sup>11</sup> Compared to other clothing regions in SA the Western Cape also has the largest firm size.

Even though the average firm size is large, Table 3 shows how this has changed over time. In 1970 and 1980 the average firm size was 149 and 160 respectively. This change is significant and is partly due to an increase in the number of small firms.

Although total employment in the region declined by 6 553 between 1980 and 1994,

Table 3: Firm Size<sup>10</sup>

YEAR	AVERAGE NO. EMPLOYEES PER ESTABLISHMENT
1935	117
1940	119
1950	127
1960	119
1970	149
1980	160
1990	125
1994	87

### 3.2 Industrial Structure

#### 3.2.1 Firm Size

A feature of industrial districts is a predominance of small firms specialising in various stages of the production process. In the case of Italy the average firm size is 5,5 workers and the average industrial district comprises over 1 000 mainly small firms. The small firm variant of flexible specialisation as exists in the Marshallian industrial districts is absent in the Western

the number of registered firms increased from 332 in 1980 to 538 in 1994. Even if we exclude firms with less than five employees, there is a net increase in the number of clothing establishments. The bulk of the increase in firms is however in firms with less than five employees. As at October 1994 there were 146 firms with less than five employees. This constitutes 27% of establishments.

There has also been a steady decline in the size of large firms since the 1980s. An example of this trend is Rex Trueform, one of the region's largest clothing firm which had a workforce of over 5 000 in the mid

<sup>9</sup> NCF, 1993.

<sup>10</sup> Source: Industrial Council for the Clothing Industry (Cape). Note: These figures include knitting factories. Note: The figures provided by the Industrial Council has been amended to include factories with less than five employees.

<sup>11</sup> Alunan, 1993.

1980s. By 1994 employment had declined to 1 600.

### 3.2.2 Firm structure

The industrial structure or type of firms within the Cape Metropolitan area contains a mix of firms and does not fit neatly into the typical industrial district model. Some firms are highly integrated with both forward and backward linkages. Others fit neatly into the large firm variant of flexible specialisation. The bulk of firms though, fall into the small firm category. More than half of these can be defined as design-dependent sub-contractors.

In order to understand the industrial structure of the region it is useful to differentiate according to size.

#### 3.3.2.1. Large- and Medium-Sized Firms

Even though an exceptionally large number of small firms exist, the largest share of production and employment is concentrated in a few large firms.

There are 20 firms with over 500 employees. These firms account for 37% of employment (17 173) in the region. Amongst these there are some very large companies (four firms with over 1 000 employees).

There are 66 medium-sized firms (between 100- 300) collectively employing 12 105 workers or 26% of the workforce. Together large- and medium-sized firms account for 62% of the region's employment.

The 20 large firms are also the largest exporters in the region and in SA.<sup>12</sup> These companies supply either their own retail outlets, e.g. Rex Trueform and Pep, or one

<sup>12</sup> This information was obtained from the General Export Assistance Scheme (GEIS) applications.

or two of the major retailers, e.g. Seardel. Due to the instability of small independent boutiques and retail outlets, as well as high transaction costs involved, most of these firms have reduced their retail base significantly. One of the large companies interviewed revealed that in the early 1970s their customer base grew from 23 to 440. At present the company supplies only the two major retail chains. This trend was confirmed by all of the larger firms.

The medium-sized firm sector is also mainly geared to the mid- to upper-end of the market but has a more diversified customer base. Some of the medium-sized firms have up to 400 customers.

A very small proportion of these firms export. Interviews conducted with medium-sized firms reveal the lack of marketing capacity and finance as the main reasons for not exporting. Most large and medium-sized firms are vertically integrated manufacturers with only 13 (or 20%) of medium-sized firms being sub-contractors (CMT's).

The industrial district concept is closely linked to the wider debate about flexible specialisation<sup>13</sup>. Even though this concept is broad, some of the large firms in the region resemble a large firm variant of flexible specialisation. Piore and Sabel, cited in Ajam and Natrass (1993), identify the following features of flexible specialisation as they apply to large firms:

- federated groups of large, loosely allied enterprises;
- 'solar' firms holding smaller enterprises in steady orbits (e.g. the Japanese kanban system of collaboration with an extensive supplier network); and internally decentralised workshops, e.g. those found in West Germany.

<sup>13</sup> Schmitz, 1994.

The largest firm in the region (Bonwit) with 2 022 employees consists of 10 separate plants. Most of these plants employ between 150 and 200 employees. This decentralisation of production allows for centralisation of functions where economies can be obtained. This includes bulk purchasing of inputs, cutting, administration and design and sales. The various plants also specialise in certain types of garments. Other companies reflect this tendency even though they are not spatially separated.

Foschini, a retailer also resembles the 'solar firm' variant of flexible specialisation. This retailer owns a small manufacturing arm which is mainly responsible for designing, purchasing of inputs and distribution. The bulk of production is carried out by 20 formally independent CMT operators. Specialised machinery is centralised and distributed as and when required by CMT operators.<sup>14</sup> The existence of a number of separate factories or units is also common in other large companies such as Pep and Rex Trueform.

Backward linkages by retailers is also common. The two largest companies in the Western Cape, viz. Bonwit and Pepkor, which have workforces of 2 022 and 2 038 respectively, were established by retailers. The major retailers in the Western Cape have different structures. At the one extreme is Pepkor which is vertically integrated. Pepkor, which dominates the lower end of the market, has its own manufacturing division. The manufacturing division of Pep represents a case of classic fordism with exceptionally long runs and few style changes. This company's manufacturing division consists of 4 separate factories situated under one roof with each specialising in a specific range. The company's competitive advantage lies both in its direct access to

local and international markets as well as scale economies.

Woolworths on the other hand owns no production facilities but has special relationships with larger companies, many of whom produce almost exclusively for this retailer.

Foschini referred to earlier is a hybrid. Part of their production is designed in-house and sub-contracted to dedicated CMTs. The remaining part of their merchandise (60%) is sourced from independent manufacturers.

The introduction of the latest technology in the industry has been limited to large- and medium-sized firms.<sup>15</sup> Technological improvements have mostly occurred in the pre-production stages. Computerised pattern designing has increased flexibility and speed in designing and allows for a quicker response to market changes. Ten companies in the Western Cape have acquired this facility. These companies are mainly the large- and medium-sized companies. The use of computerised marking and grading has become expensive and is used quite extensively by most large and medium-sized companies.

### 3.2.3 Small Firms

In terms of the number of establishments, the industry is dominated by small firms. There are 146 firms with less than five employees and 284 firms with less than 100 employees. Thus in percentage terms 53% of firms in the region have less than 100 employees.

<sup>14</sup> Interview with management of Foschini.

<sup>15</sup> Malcolm, 1994.

On the other hand, the small firms in the industry lead a precarious existence and have a high exit rate. Out of the 224 firms with less than 100 employees in 1981, only approximately 69 or 27% were still in existence in 1994.<sup>17</sup> Of the firms that survived only 10 significantly increased employment and are

now medium-sized firms. A more recent survey of birth and death rates further illustrates this predicament of small

firms: in 1993 and 1994, 103 firms shut down, the majority of these being small firms. In this same period, 118 mainly small firms opened. This indicates an extremely high turnover rate.

Almost half of these small firms can be classified as sub-contractors. The level of dependency amongst sub-contracting firms differs widely with some working exclusively for one retailer. These CMTs are in reality mere labour brokers. They are paid on a weekly basis in order to meet their wage bill. Many lack any specialised machinery as this is supplied by the retailers. Effective management rests with retailers who exercise almost daily monitoring. None of these firms export.<sup>18</sup>

Co-operation amongst small firms takes place at the most basic level. This includes passing on work and the lending of machinery and cotton. Co-operation is probably limited due to the short lifespan of small firms resulting from low entry and exit barriers. Another reason that was given for this low level of co-operation is

<sup>16</sup> Industrial Council for the Clothing Industry (Cape).

<sup>17</sup> These conclusions are based on a review of Industrial Council records for the period 1981-1994.

<sup>18</sup> Interview with Chairperson of the Garment Manufacturers Association. No CMTs applied for GEIS assistance.

the fierce competition between small firms. Because the bulk of sub-contracting relates to capacity, most CMTs are direct competitors. This can be contrasted to many of the medium to larger companies who are more specialised and therefore have less direct competitors.

TABLE 4<sup>16</sup>

YEAR	NO. OF FIRMS CLOSED	NO. OF NEW FIRMS
1993	73	53
1994	30	65

Participation in employer organisations and use of institutions is also weak. Only 40 small firms are members of

any association. Schmitz (1993) has made a similar observation about firms with less than 50 workers in the Sinos Valley Footwear cluster. According to Schmitz

'these firms tend not to contribute to, nor draw, on self-help organisations.'

### 3.2.4 Specialisation and Sub-Contracting

A common feature of industrial districts is a high level of division in the production process (vertical disaggregation), extensive sub-contracting and high levels of specialisation. One of the economic benefits of agglomeration is that it facilitates specialisation in process, product, as well as flexibility. This section will show the changes that have taken place in this area.

#### 3.2.4.1. Sub-contracting<sup>19</sup>

Clothing production entails a number of distinct processes. These are designing, the making of samples using the most skilled machinists, pattern making and grading, cutting, sewing, embroidery, pleating, printing, washing and dyeing,

<sup>19</sup> Information in this section is based on Industrial Council Records and interviews with the GMA and Mr P. Boers, the Managing Director of BackBor a CMT company.

pleating and ironing. All these phases of the production process are spatially divisible.

In broad terms, two types of operation are contracted out. These are:

- Operations which require highly specialised equipment and skilled labour such as printing, pleating, weaving and dying. This allows for greater efficiencies.
- Operations which are simple and labour intensive (CMT). This results in savings on machinery, premises and other overheads.

The fact that sub-contracting and small firms have been covered by the same wage regime as large firms has limited the economic advantages to large firms as they are unable to drive down prices granted to CMTs. The economic advantage of subcontracting is thus confined to production flexibility and savings on overheads.

Overall, there has been an increase in the number of both formal and informal sector CMT establishments. The available data on sub-contracting shows that there were 103 CMTs in 1994 and 8 design studios compared with 90 CMT operators in 1992. This compares to 52 CMT operators in 1984. This represents a 100% increase in CMTs even though employment has declined. If one goes back further this dramatic increase in sub-contracting becomes even more evident. In 1966 there were 4 registered CMTs and only 12 in 1974. The increase in sub-contracting is probably related to the increased need for flexibility and shorter runs. Sub-contracting is also the easiest route for new entrepreneurs.

The information gleaned from industrial council data differs from the information

obtained from manufacturers who reported a decrease in capacity sub-contracting as well as a decline in the quality and reliability of CMT operators. This discrepancy is probably due to the fact that whilst manufacturers have decreased capacity sub-contracting due to the decline in production, the design houses and retailers have increased their usage of CMTs. The largest CMT who was interviewed in this study in the region and who employs over 200 workers does contract work almost exclusively for design houses. On the other hand, one large firm (Rex Trueform) has practically closed their CMT department. Another firm (Bonwit) has also reduced the number of CMTs used.

Sub-contractors are also becoming more specialised in terms of products produced. Firms interviewed reported that they had become more specialised over the past five years. Furthermore, the larger companies like Bonwit and Rex Trueform reported that some items were being sub-contracted in their entirety to other manufacturers and would no longer be produced. Similar trends are observed by Nunes (1994) and Williamson (1994) who conducted studies during the same period of this research. This is a consequence both of CMTs wishing to develop a greater level of independence as well as the difficulty of producing a wide range of products.

#### 3.2.4.2. Specialised Services

Interviews conducted for this study, as well as a review of the types of firms registered by the industrial council indicates increased process specialisation. This is evidenced by the development of, and increase in, design houses, the emergence of firms specialising in cutting services, as well as a larger number of pleating firms.

In 1992 there were no firms specialising in the provision of cutting services. In 1994

there were three firms specialising in this part of the production process. The emergence of specialised cutting operations allows the firms in the cluster greater production flexibility.

Specialisation in respect of pleating and printing, embroidery and other finishing services are also common in the cluster and there has been an increase in the number of firms performing these functions. One of the firms interviewed had recently purchased a pleating machine and expanded its operation to include commission pleating. Over 30 companies were utilising this facility. The existence of these specialised services is one of the significant aspects of clustering. The specialised skills, machinery and costs involved makes it prohibitive for firms to internalise these operations.

Such services also need to be located close to manufacturers because these processes occur during other processes, e.g. between cutting and sewing.

Increased specialisation of the design function is also occurring. This is related to the need for increased flexibility resulting from market changes (increase in number of fashion seasons), the specialised technologies available, and the lower capital required for such specialised operations. Design houses specialise in the design and marketing of the product. The assembly function is then contracted out. Industrial Council records indicate a limited number of design houses. In 1984 there were four and in 1994 only eight registered design houses. Firms interviewed indicated that a much larger number of design studios exist in the region.

One of the largest manufacturing companies employing 1 500 staff in the Western Cape, has started shifting its designs to a design studio. According to

the managing director of this firm the outsourcing of this function is related to the increased costs of design which include travel costs for designers, the purchasing of prototypes and fashion magazines. Other factors mentioned were the increased volatility of fashion, the fact that designers and production personnel require different work environments, and that factories are not appropriate settings in which to liaise with buyers from retail chains. Specialist designers also reduce the cost of designing by virtue of scale economies.

### 3.3. Forms of Inter-Firm Co-operation

According to Schmitz (1993), collective efficiency arises from three forms of co-operation, vertical, horizontal and institutional. Horizontal and vertical co-operation is common in the region whereas the institutional forms of co-operation are undeveloped and limited. This sub-section explores these forms of co-operation.

#### 3.3.1. Horizontal Co-operation

Horizontal co-operation between firms at similar stages of the production process is common. At the time of conducting the interviews there seemed to be a more urgent need for co-operation. This was partly the result of the mini-boom that existed and the realisation that the opportunities for flexibility were significantly reduced due to the earlier recession and exit of many smaller subcontracting firms. Co-operation in the region is also enhanced by the fact that most of the large firms have been in the cluster for 30 to 40 years. They are also at the core of the employers' association and a measure of trust and respect has developed. In terms of horizontal co-operation, the following forms of co-operation which are discussed in some detail below emerged in the course of interviews:

- co-operation to handle large orders;
- co-operation to present joint ranges;
- information sharing;
- joint use of marketing agents;
- lending of machinery;
- co-operation with exports.

### 3.3.2 Co-operation to Handle Large Orders

This involves not only the normal form of sub-contracting to CMTs but includes co-operation between fully integrated manufacturers who are direct competitors. Some of this co-operation occurred when a firm was in a crisis and could not complete an export order, while other more planned forms of co-operation were evident where firms, by virtue of their experience in a particular garment, were given a part of the order. Firms reported that these relationships are becoming permanent.

There are also cases involving the passing on of orders which an individual manufacturer cannot fill. In addition, there are numerous cases where work is given by larger manufacturers to CMTs to tide them over slack periods. CMTs also have a network of friends and associates whom they contact if in need of work.

### 3.3.3 Co-operation to present joint ranges

Firms also co-operate to present joint ranges to retailers. This involves manufacturers who are not direct competitors. This usually involves companies which specialise in the manufacture of particular garments (e.g. manufacturers of men's shirts and a manufacturer of men's jeans).

According to the managing directors of Kinross Clothing and Riviera, such co-operations assume two forms. These are capacity sub-contracting relationships with

a consistent group of CMTs, which allows for production smoothing - and with other companies who are specialists. An example given was where Kinross clothing, specialising in jeans, co-operating with Polo (manufacturers of shirts) to create one set of clothing and then marketing this to retailers. The initial conceptualisation of the design is done jointly. Rex Trueform and Bonwit engaged in similar forms of co-operation even though they had their own in-house capacity. There is thus a form of sub-contracting between fully integrated manufacturers which results in economies of scale (long runs) flowing from specialisation. In this form of co-operation, the 'sub contractor' has design and engineering capacities equal or superior to the 'parent firm' and can be regarded as a type of specialist sub-contractor.

### 3.3.4. Information Sharing

One of the clearest advantages of clustering in the Western Cape is the ease with which information is disseminated. All firms interviewed had visited other factories to look at new technology or different forms of work organisation such as just-in-time. The largest firm in the Western Cape (Bonwit) which is also one of the leading firms in the region with regard to technology and work organisation, has an open door policy and a large number of firms visit its factories. Of the 13 managing directors or owners interviewed, 11 had visited this firm to look at the technology and work organisation. Apart from the two firms interviewed who believed that they needed to protect their exclusivity, it seems that firms are prepared to share information.

### 3.3.5. Joint Use of Marketing Agents

Groups of companies who are not direct competitors employ the same agent to market their products. These

intermediaries are used mainly by the medium-sized companies to obtain orders from retailers located outside of Cape Town. From the perspective of both retailers and manufacturers, these agents are not particularly effective and were referred to as 'messengers' by one of the interviewees. Marketing agents in industrial districts are an important link between distributors and producers. Agents have played an important role in smoothing this relationship and raising the level of manufacturing. A number of the companies in Cape Town who export to Germany are using the same agents. These agents, according to one of the companies interviewed, play an important role in transferring information, design techniques and ensuring quality standards.

### 3.3.6. Lending of Machinery

This is a common occurrence with most companies reporting this form of co-operation. Close relationships not only between managing directors or owners of companies but also between factory managers and even machine mechanics of different companies facilitate this co-operation.

### 3.3.7. Co-operation on Exports

This particular aspect of co-operation which is so prevalent in industrial districts is almost absent in the Western Cape region. The weakness seems to be the slow pace at which co-operation is emerging around the joint marketing of products internationally. There is, however, evidence of some co-operation emerging between a group of CMT operators who plan to sub-contract to foreign retailers. At a more formal level there has been discussion regarding the holding of a joint trade fair locally and displaying a range of products to international retailers. In both of the above cases, the formal associations are involved.

One of the retailer/manufacturers (Pepkor) interviewed which needed to export clothing not normally produced in their own factory, approached the association to facilitate contact with other companies who could assist in making up the order. This trend is likely to continue given this company's acquisition of foreign retail outlets.

### 3.3.8. Institutional Co-operation: Employer Organisations

Institutional co-operation through employer organisations is mainly confined to the traditional areas such as liaison with government and industrial relations.

There are two employer organisations in the industry. The Cape Clothing Manufactures Association (CCMA) represents mainly the larger and more established manufacturers. In 1994, the CCMA had a membership of 108 firms. This constitutes 35% of all firms registered with the Industrial Council. The firms belonging to this association, however, employ roughly 75% of all workers in the industry.

The Garment Manufacturers Association represents small firms. They have a membership of just over 40 firms. Recently another employer organisation has emerged, the Mitchells Plain Garment Manufacturers Association. This association is based in the Mitchell's Plain Hive.

The CCMA is the most organised with regard to resources and the range of activities in which it engages. Its main areas of involvement with regard to building the capabilities of the local industry have been in the area of training and exports.

In the course of discussions with both associations, it emerged that the

associations were attempting to carve out roles beyond traditional areas. These included the screening of foreign exports of fabrics and other inputs, small firm development and the dissemination of information. The GMA, whilst still mainly focused around industrial relations, has recently held discussions regarding the joint purchasing of inputs and enhancing some of the technical capacities of members as well as joint export ventures. It is however unclear whether this association has the capacity to expand its role.

The existence of these associations has undoubtedly promoted co-operation between firms. The GMA is frequently used as a source of information for manufacturers needing specialised CMTs. The relationships formed between employers within the associations has also led to sharing of orders, passing on of work, and sharing of information.

### **3.4. Factors Impacting on Industrial Organisation**

The value in studying industrial districts lies not only in comparing various industrial concentrations with the stylised model, but also in the identification of processes which impact on the evolution of spatial agglomerations. A number of aspects appear to be important in determining the shape of industrial districts. These include the districts' design capacity, the nature of its distributive sector, its penetration of international markets, the type and value of the products produced, as well as its institutional and regulatory framework. This section will deal only with the most important elements that have impacted on the district.

### **3.4.1. Retail Structure**

#### **3.4.1.1. Role of Traders**

Schmitz's (1994) research into the footwear industry in the Sinos Valley in Brazil shows how the industry transformed itself from an industry of small producers catering for a diffuse and decentralised local market into a super cluster of large firms supplying major US retailers. This transformation of the industry with respect to forms of industrial organisation, levels of co-operation and the quality of products, was strongly influenced by the presence of foreign buyers within the cluster. Focusing on distribution channels and the role of traders is particularly important in analysing clothing industry clusters.

Gereffi (1984) draws a distinction between producer- and buyer-driven commodity chains. In a buyer-driven commodity chain such as clothing, industrial organisation, inter-firm co-operation and profit levels are primarily determined by the market or more specifically by the major retailers, design houses, local and foreign buyers. This differs from producer-driven commodity chains such as automobiles and computers, where the chain is co-ordinated by the producer.

#### **3.4.1.2. International Comparisons<sup>20</sup>**

Marketing structures in SA are similar to that in the UK but differ from Italy's. The difference in distribution structures is reflected in different industrial structures (firm size), the ability of the manufacturing sector to maintain brand names, as well as the distribution of profit in these countries.

<sup>20</sup> Data in this section is based on studies conducted by Kurt, Salmon and Associates for the Clothing and Textile Industry task force.

SA has one of the most concentrated retail structures with five retail chains accounting for 55% of SAs clothing sales. Italy has the most decentralised marketing structure in Europe whereas the UK is the most concentrated. In Italy, distribution is much more fragmented than most European countries. Eighty per cent of total sales are handled by independent clothing retailers, market stalls and various other small businesses such as haberdashers and drapers. Multiple retailing is limited.

The fragmented retail structures creates substantial entry barriers for foreign companies. Italy is consequently the least penetrated of all EU markets. Strong domestic production, a fragmented retail structure and a discerning consumer base are the main reasons for this trend. The UK on the other hand has a very concentrated retail market. Independent retailers have an average of 45% of the market by value across Europe; whilst in the UK it is 20%. Variety Stores and multiples dominate the market and are represented by a few large companies such as Marks and Spencer.

### 3.4.1.3. Impact of Retail Structure on the Western Cape Clothing Industry<sup>21</sup>

With the exception of Edgars, the head offices and distribution networks of almost all SAs major clothing retailers are located in Cape Town. The Western Cape is particularly strong in the retail of women's fashion with the two major chains Foschini and Truworthe located in the region and obtaining most of their merchandise from Western Cape manufacturers. In addition to this, the major mass suppliers to the lower and mid-upper ends of the market

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<sup>21</sup> Information in this section is based on discussions with staff at Woolworths, Edgars, Foschini and Pepkor as well as Mr Robertson of Rex Trueform and Mr Kinross of Kinross Clothing, both who were formerly employed in the retail sector.

are located in the cluster (Pepkor, Woolworths).

The Western Cape cluster is the main supplier to these chains. The Seardel group whose clothing production is mainly located in Cape Town is the largest supplier to Woolworths (SAs second largest retailer). With the exception of Rex Trueform all the large- and a substantial proportion of medium-sized companies produce almost exclusively for the five largest retailers. Research by Altman (1994) also revealed that compared to Natal, the other major clothing cluster, Western Cape clothing manufacturers were more reliant on the major chain stores.

**This clustering together of retailers and manufacturing is arguably the most important feature of the Western Cape clothing cluster. The presence of the large retailers as well as the manufacturers' total reliance on these distribution channels has impacted on the size and structure of firms in the industry, the state of the region's design capacity, its quality standards, the emergence of highly dependant sub-contracting relationships as well as the inability of manufacturers to build or maintain their brand names. The high standards set by SAs mass retailers has however impacted positively on the cluster's ability to produce high quality fashion clothing. It can nonetheless be argued that the oligopolistic nature of the retail industry has reduced profit levels in manufacturing and stunted the growth of small enterprises.**

The relationship between traders and producers has changed over time. Three broad phases can be identified:

#### **An initial phase**

In the early period independent retail stores dominated clothing distribution and

manufacturers controlled all aspects of the production process and also carried the greater risk. The design function was almost exclusively performed by the manufacturers who also maintained their own brand. This meant that marketing was a key function. Manufacturers interviewed reported that they supplied between 200 and 500 different independents. Sample rooms were big and runs were short. This required great versatility as small batches had to be produced. Riviera indicated that in this period they produced runs of 400 per style for a customer base of 400 boutiques. This led to greater versatility and greater use of sample machinists.

#### A second phase

As the retail sector became more concentrated, retailers became more vertically integrated and usurped the design function as well as reduced the power of manufacturers to maintain their brands. With the exception of Woolworths, retailers acquired their own production facilities. The question of ownership was not the key factor however. As one manufacturer put it:

Woolworths owned factories without ever paying for them.

A large number of manufacturers became glorified sub-contractors for individual retailers. The length of production runs increased dramatically alongside the emergence of large factories. Manufacturers became highly dependant on one retailer and it was 'understood' that manufacturers would not broaden their customer base.

#### A third phase

The high cost of design, the inability of a single retailer to successfully perform this function, and the increasing capacity of manufacturers to present superior designs

led to the shift of this function back to manufacturers. The design and fabric selection functions become 'jointly owned' by retailers and manufacturers.

The other aspect of this phase is the development of strategies by manufacturers to gain direct access to the market. This is taking two forms. At a more advanced level is Rex Trueform which started their own retail chain. A large number of companies have opened factory shops over the past five years. Whilst these factory shops started initially as outlets for rejects and over-runs, many are selling complete ranges with some even stocking merchandise from other manufacturers. This dramatic growth in factories starting their own retail outlets (factory shops) is the result of the high cost of clothing in the established retail stores as well as the low prices manufacturers are receiving from these retailers.

#### 3.4.1.4. Co-operation Between Retailers and Manufacturers.

Schmitz (1994) links the features of producer-trader relationships to the market segment at which the product is targeted. At the predominantly low quality - low price end of the market, such inter-relationships are generally impersonal, hierarchical and involve little exchange of knowledge and information. When on the other hand quality is the determining aspect in a marketing strategy, the relationships between producers and traders become more collaborative and personalised, and involves elements of trust and stability.<sup>22</sup>

Interviews with all the major retailers as well as manufacturers reveal high levels of co-operation. This seems to be related to the nature of garments produced as well as close personal relationships between

<sup>22</sup> McCormack, 1994.

traders and producers. A large number of entrepreneurs also gained their first experience in the retail sector. Many of these entrepreneurs left retailers to produce for their former employers.

This co-operation is reflected in the determination of designs and styles. The retailers determine the broad framework of various ranges. There is then close co-operation between the two groups of designers regarding the final product. Interaction at international fashion shows also leads to provisional arrangements for types of fashion that will be appropriate for forthcoming seasons. There also exist informal commitments to regular supply of orders. According to one of the retailers interviewed, there are mechanisms in place to reduce the impact of financial losses that flow for reduction or cancelling of orders.

These close relationships must however serve as entry barriers for new entrepreneurs especially those that do not have access to these traditional networks. Behind this close relationship also lies a highly unequal power relationship. Without exception, manufacturers felt they were the weaker partners especially with regard to prices. Manufacturers felt exploited and were merely price-takers with little room for negotiation. This attitude is reflected by the low profit levels in the clothing industry in comparison to the retail sector.

### 3.4.2. International Markets<sup>23</sup>

Clustering facilitates exports. Regional clusters in the developed countries as well as those in Brazil and India have a strong export orientation.<sup>24</sup> A distinguishing feature of the Italian Industrial Districts is

<sup>23</sup> Estimates of exports in the region is based on Geis Applications and discussions with the Chairperson of the CCMA export committee.

<sup>24</sup> Schmitz, 1993, Cawthorne, 1994.

the ability of small firms to export. Most firms in the Western Cape are still inwardly-focused despite the fact that the Western Cape is the most important region in terms of South African clothing exports.

Approximately 50% of total clothing exports are manufactured in Cape Town. Thirty seven of the 76 leading clothing exporters are located in Cape Town. Of the 33 companies who have export sales in excess of R1m, 17 are located in the region. In terms of value (companies exporting more than R1m), 44% originate in the region.

In the Western Cape only 55 out of 394 companies export. This number has increased substantially since 1990/1991 when only 10 or 12 members of the association were exporting.

### Problems of Small Firms Exporting:

There are a number of reasons that small firms are not exporting. These are mainly related to the high cost of marketing, a lack of information, the long periods for a return on this investment as well as a lack of bridging finance. The volumes required by international retailers also make it difficult for small firms to enter these markets. These market failures need to be addressed if exports are to increase beyond the limited number of firms which have the capacity to export.

Besides fiscal incentives to export, the most significant lesson arising from industrial districts, as well as East Asia's success, is the need for horizontally-integrated institutions to overcome these market failures. This aspect will be dealt with more fully later on.

Whether the region will become a major exporter of clothing is still an open question. Whilst some breakthroughs have been made into European markets

(especially the UK and Germany) there is as yet little penetration of the massive US market.

### 3.4.3. Government Policies and Regulatory Framework.

The Western Cape has remained the primary location for the production of high quality fashion and tailoring while the less value added, high volume clothing has shifted to other regions. Most manufacturers in the Western Cape, unlike their counterparts in the rest of SA and internationally, have not followed the trend towards the relocation of production, or an extensive use of the informal sector.

The story is more complex though. Whilst very few of the large firms and major retailers have opted for these strategies, there has been a significant increase in the number of home-based CMTs in the past five years.<sup>25</sup> This is mainly a result of retrenchments in the industry, the need for flexibility in working time by working women and a rising entrepreneurialism. The key market for clothing produced in the informal sector are design houses and retailers serving the lower end of the market, as well as flea markets.

The interviews conducted with a manufacturer/retailer serving the low-end of the market revealed that the approach of their retail arm had forced them to pursue three strategies (maintenance of their more value-added ranges, the use of home based CMTs and the establishments of plants in Malawi).

A key factor which may explain the tendency for the bulk of manufacturing to remain and even expand in the region is distance. The Western Cape, unlike Durban, is relatively far from the low wage

decentralised areas, whilst decentralised areas close to the regions (such as Atlantis) were not exempted from the clothing industry's Industrial Council agreements.

Decentralisation has nonetheless affected the metropolitan clothing industry. During the 1980s, a large number of Western Cape based manufacturers responded to government incentives and established satellite plants in Atlantis, 40 km from Cape Town. In 1988 this area consisted of 25 plants employing 4 000 workers. This relocation, or more specifically, expansion was a response to growth in the industry, as well as the availability of extensive subsidies. Wage and other industrial council regulations applied to Atlantis.

By 1992/3 most plants were closed down and re-absorbed into the parent company. The initial causes and incentives for this decentralisation of productive capacity no longer existed. Incentives had come to an end and the industry was in decline. Firms needed to cut costs and closing down branches in decentralised areas was one form of downsizing. Difficulties in managing satellite plants was also given as a factor that contributed to the re-centralisation of production.

There were also a few attempts at establishing manufacturing outlets in more remote decentralised areas as well as Lesotho and Malawi.<sup>26</sup> Most ended in failure due to late delivery, bad quality, low efficiencies and an inability to effectively manage these operations. The absence of supporting industry is also a factor. Apart from this brief flirtation there has been no trend towards a relocation of production to low cost areas, but rather a concentration within the district as well as within the parent company. Design houses and the

<sup>25</sup> see, for example Koch, 1991, Nunes, 1994, Theron, 1994.

<sup>26</sup> Based mainly on discussions with the Managing Directors of Teeny Tages, Kinross Clothing.

strategies of some retailers appear to be the main forces now acting as catalysts for outsourcing to neighbouring states.

### **3.5 Summary: Applicability of the industrial districts concept to the Western Cape Clothing industry.**

The Western Cape clothing industry closely resembles an industrial district. It is a massive concentration of clothing and textile firms producing the bulk of SAs clothing output and accounting for half of SAs clothing exports. There are a large number of small firms which exhibit high levels of flexibility and increasing specialisation.

What is also clear from the data on registered firms as well as other studies conducted is that the industrial structure of the region has changed over the past ten years. The following trends have emerged:

- There is a reduction in the size of large and very large firms. Whilst employment has declined there has been an overall increase in the number of establishments since 1980. The increase in the number of establishments is mainly due to an increase in small firms with the bulk of these firms employing less than five employees. Whether this increase in small firms is due to the effective deregulation of firms employing fewer staff is difficult to determine. The fact that a large proportion of firms (approximately 42) have voluntarily applied to be covered by the wage agreement and pay the same as large firms, indicates that deregulation may not be the basis for this sectors' competitiveness. The increasing segmentation of product markets could account for this growth.
- Whilst the use of capacity sub-contracting by large firms is declining,

there is an increase in specialised sub-contracting not only to CMT operators but also to other fully integrated manufacturers. This increased specialisation in terms of product range is also occurring amongst manufacturers.

- Whilst fully integrated manufacturers still dominate the industrial landscape, there is an increase in firms specialising in one or two areas of the production process (designing, cutting, pleating).

Firms clearly gain from their location within the cluster. Eighty percent of firms identified the availability of skilled labour, access to specialised services and the close proximity to retailers as the key advantages of the region.

This study also revealed gains resulting from active co-operation between firms as well as of a rapid flow of information. The clustering of sub-contractors, and the provision of specialised services has also allowed firms increased flexibility and the ability to specialise in particular ranges.

The region also represents the 'high road to industrial development'. The high levels of regulation covering even small firms and sub-contractors, have led to common conditions of employment and small firms in the region have few of the features commonly associated with sweatshop exploitation.

The industry does however differ from industrial districts in the developed countries in three respects. Firstly, the industry is remarkably segmented with developed large- and medium-sized firms and a large undeveloped small firm sector. These latter firms are characterised by dependent sub-contracting relationships and weak technological, marketing and design capacity. Secondly, employment and production in the industry is highly

concentrated. The average firm size is large compared to the classic or 'Marshallian' industrial districts. Thirdly, institutional forms of co-operation and the provision of 'real services' are absent in this cluster. These 'missing elements' are the result of weak institutions and a highly concentrated retail structure. This has been exacerbated by weak employer organisation, especially amongst small firms.

Despite these short-comings, the Western Cape clothing cluster has nonetheless achieved the critical mass necessary for it to draw the advantages flowing from agglomeration. The presence of both a demanding retail sector and some world class manufacturers specialising in the mid to upper ends of the market creates the potential for a highly developed industrial district.

## 4. REGIONAL INDUSTRIAL POLICY

### 4.1. The need for industrial policy based on strengthening existing agglomerations

Regional and local economic policies in SA and elsewhere have been premised on the attraction of investment from outside the region through the provision of various incentives and subsidies. These measures in general have resulted in the creation of short-term employment at very low levels of remuneration. The key weakness of these measures is that they are not sustainable, especially in the absence of developed infrastructure and other support services which are necessary for self-sustaining growth.

Given the limitation of the traditional strategies, it is necessary for various levels of government to focus on the strengthening of existing regional agglomerations. This requires the provision of alternative forms of assistance to industry. The focus should be on increasing co-operation, on the creation of opportunities for specialisation amongst firms as well as on the provision of real services. This differs from the traditional forms of support such as financial assistance, fiscal incentives or deregulation.

This approach requires a pro-active and important role for regional and local government as evidenced by the Italian experience.

### 4.2. The Role of Institutions and the Provision of Real Services: The Italian Experience.

Part of the success of industrial districts can be attributed to the role of regional government and other public institutions in the upgrading of local industry. The institutional framework and types of real services provided in Emilia Romagna, Italy illustrates a form of regional intervention in industrial development.

The regional government of Emilia Romagna, whilst having no formal powers intervened in the regional economy through the creation of a development agency (Ervet). The regional government owns 75% of the shares in Ervet and contributes annually to its running expenses.

According to Pyke (1992), Ervet is the centre of a 'service system' which involves dedicated sectoral service centres which provide assistance to the clothing and knitting industry. There are also service centres which operate laterally and provide services to a range of sectors (e.g. SVEX, which is involved in export promotion).

CITER is an example of how interventions at a local level have addressed some of the problems facing firms in an industrial district. The two problems CITER, as the service centre for the clothing industry, aimed to address were the resource deficiency of small firms and the inadequacy of information necessary for upgrading. These market failures arose from the high initial investment required to obtain information and the limited number of users requiring this information.<sup>27</sup> CITER assisted firms to meet new competitive challenges by performing a number of functions. It provided information on market and fashion trends.

<sup>27</sup> Brusco, 1989.

This included information of import and export trends for various product types.

Information on fashion trends is provided on a six monthly basis prior to the presentation of new fashions by the major design houses. Information regarding the prices and types of yarn and other inputs is also made available to firms. Whilst the effectiveness is difficult to assess, the increase in the number of firms belonging to CITER (membership increased from 100 in 1980 to over 500 in 1991) suggests that firms gain some benefits from these services.

#### 4.3. Proposals for Western Cape Clothing industry

The Western Cape clothing industry is compelled by its cost structure, the nature of its companies and international competition to focus on innovation, reliability, quality and quick response as its competitive advantages. The implication of this for policy formulation is that a national regulatory framework needs to be created which prevents regions from competing on the basis of offering higher subsidies or lower wages. This requires a strong role for national government in determining labour market policies, the nature of supply-side assistance, and other forms of financial incentives.

It is further recommended that assistance and the provision of real services should focus on the weaknesses identified in the previous Section.

- A weak export capacity amongst most firms. This included the limited number of export agents/firms, lack of information and the restraints commonly associated with small enterprises.
- A large but undeveloped small firm sector combined with well developed large firms.

- Limited access to final markets as a result of a highly concentrated retail sector.
- Weak and unrepresentative employer organisations as well as an absence of support institutions.

In order to enhance the competitiveness of the Western Cape clothing cluster the following interventions at the regional level are proposed.

##### 4.3.1. Increasing Networking and Co-operation Between Small Firms and the Provision of Real Services

The type of services that need to be provided should include:

1. Assistance in the upgrading of equipment that is too expensive for small firms to acquire or are not cost effective, e.g. computerised designing, cutting and grading machines.
2. Information on fashion and market trends as well as information on the legal and other requirements for exporting.
3. Technical assistance with regard to costing systems, computer technology, work organisation etc.
4. Promoting co-operation and networking through the use of networkers. Networkers can assist firms in the following areas:
  - joint marketing of products;
  - linking large and small firms;
  - encouraging specialisation;
  - joint purchasing of inputs; and the
  - provision of accounting and other services (making up of wages, tax returns, industrial council payments etc.)

The concentration of different firm types in specific areas of the district should inform the location of various real service centres and networkers. A few 'mini clusters' can already be identified within the district. Within the Cape Town CBD-Woodstock-Salt River-Maitland area there are approximately 100 small firms. Other significant mini clusters are Mitchells Plain (which has strong home based micro enterprises as well as sub contractors based in the SBDC hive), Elsie's River and Athlone industrial areas.

#### 4.3.2. Marketing Assistance

Marketing assistance is required, firstly, to assist firms in diversifying their products into niche and value added markets and, secondly, to enable a larger number of firms to penetrate international markets.

The emergence of factory shops, formal and informal flea markets indicates a clear gap in the market created by a concentrated and expensive retail sector. In the US, the provision of cheap warehouses for mass selling has been quite successful.<sup>28</sup>

The use of hawkers has also assisted small firms in Durban to market their products. These types of activities can be initiated with the assistance of networkers. Although a number of opportunities have arisen either from foreign retailers or the expansion of local retailers into international markets, limited resources exist for the co-ordination of these activities. Whilst networkers could perform this function in the short-term, it should eventually be transferred to a dedicated trading house.

<sup>28</sup> NPI 1994.

#### 4.3.4. Institutional Framework

##### Employer Organisation

A key agent in promoting the collective efficiency within a cluster is undoubtedly the employer organisation. The limited capacity of the GMA and the small membership base of the CCMA clearly limits the possibilities of promoting inter firm co-operation and the initiation of co-operative ventures.

In order to strengthen employer organisation, assistance to firms should be based on membership. Assistance should also as far as possible be channelled through and involve employer organisation. The initiation of co-operative activities could in itself serve as a catalyst for the involvement of firms in employer organisation.

The provision of resources on a temporary basis to smaller associations is needed, as is the enhancing of the role of the regional industrial council in liaising with firms not belonging to any of the employer associations.

##### 4.3.5. Regional Agency for the clothing and textile industry.

For real services to be initiated and co-ordinated and in order to mobilise and re-orientate national and local resources the Department of Trade and Industry, in conjunction with regional and local government, should create industry specific agencies or desks designed to assist specific regional industrial clusters.

In order to ensure the active participation of regional stakeholders in the formulation and implementation of strategies, the regional agency/desk should be supplemented by what Pyke (1992) refers to as 'analysis groups'. Trade unions, employer associations, Universities and

Technikons, regional economic affairs departments as well as regional offices of

national departments (DTI, CSIR) should be represented on these analysis groups.

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