

An investigation of the footwear cluster as a possible solution to the problems caused by globalization in the Pietermaritzburg-Msunduzi footwear industry.

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Declaration of originality

The author hereby declares that the contents of this dissertation, unless specifically indicated to the contrary, are his own work and that the thesis has not been submitted simultaneously or, at any other time, for another degree.

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This thesis is dedicated to my parents Patrick and Christine Stilwell for they have made it possible.

ABSTRACT

The study explores the problems faced by the Pietermaritzburg-Msunduzi footwear industry as a consequence of globalization. International examples of policies regarded as possible solutions to the problems being experienced are reviewed.

The study, a literature review, is based on the findings listed in Stilwell (1999) in which the problems which the Pietermaritzburg-Msunduzi footwear industry faced were described. The current study extended and expanded on this work by not only looking at the causes of the problems being experienced by the industry, but by evaluating policies which could improve the situation with reference to Pietermaritzburg-Msunduzi.

The primary research objectives of the study were to analyse the local footwear industry's situation, gathering information concerning the levels of employment and output using original data from the most recent Census of Manufacturing. This data was interpreted to reveal changes that had taken place in the local footwear industry to establish what the main causes of these changes were. The secondary objective was to evaluate flexible manufacturing and the footwear cluster as possible solutions to the problems which have been identified. The importance of the SMME in aiding the industry's plight was also highlighted and the significance of these smaller industries discussed.

The study concludes with recommendations for pursuing the footwear cluster concept in Pietermaritzburg-Msunduzi.

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Table of Contents

CHAPTER 1: INTRODUCTION	1
1.1 REASONS FOR CHOOSING THIS TOPIC	1
1.2 METHODOLOGY	2
1.3 THE DISSERTATION STRUCTURE	3
CHAPTER 2: THE INTERNATIONAL CONTEXT	5
2.1 GLOBALIZATION	5
2.2 PROTECTIONISM	6
2.3 THE EAST ASIAN MIRACLE	12
2.4 THE IMF AND THE WORLD BANK	15
2.4.1 THE STRUCTURAL ADJUSTMENT PROGRAMS	15
2.4.2 ASSESSING THE ROLE OF THE IMF AND WORLD BANK	17
2.5 THE DEMISE OF THE COMMUNIST STATES	20
CHAPTER 3: THE NATIONAL CONTEXT	22
3.1 POST 1994 STRUCTURAL CHANGES IN THE SOUTH AFRICAN ECONOMY	22
3.2 SOUTH AFRICAN FINANCIAL STATISTICS	26
3.2.1 BALANCE OF TRADE	26
3.2.2 BALANCE OF PAYMENTS	28
3.2.3 EXCHANGE RATES	29
3.3 TRADE POLICY IN SOUTH AFRICA POST 1994	31
3.3.1 THE GENERAL AGREEMENT ON TRADE AND TARIFFS (GATT)	31
3.3.2 FROM DEMAND TO SUPPLY SIDE SUPPORT: THE GEIS EXPORT SUBSIDY AND BEYOND	33
3.3.3 THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)	35
3.4 SOUTH AFRICAN MANUFACTURING DATA	36
3.5 SOUTH AFRICAN FOOTWEAR INDUSTRY	37
3.5.1 PRODUCTION AND EMPLOYMENT	37
3.5.2 IMPORTS AND EXPORTS	40
CHAPTER 4: THE PIETERMARITZBURG-MSUNDUZI FOOTWEAR INDUSTRY	47
4.1 INTRODUCTION	47
4.2. NUMBER OF FIRMS	49
4.3 EMPLOYMENT	52
4.4 OUTPUT	55

4.5 PROFIT	56
4.6 LINKAGES	58
CHAPTER 5: POSSIBLE SOLUTIONS TO THE PROBLEMS IN THE PIETERMARITZBURG-MSUNDUZI FOOTWEAR INDUSTRY	64
5.1 SMALL MEDIUM AND MICRO ENTERPRISES (SMME'S)	64
5.2 THE CLUSTER	66
5.3 FEASIBILITY OF A FOOTWEAR CLUSTER IN PIETERMARITZBURG-MSUNDUZI	74
CHAPTER 6: CONCLUSION AND RECOMMENDATIONS	79
6.1 CONCLUSION	79
6.2 RECOMMENDATIONS	83
REFERENCES	85

List of tables

**Table 1 Trade policy orientation and Average annual growth in.....pg 11
real GDP per capita**

Source Lindert and Pugel 1996 pg 258

**Table 2. South Africa's balance of payments on the Current account..pg 29
annually from 1989 to 1998.**

Source: International financial statistics 1999 pg 831

Table: 3. Number of footwear factories in Pietermaritzburg.....Pg 50

Source: Harrison, Futter and Meth 1996

**Table: 4. Size distribution of manufacturing firms.Pg 51
in Pietermaritzburg.**

Source: Harrison, Futter and Meth 1996 pg 35

Table:5. List of SIC codes and industry names.....Pg 54

List of figures

Figure 1: South African GDP figures for years 1988 to 2000.....pg 25

Source: Reserve Bank quarterly bulletin 2001 pg 148

Figure 2: South African imports and exports form 1988 to 1998.....pg 27

Source: International financial statistics 1999 pg 129 & 133

Figure 3: Rand/U.S. Dollar exchange rate 1984 to 2000.....pg 30

Source: Reserve Bank quarterly bulletin 2001 pg 104

Figure 4: South African leather industry's tariffs versus GATT's.....pg 32

Source: Industrial development corporation 1998 pg 29

**Figure 5: South African manufacturing: volume of production 1990 topg 37
2000**

Source: Reserve Bank Quarterly bulletin

Figure 6: South African footwear production per region 1940 to 1995.....pg 38

Source: Harrison, Futter and Meth 1996 pg 16

Figure 7: South African footwear industry employment 1989 to 1996.....pg 39

Source: Industrial development corporation 1998 pg 24

Figure 8: South African footwear imports and production 1989 to 1996.....pg 40

Source: Industrial development corporation 1998 pg 24

Figure 9: Footwear productivity in South Africa 1986 to 1996.....pg 43

Source: Industrial development corporation 1998 pg 9

**Figure 10: Pietermaritzburg-Msunduzi Footwear industry's paidpg53
employees by racial group 1982 to 1996**

Source: Census of manufacturing

Figure 11: Concentration of employees per industry.....pg 54

Source: Industrial development corporation 1998 pg 20

**Figure 12: Pietermaritzburg-Msunduzi Footwear industry's outputpg 55
deflated by PPI 1982 to 1996**

Source: Census of manufacturing

**Figure 13: Profit/loss figures for the Pietermaritzburg-Msunduzi footwear ..pg 56
industry 1982 to 1996**

Source: Census of manufacturing

**Figure 14: Pietermaritzburg-Msunduzi Footwear industry's salary andpg 57
wage figures deflated using PPI 1982 to 1996**

Source: Census of manufacturing

**Figure 15: Cost of inputs for footwear producers inpg 58
Pietermaritzburg-Msunduzi 1982 to 1996**

Source: Census of manufacturing

Figure16: International Hide prices 1984 to 1998.....pg 60

Source: International financial statistics 1999 pg 177

**Figure 17: International Hide prices in South African cents per poundpg 61
1984 to 1998**

Source: International financial statistics 1999

CHAPTER 1: INTRODUCTION

In this introductory chapter the groundwork is laid for the dissertation in that the reasons for the choice of topic are discussed and the methodology and structure of the dissertation explained.

1.1 REASONS FOR CHOOSING THIS TOPIC

This dissertation entitled “Globalization’s effects on the Pietermaritzburg-Msunduzi footwear industry and the footwear cluster as a possible solution” investigates the role of the footwear cluster in addressing the problems caused by globalization and the removal of tariff barriers which have had considerable effect on the footwear industry in Pietermaritzburg-Msunduzi.

Various key issues regarding the effect of globalization on the Pietermaritzburg-Msunduzi footwear industry were explored in an earlier research project (Stilwell 1999) and will not be addressed in depth in this dissertation but reference will be made to the salient features of the earlier study. The focus of this dissertation is different in that it presents new data concerning the Pietermaritzburg-Msunduzi footwear industry. The current thesis also looks at possible solutions to the problems in the footwear industry for Pietermaritzburg-Msunduzi. Nevertheless this update would be incomplete without some reference to the nature and implications of the problem.

The dissertation shows that although free trade is the norm world wide, there are costs involved in the removing of tariff barriers. This dissertation argues that the adoption of an approach such as flexible specialization, particularly in the form of clustering, may

be required. While the obvious long term benefits sought are the better allocation of factors of production, and improved levels of technical efficiency which, in most cases result from the liberalization of trade and the dropping of tariff barriers, what is often forgotten and what this dissertation seeks to address, are the short term negative consequences of such actions. The presentation of new manufacturing data makes these short term negativities more apparent. The topic is an important focus for research on KwaZulu-Natal as the shoe, or footwear, industry is one of the largest and oldest industries remaining in Pietermaritzburg-Msunduzi and is thus accountable for providing employment for a large number of residents who would otherwise be jobless. For this reason the current study's focus on possible remedies is a crucial one.

As noted in Stilwell (1999 pg 5) the problem is not specific to Pietermaritzburg-Msunduzi. The low cost of imports has affected the clothing, textile and footwear industries in South Africa and abroad. Workers in these trades are finding it increasingly difficult to find employment and need to relocate to different industries which are more efficient and so stand a better chance against competitors on global markets. With regard to the Pietermaritzburg-Msunduzi local economy, 21% of the employees working in industries in the city are involved in the footwear industry; were they to lose their jobs the consequences would be dire and would place the province under financial strain.

1.2 METHODOLOGY

This dissertation applies two research methodologies. Firstly it presents a literature review, focussing on the research conducted in various fields by other researchers. It is a critical review of selected themes from the literature which are identified as being central to the problem and to its possible solution. The selected works present a limited range of alternatives to the problems being faced by the footwear industry. These

alternatives are critiqued in the light of international examples.

Secondly the dissertation presents original data from the most recent Census of Manufacturing which depicts trends pertaining to the footwear industry in Pietermaritzburg-Msunduzi. This data is presented and interpreted to assist the investigation of the problem being researched.

1.3 THE DISSERTATION STRUCTURE

The dissertation has six chapters. The first chapter introduces the topic of the dissertation and motivates the choice of topic. This introductory chapter describes the methodology used for the research, making the point that the data used is derived largely from the reported research of others who have worked in this field. The introduction also includes a brief outline of each chapter.

The second chapter addresses globalization and places the topic in a broad context. To this end globalization is defined and its effects identified. The arguments for and against protectionist policy are presented and critiqued with relevance to the local situation. The role of important global economic institutions such as the International Monetary Fund (IMF) and the World Bank and, in particular, the Structural Adjustment Programs are discussed. The aim is to show the link between these important players and their policies and the situation in which less developed countries and South Africa find themselves.

The impact of the collapse of communism on globalization is noted and the East Asian miracle is reviewed paying attention to factors responsible for high rates of growth. The latter is examined in order to identify the factors required to replicate the process in South Africa. Lastly structural changes in the local (South African) economy are discussed with

reference to the present government and various policies developed in an attempt to maximise growth.

Chapter three looks at the South African economy paying special attention to how it has changed in recent years. Specific reference is made to how the manufacturing sector has been effected. The chapter discusses the effects that changes in the trade policy have had on local manufacturers with specific reference to the footwear industry. The declining level of employment in the footwear industry and the number of factory closures which have occurred nationally reflect that the liberalization of trade has been highly detrimental to the footwear industry generally and that the plight of the Pietermaritzburg-Msunduzi footwear industry is part of a national trend.

Chapter four addresses the Pietermaritzburg-Msunduzi footwear industry specifically noting the changes which have taken place in this area, recording declining levels of employment and factory closures and the factors most responsible for these closures. The importance of this industry is highlighted in terms of its position as an erstwhile major employer in the area.

Chapter five explores possible solutions in the form of clusters. Originating in Italy and emulated in Mexico and India, for instance, this option is one favoured by the Pietermaritzburg-Msunduzi Transitional Local Council (Jordan 2000). The role that Small, Medium and Micro Enterprises (SMME's) play in industry and their potential to become increasingly important players, especially when combined in a cluster environment, is examined.

Chapter six draws conclusions and the information conveyed in the preceding chapters is linked together and the industry is discussed in terms of its future prospects.

CHAPTER 2: THE INTERNATIONAL CONTEXT

In this chapter globalization is examined paying specific attention to its effects on less developed countries and the options of free trade versus a more protectionist trade policy are weighed up.

2.1 GLOBALIZATION

What is globalization? Manuel Castells (1998 pg 3), political economist, sociologist and urban analyst at the University of California at Berkeley, suggests that “although globalization is multidimensional it can be better understood starting with its economic dimension.” He sees a global economy as one “whose core activities work as a unit in real time on a planetary scale.” Thus, he argues, “capital markets are interconnected world wide, so that savings and investments in all countries, even if most of them are not globally invested, depend for performance on the evolution and behaviour of global financial markets.”

Globalization is not a new concept but the rate at which it is taking place has accelerated in recent years and it has emerged as an important topic for discussion. Improvements in areas such as the level of capital mobility, have made it much easier and cheaper to trade. Vast improvements in technology have taken place worldwide, for instance, in fields like telecommunications, with the new information and communication technologies making communication with someone on the other side of the world a matter of pressing a few buttons. Improvements in rail, air and sea transportation due to technological advances have improved factor mobility by making it not only faster but also cheaper and more viable to transport goods from one destination to another.

Of particular concern, however, is the effect that globalization is having on the less developed countries and on South Africa, in particular.

2.2 PROTECTIONISM

An important consideration is the trade policy that the country in question adopts, recognising the need to weigh up the pros and cons of a free trade system with one which is more protectionist. Protectionist policy according to Magill (1997) serves to restrict the level of imports into a given country in order to, among other things, safeguard the domestic industries from foreign exporters. Free trade, on the other hand, serves to make one global market for everyone. This latter path is the one endorsed by the World Bank and International Monetary Fund, which govern, to a large extent, the aid that gets assigned to less developed countries.

The idea behind free trade is simple and works on the assumption that all nations have a comparative advantage in the production of some good or service. The theory is that the countries should specialize in the production of that particular good and trade it with other countries which cannot produce it as cheaply. In so doing a number of positive outcomes result: trade leads to structural rationalisation which in turn leads to a more efficient allocation of resources. From this efficient allocation follow static gains which will be a once off increase in the level of income for the trading country. While these are short term effects in the longer term motivation comes in the form of dynamic gains which result from the associated technological improvements which have taken place (Dunkley 2000 pg 12). This theory has been criticised for its negative aspects. Trade does require the economy to be restructured and this is where the problems come in as some industries, such as the footwear industry, suffer while others gain. The theory is popular because while there are most definitely winners and losers the end result is said to be a positive

net gain.

Protectionism is by no means a new concept and refers to the policy of incorporating protection trade agreements. These

'governments' restrict international trade in order to protect domestic industries from foreign competition. The restriction of international trade is called protectionism. There are two main protectionist methods employed by governments:

- tariffs
- non-tariff barriers (Parkin 1993 pg 967).

Among the few key arguments for the introduction of a protectionist policy Greenway, Hine R., O'Brien A. and Thornton R. identify an argument to promote domestic industry (Greenway et al 1991 pg 129). The rationale behind this argument is the protection of a relatively new domestic industry, which due to its young age, has not been able to obtain the required economies of scale to make it sufficiently competitive to survive exposure to foreign competition. Another argument relates to ageing industry and takes the position that 'There will always be firms and industries whose livelihood is threatened by the continued invasion of competing imports' (Lindert and Pugel 1996 pg 164). The argument for protectionism maintains that these old industries often employ large numbers of people and although they are relatively inefficient failure to protect them would result in large job losses. The counter argument, and this links to the Pietermaritzburg-Msunduzi situation, is that by closing these industries down the resources can be relocated in a more efficient manner which will bring other longer term benefits, such as the net gain mentioned earlier. A school of thought which argues against this point believes that the net positive gains which free trade is said to result in are actually very small and in fact may, in some cases, be outweighed by non economic and other costs associated with free trade (Dunkley 2000 pg 14). This is a powerful argument which undermines the core issue

used by free trade advocates to substantiate their positions. Other arguments for protectionism such as national pride and infant government are dealt with briefly in the next section.

The thrust of this section is to show that alternatives do exist to export led growth and that protectionist policies which are motivated by one of the arguments mentioned serve as an alternative. In view of such an alternative approach being extremely unlikely in the current South African case, South Africa having signed the General Agreement on Trade and Tariffs (GATT) and World Trade Organisation (WTO) agreements, other remedies are sought in this dissertation, such as flexible manufacture which is a more feasible possible remedy given the constraints of the current South African situation.

As has been mentioned, a major feature of protectionism is import substituting industrialization (ISI). The Great Depression caused many countries to adopt a policy of ISI which served to protect their economies while they were vulnerable. Many nations, one of which was Brazil, adopted this policy in the early part of the 20th century. More recently, as a way of protecting their domestic industries from more efficient and aggressive foreign industries, ISI has been used primarily by less developed countries and newly independent nations. Many countries have switched to a more export orientated growth policy, however, ISI is still used by a number of less developed nations today.

Lindert and Pugel (1996 pgs 154-172) highlight the key reasons why less developed countries enter into the process of ISI, for instance, the infant industry argument noted above. The crux of this argument is that a country's domestic industries are still in the process of getting established and would not stand a chance of survival against international competition. The reason for this is that a less developed country does not possess the economies of scale initially which would give it an advantage when competing with a developed country in international markets. The given cost per unit of output is higher for the less developed country than for the developed country and so the

former will not be able to compete.

The second argument (Lindert and Pugel 1996 pgs 164-167) put forward is that of the ageing industry, that there are domestic industries in a country which, due to circumstances beyond their control, are less able to compete globally as they lack a comparative advantage in the production of the good. This could be due to higher labour costs on a national level which in a labour intensive industry will mean that they will not be able to compete on global markets. The argument for the protection of such an industry is that if it were to shut down all those employees would be without work. Due to a government's knowledge of the industries' less than competitive nature they will protect it so as to keep the individuals employed within the industry.

The third argument is that of the infant government argument (Lindert and Pugel 1996 pg 167) which suggests that the members of a new government lack funds with which to perform any sort of economic development and that one of the only options which they have is to gather the money which they need from tariffs or taxes charged on imports and exports. Another argument is national pride in the production of goods (Lindert and Pugel 1996 pg 168).

However well ISI may work for newly industrialized nations, Lindert and Pugel (1996 pg 257) argue that it has its time and place and should be replaced, once it has served its purpose, with a trade policy that is more export oriented and which serves to maximize the comparative advantages which a country has in goods production. The long term benefits of export oriented trade policy, such as improved efficiency, specialization and improvements of the country's balance of payments, far exceed those of the ISI policy. Conversely it is also argued that a number of developed nations might not be where they are today if they had not followed a ISI policy.

An example is found in Japan's automobile industry which is now one of the most

successful automobile industries in the world. It is unlikely that this would be the case if Western producers like Ford and Fiat had been allowed into their markets in the 1960's. The Japanese semiconductor industry which would also in all likelihood not have flourished but for the ISI policy implemented to protect it again from Western producers.

While these examples do promote the effectiveness of ISI with their incredible success rates ISI has not always been as successful. In both Japan and America the industries which were given the strongest protection later suffered a protracted decline (Lindert and Pugel 1996).

ISI has been accused of having a large number of weaknesses which critics feel outweigh the positives. A number of tests exist to establish just how good a policy ISI is. The first test which was damaging to ISI was one involving static welfare costs. This consisted of a detailed study aimed at measuring the welfare effects experienced by a country once barriers had been put in place. In all but one of the 15 countries the barriers imposed significant costs, in the one case where gains were seen the gains were slight (Lindert and Pugel 1996 pg 257). While these results may not serve as hard evidence and to a certain extent rely on assumption, other evidence is more damning. Another test used to evaluate ISI which looks at the rates of growth which the country experienced while practising ISI and those associated with the time when the country was not. This test involved 41 nations for a period of almost 30 years.

Trade policy orientation	1963-73	1973-85	1980-92
Strongly outward	6.9%	5.9%	6.4%
Moderately outward	4.9	1.6	2.3
Moderately inward	4.0	1.7	-0.2
Strongly inward	1.6	-0.1	-0.4

Table 1 Trade policy orientation and average annual growth in real GDP per capita

Source Lindert and Pugel 1996 pg 258

In all cases, the nations with strongly outward trade policies grew the fastest. In this category were Hong Kong, Korea and Singapore. When comparing these outward oriented nations with the nations which were more oriented inward the results are quite different. A large number of the nations which were strongly inward in their orientation experienced very little growth at all (Lindert and Pugel 1996 pg 258). While the strength of the correlations in this case between trade policy and economic growth may be uncertain other tests have been conducted to establish the relationship between trade policy and the level of growth that a country experiences.

One such test looked at 30 developing countries over a space of 12 years, the test took the form of a more statistical look at the data obtained in the hope of identifying more compelling results. By removing the effects of other factors from the equation the actual effect that trade policy had on growth could be obtained. The results were powerful and concluded that in no uncertain terms trade barriers were a significantly negative influence on the level of economic growth (Lindert and Pugel 1996 pg 259).

One can see from these tests that ISI and its inwardly oriented trade policy can stunt the level of growth taking place in an economy. In this dissertation the advantages of flexibility in the manufacturing sector will be discussed in the light of international

examples, suggesting how the lack of flexibility which is present due to an ISI policy can be detrimental to an economy. ISI, while serving a purpose, can, as was shown in the cases of America and Japan, serve to aid an industry that is inefficient and should possibly close down or reduce its size. These industries serve as a drain for government funds, funds that could be allocated to industries which have a better chance of being profitable in the long run as well as being competitive in international markets.

2.3 THE EAST ASIAN MIRACLE

The term the East Asian miracle refers to the occurrence of unusually high levels of growth which took place in eight of the East Asian economies largely as a result of export oriented trade policies. This has come to be seen as an alternative to ISI in that the focus is more outward. The eight economies which are referred to are those of Hong Kong, Singapore (as mentioned previously), Indonesia, Japan, the Republic of Korea, Malaysia, Taiwan (China) and Thailand (Stiglitz 1996). What is of importance are the reasons for their success. Why did they experience such growth and what can other countries do to experience the same levels of growth?

Of the many factors which have been said to be responsible for the high levels of export oriented growth which these economies experienced are the high levels of savings, efficient investment, the reduction of the technology gap, and the efficient allocation of benefits to all members among the population (Stiglitz 1996). These factors fall under efficient governance. Considerable emphasis is placed on the activities of government which attempts to bring about growth and make the goods produced by these nation appealing to off-shore buyers. Stiglitz sees the role of government as well defined and highly circumscribed. The conditions for efficient outcomes (Arrow and Debrue in Stiglitz 1996) are: the absence of externalities and public goods, the presence of perfect

competition and a complex set of markets. In cases where information and markets are not complete the government could intervene and in so doing improve the situation (Stiglitz and Greenwald in Stiglitz 1996)

The East Asian miracle is of relevance to other countries which hope to be able to replicate their successes. Pertinent in the South African case is Stiglitz's (1996) observation that due to the fact that the average less developed country is in the position of having under developed, or in some cases missing markets a lack of perfect information is experienced. This is in contrast to the situation of improved information availability seen to characterise the globalized economy. It is clear therefore that reservations about the adequacy of generally accepted market mechanisms are particularly relevant to less developed countries. The development process, however, is associated with the acquiring of new technology and institutions to rectify the problem of imperfect information.

The role of the government in less developed countries like South Africa in ensuring efficiency is of vital importance when considering an export oriented industrialization policy as advocated by the World Bank and IMF.

By replicating the situation of the eight economies above it may be possible to share the success of these countries. Their example demonstrates that, by efficient governance and a close monitoring of special policies export orientated growth policy can be more successful. Policies such as developing technological capabilities, promoting exports and building a domestic capacity for the manufacturing of a range of intermediate goods can put these countries on an upward growth spiral. By following their example South Africa could also experience growth and supply world markets with local goods. This might be particularly beneficial in the footwear industry.

It is also important for government to consider protectionist policies as Stiglitz argues

that the infant industry argument maintains that protection is important so that the young firm can gain the experience required to lower its production costs and allow it to become viable (Stiglitz 1996). SMME's are typical examples of infant industries and one of Stiglitz's points applies to the study's focus on remedies such as flexible manufacture. He argues that government needs to address the problems related to linkages as the relations between industries is of great significance. The importance of linkages, especially in the cluster situation is discussed in more detail later in the dissertation. Ironically this sort of problem Stiglitz suggests is another which is less likely to be dealt with by less developed countries, as they are often unlikely to be able to make significant investment in one sector, let alone investment in both the upstream and down stream sectors. This observation is particularly relevant to the footwear industry which does not have a high priority profile in the eyes of government and investors.

2.4 THE IMF AND THE WORLD BANK

The IMF was established in 1944 at the United Nations (UN) Monetary and Financial Conference held at Bretton Woods in the United States. Another product of the Bretton Woods agreements is the World Bank. The purpose of the new bank was to create an institution or source from which funds could be obtained for the process of reconstruction, which was to take place, in the then post war Europe. Welsh (1990 pg 1117) identifies another important role which the Bank was also to fill, as stressed by John Maynard Keynes, that of developing “the resources and the productive capacity of the third world with specific reference to the less developed countries.” This statement by Keynes is an important one for this study of the Pietermaritzburg-Msunduzi footwear industry.

2.4.1 THE STRUCTURAL ADJUSTMENT PROGRAMS

There is a school of thought which holds that the IMF and World Bank have had an adverse effect on less developed countries in some instances, particularly as a consequence of their Structural Adjustment Programs (SAP). The question then is why do countries adopt the policy if it is so detrimental to their well being. Ben Turok (Director of the Institute for African Alternatives, Johannesburg) in 1993 made the point that “governments which resist [the Structural Adjustment Programs] are denied credits by the International Monetary Fund (IMF) and by other institutions such as the European Economic Community and in some cases even private banks” (Turok, 1993 pg 3). This statement suggests that any country seeking foreign aid is forced to abide by the SAP’s rules, thereby posing a dilemma for poor less developed countries which do not want to abide by these conditions as they feel it is not in their best interests to do so. If they do

not, however, they will not receive the aid which they need to improve their position. It is this sort of dilemma with which less developed countries, like South Africa, have to contend. In the case of South Africa funds for reconstruction programmes are necessary but in order to fulfill the criteria to be eligible for funds the country faces the prospect of its economic position being worsened.

What exactly does the policy entail? Mengistead and Logan (1995 pg 3) identify three key remedies intended by SAP to counter the problems being faced by a given country. These are: deflationary measures such as the removal of subsidies and reduction of public expenditures; institutional changes embracing privatization and deregulation of price controls, interest rates, imports and foreign exchange, and lastly expenditure switching measures which include devaluation of currency and promotion of exports.

These demands come hand in hand with a policy of trade liberalization according to Chanetsa (1996 pg 31). Harvey argues that the orthodox policies of the World Bank and the IMF may be required to achieve the objectives of stabilization and structural adjustment, but they are not sufficient, or are only partially sufficient, for a number of reasons (Harvey 1996). The policy is criticised for encouraging those industries which it identifies as likely to bring in good returns and allow for the repayment process to commence. Cases have arisen in which certain countries have been said to be worse off than they were before SAP, a case in point is that of the Sudan. Such a top down setting of terms for the recipient country is juxtaposed to current attitudes to the need for funded countries to participate in determining their country's priorities based on their knowledge of their own shortfalls.

The need for foreign aid has in a number of cases, and most certainly in the South African situation, played a part in the possible demise of local industries: "These same conditions spell economic ruin or stagnation for less developed countries as well as social tension sufficient to threaten their political stability" (Walsh 1990 pg 590).

On the other hand, as noted in the case of the Asian miracle, it has been shown that in a number of cases it has been highly beneficial to embark on a policy of export-oriented industrialization as advocated by the IMF and World Bank. A further question has arisen around the use of macro economic indicators. It is argued that the use of indicators such as Gross National Product (GNP), exports and current account balance, while providing some important information, present a limited perspective on the cause and effect linkages surrounding adjustment. Other factors should also be viewed as important such as political and economic democratization and the transformation of the subsistence sector (Mengisteab and Logan 1995 pg 2).

2.4.2 ASSESSING THE ROLE OF THE IMF AND WORLD BANK

As noted the IMF and World Bank are not new institutions and they arose primarily after the Second World War as a measure to assist in the reconstruction of war ravaged Europe. One of the questions to be answered is how successfully have these institutions adapted to different circumstances. The attack on these institutions was initially led by Tanzania and Jamaica in the late 1970's (Walsh 1990). These countries argued that the institutions were created before most less developed countries had in fact achieved independence and hence were unlikely to reflect the needs of the less developed countries which they were trying to help. A fairly common grievance has been articulated by Frank McKenna (1993 pg7), Professor of Education and Political Studies at Pennsylvania State University:

The structural adjustment policies of the fund [IMF] and the bank [World Bank] imposed upon African and other poor debtor nations have a singular function which is to enhance the prospect of collecting debts owed to Northern governments, private lenders and to the fund and bank them selves.

McKenna (1993 pg 7) continues: "There has been widespread recognition that structural adjustment policies have led to the worsening of the debtors' economic conditions." One example of policies which have been called into question have been those of the World Bank and IMF in the past which stipulate which crops a country may or may not produce. The intended effect is that the prescribed crops will bring better yields which will allow for more prompt repayment. In reality the crops which the World Bank and IMF choose are often not those best suited to the environment and the result is a poorer yield and an even poorer economic situation than before.

Further criticisms are made by Walsh (1990 pg 1118):

The World Bank has been criticised for encouraging and supporting export-oriented industries and agriculture. In order to attract foreign investment, developing countries have had to invest capital in infrastructure, in developing the energy sources required for the establishment of factories, and in the military equipment needed to control the political situation of the country, the necessary international loans and subsequent spiralling debt have had serious adverse effects on the population, especially the poorest, in view of the rising cost of living and the increasing incidence of unemployment.

If these allegations are true one may well question how these organisations can continue to claim to be aiding the less developed countries. What are the motivating factors which the IMF uses to substantiate following its policies? For enlightenment one can turn to Alassane Ouattara, former prime minister of the Ivory Coast and now deputy director of the IMF. The question needing an answer is why should less developed nations follow the policies that the IMF feels are correct. The question is made even more pertinent in the light of the Asian Crisis. Why should less developed nations strive to integrate their economies when it is the very fact that their economies were not integrated that lessened the repercussions of the Asian crisis for them.

The IMF argues that while the African nations have managed to avoid being affected by the Asian crisis, the fact that they are less integrated has also meant that they have suffered other shortcomings. By not integrating African nations have not exploited the real benefits which globalization has made possible. It is the belief of the IMF that a failure to open and liberalize African markets would deepen Africa's marginalization and would only serve to widen income disparities with the rest of the world (Ouattara 1999 pg 10). Emphasis is placed on these nations keeping their respective macro economies stable all the while liberalizing their trade policy and making their domestic industries more efficient. The idea behind this is to be attractive to foreign investors who serve as a vital source of finance and who would aid the nations' balance of payments position. Foreign investors serve as a source of knowledge which can aid in making projects more efficient. The expertise gained in this manner would aid the domestic industry to become more competitive and could enable the nation in question to trade on the global markets.

Africa greatly improved its economic performance during the 1990's. Despite this the IMF argues that most sub-Saharan African countries still need to make improvements in order to attract much needed foreign investors. Areas such as public administration and civil services need improvement as well as judicial reform (Ouattara 1999 pg 10). Improvements in these areas would serve to make investors feel more secure about their investment as the nation would have a better infrastructure to deal with any problems which might arise which could otherwise be negatively felt by the investor.

While one is now able to better understand the IMF's choice of policy for these less developed nations one may still not understand how the IMF can make these statements in the light of the Asian crisis. The causes of the crisis are well known and are linked to a lack of transparency. The IMF feels that it can safeguard against further repercussions of this nature by the implementation of new policies and strategies. There is a call for a new international money and financial system to keep abreast of international capital flows and in so doing help to lessen the financial system's vulnerability to financial

shocks (Ouattara 1999 pg 11).

Having examined the reasons for the IMF's position regarding globalization and trade liberalisation one may argue that while trade liberalisation can lead to detrimental situations for some industries for others it is not only highly beneficial but imperative. Failure to embark on the suggested path is only going to widen the gap. However the fear of the Asian crisis still looms as greater integration does increase the risk of financial shocks. This concern is compounded by the fact that a new financial system, while desirable, will take time to put into practice, all the while leaving economies vulnerable.

2.5 THE DEMISE OF THE COMMUNIST STATES

The demise of the communist states has meant the disappearance of an alternative to the export led growth. Apart from the loss of a significant challenge to the Western economic, political and societal models, an event of the magnitude of the demise of the communist states has the effect of radically increasing the number of markets by making new ones available to trade. This can mean the availability of new previously unattainable goods or, what is more of interest to the topic at hand, the availability of similar goods at largely reduced or lower prices.

Countries such as China, for one reason or another, be it a large labour force or vast quantities of some other valuable factor of production, have a relative advantage in the production of certain goods. This can make their goods highly desirable on world markets in that few countries can produce the same good at the same price. In South Africa local distributors find it advantageous to purchase the good from overseas rather than from a local manufacturer. This process essentially enables the country to consume at a point previously unattainable or 'to consume at a point that lies beyond its ability to produce

(its production possibilities curve)' (Lindert and Pugel, 1996 pg 46).

Along with this opportunity to purchase at a lower marginal cost, the advent of trade with new markets has had the effect of enabling a country like South Africa to achieve a higher community indifference curve as well as suggesting that they can have greater combinations of all goods than were previously possible. This means that they can rather put their valuable factors of production to work in a sector of production in which they possess a similar advantage. This is largely seen as a good thing as it leads to increased efficiency. As only the countries that are best suited to the production of a good produce it, every one gains. The country which finds it relatively easy and cheap to produce a given good, due to their comparative advantage, gets in revenue from other countries which want the good itself but find it less beneficial to produce it locally. As a result of the increased demand for this good by the other countries the producer nation finds that it has to move more and more of its factors of production into the production of this good and so abandons the less lucrative and less efficient areas of production. This process will be mirrored in other countries as well. They will, as producer nations, move their resources to areas in which they possess a relative advantage and in doing this so attempt to maximise their output and revenue.

The collapse of the communist states has in essence meant the removal of an alternative to the policies advocated by the IMF and the demise of the last major alternative to the IMF-led export oriented growth process. This links to the problem at hand as the abolishment of tariffs and export oriented trade is a policy advocated by the IMF and one to which there is now no alternative. It is this situation that is seen to be the cause of the problems faced in the local Pietermaritzburg-Msunduzi footwear industry.

CHAPTER 3: THE NATIONAL CONTEXT

This chapter looks at the manufacturing sectors, more specifically the footwear sector in South Africa in order to examine the links between changes in trade policy and the macro economy and the effects on employment, production and the number of factories operating on the national level.

3.1 POST 1994 STRUCTURAL CHANGES IN THE SOUTH AFRICAN ECONOMY

The South African economy has gone through some major changes in recent years. Since the fall of apartheid and change of regime in 1994 the government has adopted new policies which have had a profound effect on the local economy. The policies referred to are policies such as the Structural Adjustment Programs as advocated by the World Bank and IMF. South Africa has embarked on new ventures and more export oriented growth policy. Consequently the country has experienced some short term negativities, one of which is the position in which the domestic footwear industry finds itself.

At the same time the government has new goals which are seen to be in the interests of the country, for example, the objectives of the Reconstruction and Development Programme and Growth, Employment and Redistribution (GEAR). The government has become concerned with job creation and has set out to reduce the level of unemployment. However, one must point out that the two goals, of addressing unemployment and promoting exports, seem to be in opposition to one another in the short run. The move towards a more export oriented growth process, certainly in the short run, has been to the detriment of a large number of employees whose employers have engaged in

retrenchments. With specific reference to the footwear sector the move to exports, which involves the liberalization of trade, has led to a decrease in the level of employment in the industry. GEAR has also been met with some criticism due to its failing to address employment. Morris, Barnes and Dunne (1998 pg 10) state that

The overriding policy concerns of the current government, as indicated by GEAR, its macro economic strategy document, is the need to balance the 'redistribution of income and opportunities' with the development of a 'competitive fast growing economy', achieved in part through 'employment creating international competitiveness.

From this statement one can deduce the reasons behind the policy changes which have occurred. When GEAR was launched in June of 1996 it set targets which it aimed to meet by the year 2000 the targets were that it would:

- Increase real output to 6% per annum.
- Create more than 400 000 jobs per annum.
- Reduce the rate of fiscal deficit to GDP to 3%.
- Increase gross domestic savings to 21%.
- Obtain an average growth rate of 11% in real manufactured exports.
- Double the growth rate of real investment (Blumenfeld 1998 pg 17).

These goals were to be met by the implementation of a number of other related policies. These included investment incentives and a move away from subsidies to a system of supply side measures. These incentives were dependant on criteria such as regional location as well as job creation. Other policies related to tariff reduction and reducing tariffs to those levels stipulated by the WTO. Public service restructuring in which the number of employees would be reduced from 1.2 million to 900 000 over three years was another goal. Other policy objectives were budgetary reform which involved a shift from

current to capital spending, achieving a situation of real exchange rate stability, the privatisation of state assets and labour market reforms (Blumenfeld 1998 pg 19).

One of the principal policy changes which has taken place, apart from those aimed at decreasing the budget deficit, and which have a significant bearing on the topic at hand is one which intends to focus more outwardly on international markets than inwardly on domestic ones. The government has identified the advantages of being globally competitive, seeing such trade as having the potential to bring in much needed foreign exchange which would assist the balance of payments problem which the country is facing.

While there has been much debate regarding whether in fact GEAR has aided these problems relating to foreign investment it does in fact seem that it has. Hazelhurst (1999 pg 44) in *The Financial Mail* argues that GEAR is in fact working to improve investor confidence and lists the sparkling performance of South Africa's government foreign bonds in 1999 as a sign that investors feel our economy is sound and see the high performance of South Africa's sovereign bonds as a "big thumbs up" from global investors.

While it is a positive sign that GEAR is working in some areas, to be able to compete on the global scale as was hoped operations would have to be streamlined and businesses run more efficiently. In relation to the concern for efficiency, the cluster concept which is discussed later has relevance.

As has been mentioned among the tasks for government to address is creating employment opportunities and increasing foreign investment and growth. While it can be argued that the policy has improved the foreign investment problem to an extent, it is generally accepted that government has failed to deliver on the growth and job fronts.

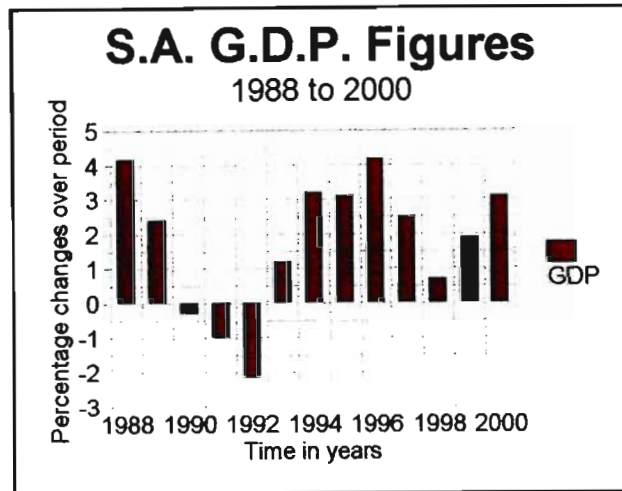


Figure 1 South Africa's GDP figures for years 1988 to 2000.

Source: Reserve Bank quarterly bulletin 2001
pg 148.

One can see by looking at figure 1 that GDP growth has been lower than planned. In fact as opposed to increasing as was intended when GEAR was adopted, the level of growth has actually started to decline. This has resulted in GEAR being criticised for its ineffectiveness. However, further criticism targets the vast job losses that have occurred.

As mentioned the government promised that GEAR would create 400 000 new jobs a year (van der Walt 2000 pg 70). This has not been the case and in fact the reverse has occurred. Sources suggest that between 1989 and 1997, 560 000 jobs were lost in the areas of mining, manufacturing, electricity, construction and trade (Blumenfeld 1998 pg 19). Others state that in the two year period 1996 to 1998, 500 000 jobs were lost. These figures are staggering and suggest that GEAR, in the attempt to increase employment, has failed miserably and therefore some have called for it to be scrapped.

One of the major reasons for the dismal failure in the attempt to create employment has

been South Africa's rigid labour laws (Blumenfeld 1998 pg 17; Hazelhurst 1999 pg 45; Ndebele 2000 pg 32). It is argued that excessive red tape exists regarding the hiring and firing of staff and minimum wage legislation is harsh on employers. There seems to be a trend of manufacturers' moving in the direction of a more capital intensive production process and it must be said that this is related to the labour rigidities which exist.

GEAR has further been censured for encompassing the ideals of Structural Adjustment and has been duly criticised for its role in the increased imports in labour intensive products such as clothing and footwear which has led to some losing their jobs (Mangu 2000).

One can see that the policy is by no means faultless and has not met its intended objectives as envisaged in 1996, but one cannot disregard the fact that it has delivered in certain areas. For this reason an adjustment to the policy to make it more effective would be preferable to its total abolition.

3.2 SOUTH AFRICAN FINANCIAL STATISTICS

In this section the macro economic situation of the South African economy is examined in an attempt to provide insight into the present situation.

3.2.1 BALANCE OF TRADE

As discussed in the previous section the macro economic policy on which a country embarks is very important. As has been seen the failure of GEAR to live up to its promise

has led to calls for its total removal while others feel it simply needs to be adjusted. There are also those, however, who argue that GEAR has not been a waste of time as it served to instill investor confidence.

In order to gain better understanding of the macro economic climate of South Africa it is necessary to look at some financial statistics. One area of interest in this study is that of the level of imports and exports entering and leaving the country annually and these can be seen below.

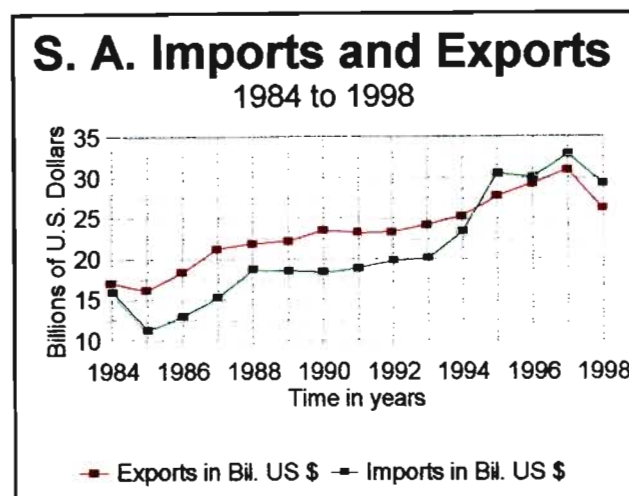


Figure 2 South African Imports and Exports from 1988 to 1998.

Source: International financial statistics 1999
pg 129 & 133.

In figure 2 are depicted the levels of imports and exports for South Africa for the years 1984 to 1998. Looking at the diagram one will notice that exports for most of the time periods (1984 to 1994) exceeded imports. From years 1984 to 1994 the levels of both imports and exports tended to rise slightly in tandem but in 1994 this all changes. Half way through 1994 for the first time imports exceed exports and this situation continues until the end of the recorded period. The reason for the initial higher levels of exports may well be due to sanctions keeping the levels of imports lower and large numbers of countries not exporting goods to South Africa. We can see that after the 1994 elections

all this changed. Between the years 1994 and 1995 the level of imports increased by more than seven billion Dollars. While exports also increased they did so to a lesser extent. This is a trend which has continued. One can see that the situation of high levels of imports is not only specific to the footwear industry and that it is something that is taking place on a national level.

3.2.2 BALANCE OF PAYMENTS

With consumers being hungry for an ever wider choice of consumer goods, as they are, one can expect more and more trade to take place especially intra industry trade. This is not a bad thing but can result in a balance of payments problem. Such a problem is compounded by globalization, for one, which has to an extent made this increased trade possible as well as being brought about by organisations like the WTO which aim at encouraging freer trade through the removal of tariff barriers. This situation of freer trade can be said to have become the norm, being the trade policy advocated by most developed nations.

As countries move toward freer trade it is important to try to ensure that exports increase with the level of imports so as to keep the balance of payments positive. Failure to do this will result in a balance of payments deficit. In South Africa there is a need to drive exports to other countries and in so doing prevent the undesirable outcome of a negative balance of payments.

South Africa has in recent years developed a balance of payments deficit. Below is a table which illustrates this.

Time	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
BOP	1.56	2.06	2.24	1.74	1.87	-0.32	-2.76	-1.72	-1.93	-2.27

Table 2. South Africa's balance of payments on the current account annually from 1989 to 1998.

Source: International financial statistics 1999 pg 831

As can be seen prior to 1994 the balance of payments on South Africa's current account was positive, however, thereafter the table reflects a negative balance of payments. This situation is essentially one in which the value of the imports coming in exceeds the value of the exports going out. This is a undesirable situation for a country to be in for a number of reasons one of which is the negative consequences in terms of exchange rates.

3.2.3 EXCHANGE RATES

The Rand has not fared well in recent years and has lost ground against most major currencies. While this has been to an extent the result of speculators they cannot be blamed solely for the large changes in exchange rates that have been occurring. By taking the Rand/U.S. Dollar exchange rate as an example we can examine the changes that have taken place in recent years. The Rand Dollar exchange rate at the end of each period for the years 1984 to 2000 are listed below.

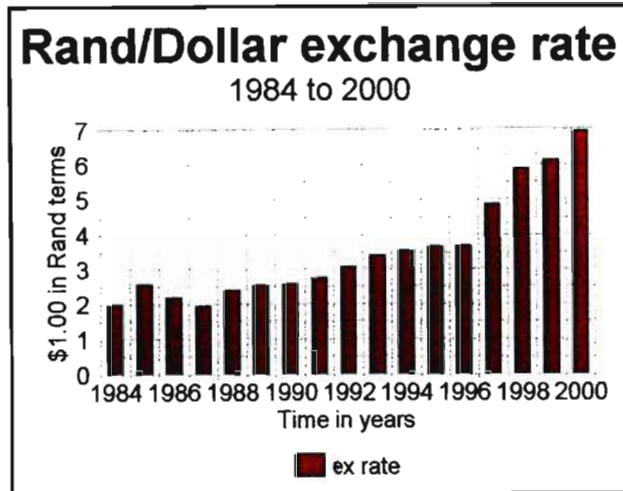


Figure 3 Rand/Dollar Exchange rate for years 1984 to 2000.

Source: Reserve Bank quarterly bulletin 2001 pg 104.

As can clearly be seen the Rand has lost a lot of ground against the Dollar. The large devaluation that took place after 1997 is likely to be related to the East Asian crisis and the currency speculation that resulted. This situation has not improved and the currency has traded of late around the nine Rand to the Dollar mark.

The poor value of the Rand has meant that important commodities have become relatively more expensive to South Africans. One of the most noticeable increases that has taken place is that of the price of petrol. This indirectly, due to transport costs increasing, can be seen as resulting in an increase in the general level of prices. Another commodity of interest is hides which have become relatively more expensive with the depreciation that has taken place. The repercussions for producers of footwear in South Africa will be examined later.

While all the devaluation of the domestic currency can be seen as a bad thing in some cases it can be advantageous as it may allow local producers to obtain a competitive edge

in producing for export markets. This too will be discussed in more depth later on.

3.3 TRADE POLICY IN SOUTH AFRICA POST 1994

As stated the trend in South African trade policy is to liberalize trade to gain from the increased off-shore trade taking place as this is seen to be highly beneficial both for individuals and a countries alike. In an attempt to maximise these benefits South Africa has embarked on a new trade policy.

3.3.1 THE GENERAL AGREEMENT ON TRADE AND TARIFFS (GATT)

GATT was born shortly after the Second World War and so shares a similar vintage with the Bretton Woods agreements. The idea was to create an international trade organization as the need for such an institution had been realized. In the late 1980's the WTO was formed which embodies the largest and most comprehensive trade agreement in history (Bhandari, 1998 pg 49). For some less developed countries the rationale behind such an organisation may not be clear as, in a number of cases, the small less developed countries have benefited considerably less than their more developed counterparts. The WTO policy has objectives like an increase in the standard of living; level of production and real income while all the time maintaining sustainable development and striving for full employment (Bhandari, 1998 pg 49). These objectives are to be met through a policy of trade liberalisation which is at the heart of the agreement. The intention is to make countries trade more with each other in the hope that this will benefit them and that all countries which join can enjoy the gains from free trade, such as a more favourable balance of payment and the other objectives listed earlier. The reality has been that the

more advanced nations have tended to benefit more than the less advanced ones due to the fact that they have advantages in the productions of goods which means that they capture a greater share of the market than their less developed counterparts.

The signing of GATT has also led to the hastening of the process of trade liberalization and the government's removal of trade barriers. This agreement stipulates the levels of barriers which it allows to be in place at any one time for a member country and furthermore it specifies the rate at which these barriers must be removed. In a number of cases, however, the government has been said to be removing barriers at a rate which exceeds that which is stipulated in the GATT agreement which South Africa signed. This has met with criticism as some suggest that the government is opening certain markets, such as the footwear and leather industries, before these industries are ready to face international competition and before the stipulated time. If one looks at the example of the leather industry the grounds for criticism becomes more apparent.

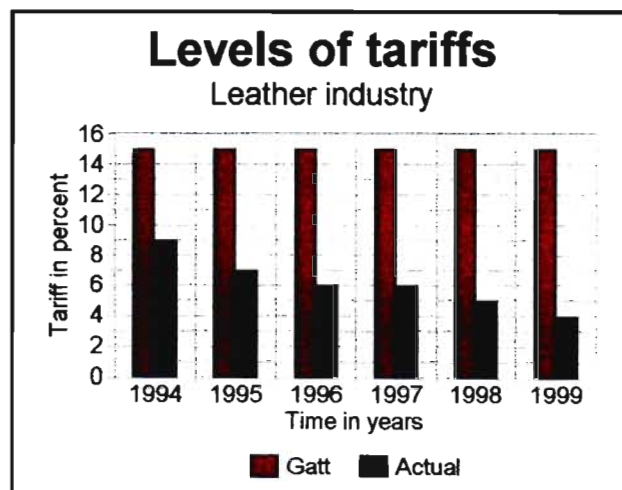


Figure 4 South African leather industry tariffs versus GATT's.

Source: Industrial Development Corporation 1998
pg 29.

Figure 4 shows that the GATT binding tariff level is constant at 15%. This in contrast to the tariff which is actually being charged with regard to the leather industry. One can see

that the tariff charged is much lower than that stipulated by GATT and is constantly decreasing going from

- 9% in 1994 to
- 7% in 1995 to
- 4% in 1999

(Industrial Development Corporation, 1998 pg 29).

As can be expected there is both a positive and negative side to a policy change such as the signing of the GATT agreement. On the positive side it has meant that the local South African industries now have access to all sorts of inputs, in some cases, at much more competitive prices than they did before. However, it has also meant that certain of the local industries are also more vulnerable as they are now facing increased amounts of foreign competition with which they are not in a position to deal and compete. While for some such a policy change has led to new business ventures, which only now are possible due to this freeing up process; for others, especially those who find themselves in less competitive industries, such as the footwear industry, it has meant the possible demise of their livelihood. The goal, however, is long term benefit and one is persuaded to engage in the difficult task of seeking to look beyond the short term negatives and to concentrate on the macro picture for the economy as a whole.

3.3.2 FROM DEMAND TO SUPPLY SIDE SUPPORT: THE GEIS EXPORT SUBSIDY AND BEYOND

Since South Africa adopted the export led approach to growth the incentives offered to manufacturers have changed. The principal occurrence associated with this change in policy is the fact that a move from the old policy of demand side support, which served to improve the demand for locally produced products on domestic markets, to the

situation now of supply side support, which is aimed at freeing up supply lines, makes for more accessible and more readily available, cheaper inputs to be used by industries in the production of goods aimed at both local and foreign markets. The move towards supply side support is due to the government's embarking on a process of export oriented growth. There has been a shift of support from industries producing for domestic markets to those producing for offshore markets. This is one way of addressing the balance of payments problem. At the same time the GEIS export subsidy, which was said to be ineffective and even called corrupt by some in favour of its removal and has been replaced (*Financial mail* 1992 pg 28). GEIS's successor is the import-export complementation schemes which serve to benefit exporters who are enabled to offset certain cost associated with imports against the proceeds which they derive from the product they export (Morris, Barnes and Dunne, 1998 pg 11).

The Department of Trade and Industry's web site gives further insight into the types of incentives which are being offered in order to facilitate growth in the manufacturing sector. The Department of Trade and Industry has a wide list of objectives and outcomes which they are striving to achieve through these incentives. These include factors like increasing foreign and domestic investment strengthening international competitiveness of South African business and promoting the development of small, medium and micro enterprises (SMMEs) (South Africa. Department of Trade and Industry 2000). There are a large number of different incentives for a number of industries and sectors of the economy. One which is of primary interest for this thesis is the footwear industry. The aim of this incentive is to aid footwear, clothing and textile producers to expand their production capacity and to set up additional distribution channels for their products (South Africa. Department of Trade and Industry 2000).

The long and short of the policy changes and incentives are that they are primarily aimed at facilitating trade, particularly with foreign countries. The benefits accrued from overseas trade have been noted as well as the spinoffs like job creation. The benefits

listed, however, all tend to pertain to the long run. In the short run the consequences for the Pietermaritzburg-Msunduzi footwear industry remain a problem which requires strategic solutions, such as those to be discussed.

3.3.3 THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

In order to engage in trade on a large scale a country needs to have a relatively liberal trade policy, and it should preferably belong to a trade alliance, in one form or other. An example of such an alliance is the Southern African Development Community (SADC) of which South Africa became a member in 1994. SADC is a group of countries which have created an environment for freer and easier trade to take place amongst them. Essentially SADC aims to nurture and encourage trade between the countries by making it possible for member countries to purchase goods from fellow member countries for less than would otherwise be possible. The agreement stands to benefit member countries as consumers can now consume goods for less than was possible before the creation of the alliance and producers benefit by now having a larger demand and so reaping the benefits of increased revenues from trade.

The above mentioned increase in demand allows a producer to specialize in a certain good's production and this can mean that future trade with non member countries becomes a possibility. The result is that the producer is now more competitive and can compete on global markets. In the South African case such a movement to foreign markets could help to rectify the balance of payments problem which the country is experiencing. In due course, as the levels of production rise, because of the increased numbers of the products being demanded by other countries, more and more people will find work in these factories thus aiding in the struggle against unemployment.

Consumer choice is important and it is a large reason for why trade takes place. Consumers like to be able to choose from a number of alternatives as opposed to just two or three and so encourage trade which brings them a wider choice of varied goods. The liberalization of trade can allow more inter and intra industry trade to occur which means that the consumer is able to have a wider choice when purchasing a good and in the consumption of goods generally.

3.4 SOUTH AFRICAN MANUFACTURING DATA

Before looking at the information regarding the footwear industry it is instructive to look at some data regarding manufacturing for the country as a whole. The rationale behind this is to establish that the problems being faced by the footwear industry are not evident in all manufacturing sectors.

The diagram below shows how manufacturing production has changed in the last decade. A general upward tendency in the graph for all variables is clear and total manufacturing has increased considerably in recent years along with durable goods. The main cause for concern is that the non-durable goods have fared less well. This is to be expected if one considers how the textile and footwear industries have been affected by cheaper imports in recent years. In the following sections the footwear industry can be seen as contributing to the poor performance of non-durable goods.

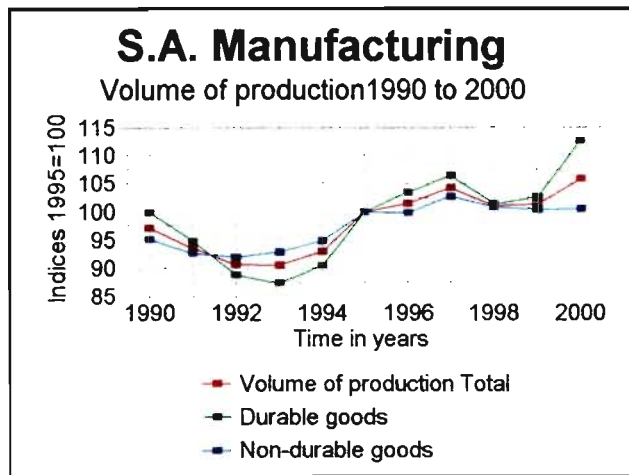


Figure 5 South African Manufacturing: volume of production 1990 to 2000.

Source: Reserve bank quarterly bulletin.

3.5 SOUTH AFRICAN FOOTWEAR INDUSTRY

In this section the footwear industry is examined on a national level, the chief reason for doing this is to see whether Pietermaritzburg-Msunduzi's ailing footwear industry is an isolated case or if there is evidence to show that it is a problem occurring across the country.

3.5.1 PRODUCTION AND EMPLOYMENT

A review of the footwear industry on the national level reflects that the Pietermaritzburg-Msunduzi case is not an isolated phenomenon. All the shoe producing centres in the country as a whole have seen a drop in production which indicates that it is a national problem and that the forces responsible for the drop should be viewed as macro level factors. This strongly suggests a link between changes in trade policy and the loss of

domestic market share. The footwear producing centres such as the Western Cape, and Durban and Pinetown in KwaZulu-Natal have all suffered drops in production associated with a decreased demand for the locally produced product. This decrease in production can be seen in the graph below. Natal is the largest footwear producer but has reduced its production quite considerably between 1990 and 1995.

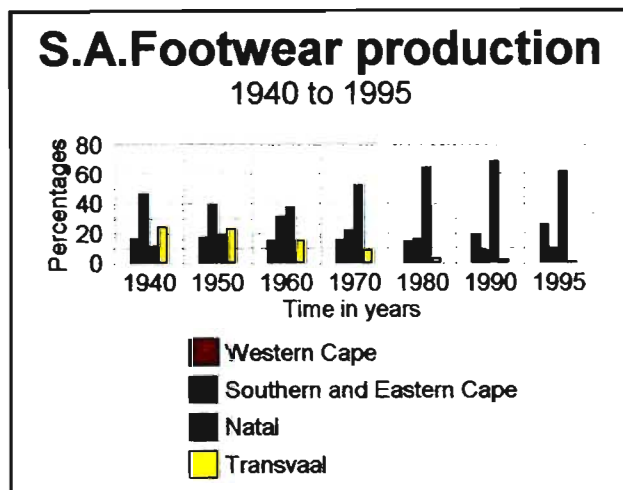


Figure 6 South African footwear production per region 1940 to 1995.

Source: Harrison, Futter and Meth 1996 pg 16.

The problem affecting the footwear industry is not an isolated one. Whereas in 1989 only five footwear factory closures occurred country wide, for the period 1991 to 1992 23 factories closed down countrywide. Furthermore between 1993 and 1995, on average, 27 factories closed down each year (Harrison, Futter and Meth 1996 pg 27).

The level of production on a national level has changed dramatically and was 81.7 million pairs of shoes in 1990 and, as with the level of employment, it dropped to 63.5 million pairs in 1992. The level of production continued to decrease and in 1995 was at a level of 58.3 million pairs. This drop obviously accounts for the decrease in the levels of employment. In only five years the footwear industries production levels decreased by 25% (Harrison, Futter and Meth 1996 pg 27). As is to be expected the level of imports

into the country was on the rise during this period.

This serves to reinforce the view that the Pietermaritzburg-Msunduzi footwear industry is not an isolated case, a view supported by the statistics for employment in the industry on a national level. Turning our attention to employment in the footwear industry one will note a very clear downward trend this is clearly visible in the graph below.



Figure 7 South African footwear industry employment 1989 to 1996.

Source: Industrial Development Corporation 1998
pg 24.

It is evident that there is a problem as each year brings more and more lay-offs for workers in the industry. This is further illustrated by the fact that a total of 37 111 people were employed nationally in the industry in 1990, in comparison to 31 351 in 1992 and a still lower, 28 333 in 1995 (Harrison, Futter and Meth 1996 pg 26).

By examining the problem in more depth one will notice that two sets of related factors appear to correlate with the levels of employment. Firstly, the decline of domestic production levels and secondly, those reflecting the levels of imports entering South Africa annually. Both factors can be seen to affect the levels of employment in the

footwear industry on a national level. While there is a positive relationship between domestic footwear production and the associated level of employment, there is an inverse relationship between levels of imports entering South Africa and domestic employment in the footwear industry.

3.5.2 IMPORTS AND EXPORTS

A cause for concern is the trade balance and how the levels of imports and exports of footwear have changed in recent years. While China exported a massive 2060 (million) pairs of shoes in 1994 and imported a mere six (million), South Africa's figures are quite noticeably different and are illustrated in the figure below.

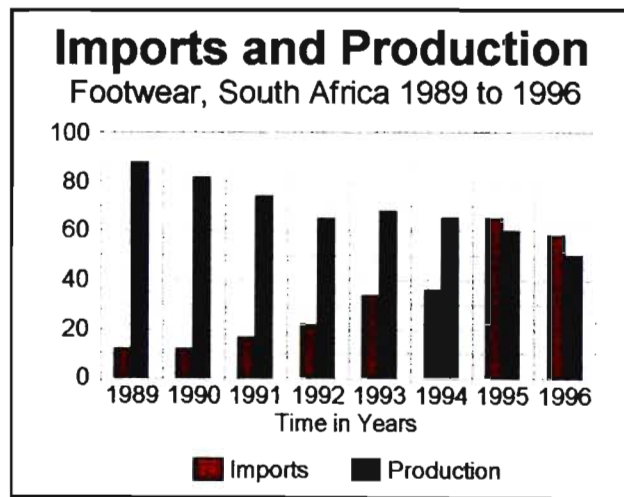


Figure 8 South African footwear imports and production.

Source: Industrial Development Corporation 1998
pg 24.

This diagram reflects the pairs of shoes (imported or produced) on the vertical axis and the time in years on the horizontal. The change that occurs between 1989 and 1996 is evident in the diagram. Imports are constantly on the rise and production constantly on

the decline and in 1995 the imports start to actually exceed the production taking place locally. This trend continues into 1996.

The diagram reflects that consumers in the local domestic market have shifted their purchases and that they increasingly favour the cheaper foreign goods and purchase less and less of the locally produced alternative. The fact that imports dropped slightly between 1995 and 1996 is most likely due to the devaluation of the Rand which occurred during this period, making the imported products relatively more expensive and decreasing the demand for them slightly. This sort of situation could be advantageous to local footwear producers in that a weak Rand means that locally produced goods become relatively cheaper when compared with a foreign alternative. This argument is explored later.

Having seen how the level of imports and exports have changed in recent years, some possible reasons for this change which has taken place are now presented. China is the dominant shoe producing nation and as such is one of the major exporters to South Africa. This is likely to be due to their high levels of unskilled and low cost labour which gives them a competitive edge, enabling them to produce shoes at lower cost than most other producer nations. Some statistics regarding shifts in the level of footwear production between the years 1987 and 1994, show that while most other footwear producer nations have not changed significantly, China's production of footwear has increased from 1903 (million) to 3750 (million). These statistics support China's status of being by far the largest producer in the world. This is in contrast to South Africa's figures, which have seen a decrease in production from 81.7 million pairs in 1990 to 58.3 million pairs in 1995.

The reason for the drop in production that has taken place is the rise in imports. South Africa imported 12.3 million pairs of shoes from overseas suppliers (50% from China) in 1990 and this number has only increased over time. In 1992 the figure rose to 18.2

million pairs, with 10.5 million being imported from China. In 1995 the figure escalated to 63.4 million pairs of which 52.1 million pairs were imported from China (Harrison, Futter and Meth 1996 pg 26). The statistics indicate clearly what has happened and demonstrates that the local industry at present is unable to compete with the cheaper foreign imported products. The high levels of factory closures are clearly due to the fact that since the liberalization of trade and the concomitant flow of foreign products into domestic markets, the local producers have been severely challenged. At present they are finding it increasingly difficult to compete with the new competition. A remedy is required if they are to regain their market share.

Particularly disturbing are comments in the IMF annual reports for 1994-1995 and 1995-1996: "The writing is on the wall. Footwear imports in to South Africa are out of control. Footwear is currently being imported at levels that three years ago would have been considered unthinkable" (Harrison, Futter and Meth 1996 pg 26). The report for 1995 to 1996 adds: "Employment in the industry is at it lowest since 1963 and footwear imports now exceed local production" (Harrison, Futter and Meth 1996 pg 26).

While there are a number of reasons which may be identified for this vast difference in production, one which will be examined is the decrease in labour productivity in South Africa. Figure 9 illustrates this thereby supporting the case for flexible specialization in the footwear industry.

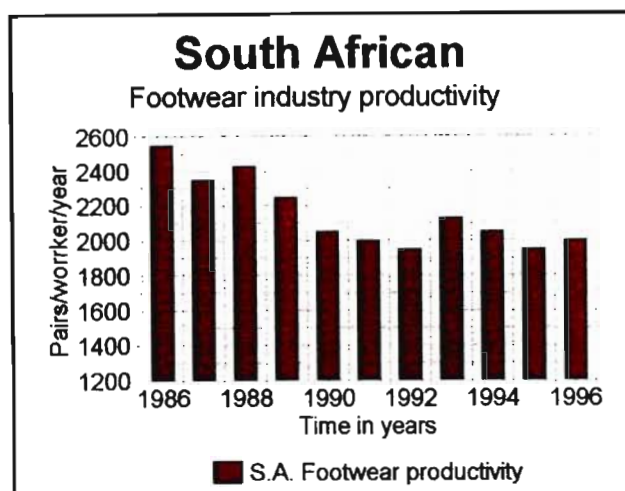


Figure 9 Footwear productivity in South Africa.

Source: Industrial Development Corporation
1998 pg 9.

It is clear that in 1986 the average worker was producing 2500 pairs of shoes a year, and that over ten years, although fluctuating slightly, this figure has decreased to roughly 2100 pairs per worker per year in 1996. Implementing a policy such as flexible specialization would not only contribute to rectifying the problem but possibly alter the situation to one in which previously unattainable levels of worker efficiency are reached.

The repercussions of the decreases above can be seen as leading to a drop in profits. Valid reasons for the drop exist, one of which could be the advent of practices such as short time. Flexible specialization which increases efficiency and possibly output, irrespective of short time practices, could be seen as a remedy.

Practices such as short time come about due to the lack of demand for the products being produced and result in the workers in essence doing less work than they did before. This situation arises as there is less demand for the products being produced by the factories which therefore need the workers to work less. Flexible specialization serves to counter the downward spiral which is seen in the following sequence of events: due to the lack

of demand for the products, the production process becomes less efficient and less competitive in relation to the offshore competitors. The dominance of these competitors in domestic markets has been made possible by the reduction of tariff barriers. The process continues and with it the occurrence of job losses and factory closures. Flexible specialization represents a possible remedy in that it allows for more efficient production, thereby lowering marginal costs and possibly restoring market share.

A further advantage which Chinese producers enjoy relates to the low costs made possible by a immense labour force. The low cost of labour allows for specialization in the production process and this in turn results in economies of scale for the Chinese producers. Consequent lower marginal costs result in component and footwear producers being able to sell their products at lower prices while still making the required profit.

The converse of this situation is evident in the domestic footwear industry in South Africa as the demand for components drops and the component producing firms' costs remain unchanged. The price of each unit or component supplied to the footwear producer must be increased in order that the component producer remain operational. The result is that at each stage of the production process the footwear producer is being forced to pay higher and higher prices and all the while becoming less and less competitive in relation to the off-shore producers. One advantage which South African producers do have is the weak exchange rate which has the effect of making exports relatively cheaper. A good marketing strategy combined with a competitive product could, in such a situation, allow a South African producer to capture foreign market share. Despite the devaluation of the Rand imports do still exceed local production which illustrates that even considering the exchange rate's effect on prices, the local goods are still more expensive and so less desired than the foreign products.

Due to the relatively low levels of production, South Africa will not be able to reap any significant benefits from economies of scale. A competing nation such as China is able

to reap benefits from substantial economies of scale owing to its large scale production. This is certainly one factor which will affect the production cost and in turn the desirability and demand for the shoes, making the cheaper Chinese imports more popular than the more expensive local equivalent both locally and abroad. This is an important point for the local South African footwear producers.

While the battle for superiority in the local markets between the local producers and the off shore competitors has been discussed in some detail, it is imperative not to forget the battle for market share in foreign countries. This is obviously important because the sale of locally produced footwear products abroad is highly beneficial and can bring in much needed revenue for local producers as well as foreign currency which is highly beneficial to the balance of payments.

South Africa's investigation of foreign market opportunities has other far reaching consequences. The sale of local products in foreign markets could help insure the domestic footwear industry presence for years to come. The Italian footwear producers report that the outstanding levels of growth which they have experienced are export led (Rabellotti 1995 pg 30). Their success serves as an example to others of the importance of exporting one's products to other markets. For the Italian footwear producers it has led to their becoming one of the most successful footwear producer nations in the world.

There are a number of factors which could aid local producers in a drive towards increased exports. While for a large number of reasons the poor exchange rate is a bad thing, for the off shore sale of goods it can be beneficial. As mentioned, the low value of the Rand in terms of currencies such as the Dollar and Pound means that in Rand terms the cost of our products to other nations can be relatively cheap. This gives local footwear producers a competitive edge. Hence looking for opportunities to obtain market share in overseas markets should become a priority for all local footwear producers. Using the 1995 percentages we can see that the key areas exported to by local footwear producers

are the United Kingdom with 16%, Zambia with 16%, Mozambique with 12% and Zimbabwe with 12%. These countries are the main purchasers of our products. Few of these countries, with the exception of the United Kingdom, can take advantage of the stronger currency argument, however, and so the importance of this argument to the level of exports is minimal. This observation suggests that further potential exists for local footwear producers to capture foreign market share. In the next chapter the case of the Pietermaritzburg-Msunduzi footwear industry is presented and examined in an attempt to explore the potential for strategic alternatives.

CHAPTER 4: THE PIETERMARITZBURG-MSUNDUZI FOOTWEAR INDUSTRY

The Census of Manufacturing released results showing that the footwear industry in South Africa accounted for roughly 6.4% of the country's manufacturing employment and furthermore this industry accounted for 3.4% of the country's manufacturing output (Harrison, Futter and Meth, 1996 pg viii). Figure 6 shows the percentage contributions to total production for the areas where the industry is concentrated, namely in the Cape Peninsula and Port Elizabeth as well as in Durban, Pinetown and Bloemfontein, and how these percentages have changed over time.

What makes the poor performance of the footwear industry in Pietermaritzburg-Msunduzi particularly important is its relative contribution to the local economy and its role as a major provider of employment, hence finding a likely remedy for its downward spiral is imperative.

4.1 INTRODUCTION

The manufacturer, Eddels Ltd opened its doors in 1904 thus establishing the origins of what was to become a substantial industry. The siting of the factory in what was then Pietermaritzburg was well-considered because of its relative proximity to tanneries such as Sutherlands which formerly operated in the Edendale area, as well as to a large labour force. Eddels became one of the country's foremost centres of footwear production. The strong local market and desirability of the locally manufactured products meant that the industry continued to grow. Even in the early stages the industry was dominated by a few large footwear producers which now account for about 70 % of the employment in the

industry (Harrison, Futter and Meth, 1996 pg xi). Despite these strong beginnings the company announced its intention to retrench close to 500 workers in November 2000. The reasons for this have been said to be the losses experienced by sixty percent of the Conshu owned factories. These workers joined the ranks of the some 5000 others who followed the same fate in the preceding 18 months (Zondi 2000).

Despite the large workforce it is not the actions of labourers that have been primarily detrimental to the local industry. Although union participation is high in the industry the main problems associated with the labour force itself are the levels of absenteeism and others related to drug and alcohol abuse (Harrison, Futter and Meth, 1996 pg x). While these labour-related problems have the potential to impact on efficiency, the key problem areas which have emerged are the increased levels of competition and loss of domestic market share largely, but not solely, as a consequence of the removal of tariff barriers.

Another substantive difficulty which compounds the problems of the footwear industry has been a lack of raw materials. The materials in question, such as high quality leather, now bought up by the automotive industry in the main, are essential to the production of the leather shoes in which the industry tends to specialize. This component related problem was compounded in 1995 by the closure of Sutherlands Tannery in Edendale, in the Pietermaritzburg-Msunduzi Transitional Local Council (TLC) area. Figures 16 and 17 show how the international hide price has changed in recent years. The price is given in U.S. Dollars and the changes in the Rand/ Dollar exchange rate have served to aggravate the problem, and to inflate the price of hides in Rand terms. This increase in the cost of leather is of the factors responsible for the increase in the cost of inputs that has taken place. Figure 15 shows how the cost of inputs for footwear producers has been on the rise. The increased costs of inputs is a factor which may well be responsible for the drop in profitability that has taken place and the subsequent factory closures.

Since 1988 the industry has had a general downward trend, however, the real cost of inputs as well as salaries and wages as shown later, while changing slightly seem to have remained fairly constant during the recorded period. It is also worth noting that the level of output is higher in 1996 than it was ten years earlier, hence despite the negative effects of cheaper imports the industry is still in a better position than it was in a decade ago. This is encouraging as it suggests that something could be done to address the problems of the industry and that there is still time to do so. One further striking element is the high output and profit levels for 1988 which are likely to be due to the existence of a abundant supply of components which was present in the industry. The possibility of economies of scale and positive externalities leading to these high profit figures cannot be ruled out. In order to get a better understanding of what has taken place in the industry the situation is examined in more detail.

4.2. NUMBER OF FIRMS

In this section factory closures are dealt with, commencing with the statistics pertaining to the footwear industry in Pietermaritzburg-Msunduzi.

Considerable changes have occurred regarding the number of footwear producing factories operating in the Pietermaritzburg-Msunduzi TLC area. Data found in Harrison, Futter and Meth (1996) and sourced from the Census for Manufacturing reports and Oldham and Hickson (1992), was used to compile the tables below. Table 3 reflects the changes in the number of footwear producing factories over a period of time, commencing in 1970 when only three factories were operating in Pietermaritzburg.

Year	1970	1972	1982	1991	1996
Number of factories	3	10	18	37	26

Table: 3. Number of footwear factories in Pietermaritzburg.

Source: Harrison, Futter and Meth 1996.

The number of footwear producing factories more than trebled in two years and by 1972, ten factories were operating in the area. This increase shows the need for footwear products which existed in the domestic market. The industry continued to grow and by 1982, ten years later, the number of firms had nearly doubled again. This process of growth continued until 1991 when it peaked at 37 firms. This was an astonishingly rapid growth phase which is attributed to the presence of components suppliers as well as a abundant supply of raw materials from the near by tanneries. In addition to these factors the supply of skilled labour in the area, due to the industrial clustering which had taken place, meant that growth was possible (Harrison, Futter and Meth 1996 pg xi). Since 1991, however, the number of factories operating in Pietermaritzburg-Msunduzi has decreased and at present more factories are closing down than are starting up. In 1996, for example, only 26 factories were operating, 11 fewer than there were five years previously.

What is of interest for this dissertation is which factories were most adversely affected. Oldham and Hickson (in Harrison, Futter and Meth, 1996) provided the baseline data for a comparison between the number of firms operating in 1991 and in 1996 as reflected in table 3. Firms are listed in categories according to the number of employees.

No. of employees	No. of firms	No. of footwear firms (1991)	No. of footwear firms (1996)
1000 +	3	2	2
500 - 999	5	1	1
100 - 499	46	8	10
20 - 99	118	11	5
1 - 19	207	9	6
Total	379	31	24

Table: 4. Size distribution of manufacturing firms in Pietermaritzburg

Source: Harrison, Futter and Meth 1996 pg 35

In the top two employment brackets namely the brackets for 500-999 and 1000+ employees, over the five year period, there were no closures at all. This was in comparison to the lowest two categories namely those for firms employing 1-19 and 20-99 workers respectively which had the following results. In the bracket 1-19, over the five year period, three firms closed down and in the bracket 20-99 six firms did. This shows that the smaller firms were more adversely affected than the larger ones.

One of the reasons for this finding, that is that the larger firms are often linked to major corporations which have the ability to outlive shorter term set backs, is significant for the study's focus on the cluster concept. Eddels, for example, is a member of the Conshu group as was Richeigh Shoes before the two were merged, even though they were operating in the same area and in essence serving the same market. For all of these firms, particularly the small ones, working as part of a cluster could have benefits.

Another consideration, given the fact that a large proportion of the firms operating are all

part of the same group essentially owned by the same mother company, is that an opportunity exists for them to relocate and pool their resources in one area and form a stronghold of sorts and in so doing position themselves to reap economies of scale.

It is important to establish whether the Pietermaritzburg-Msunduzi footwear industry's situation is an isolated incident or whether it is part of a national trend. Are these companies closing down in Pietermaritzburg-Msunduzi only to open up elsewhere in order to obtain these economies? The evidence shown earlier seems to suggest otherwise, a further consideration is the size of the firms in the area which have been worst affected. Table 5 shows that the smaller firms sustained the most closures. The small firms themselves, it can be assumed, lack the resources and infrastructure to achieve such a move. While larger firms such as Eddels which have the infrastructure, are not closing down or relocating elsewhere, they are experiencing cutbacks and hence for them also the options posed by a cluster system are worth investigating.

4.3 EMPLOYMENT

On a national level the number of people employed in the industry has dramatically fallen in the last few years and as the statistics will show, the Pietermaritzburg-Msunduzi situation is no different. It is important to consider the number of job losses which will take place as these local factories face shut down. These job losses will serve to inflate the already large figure of those unemployed people in Pietermaritzburg-Msunduzi which was estimated as being 102 264 people (Zondi 2000). Figure 10 shows how employment has changed in the footwear industry in recent years.

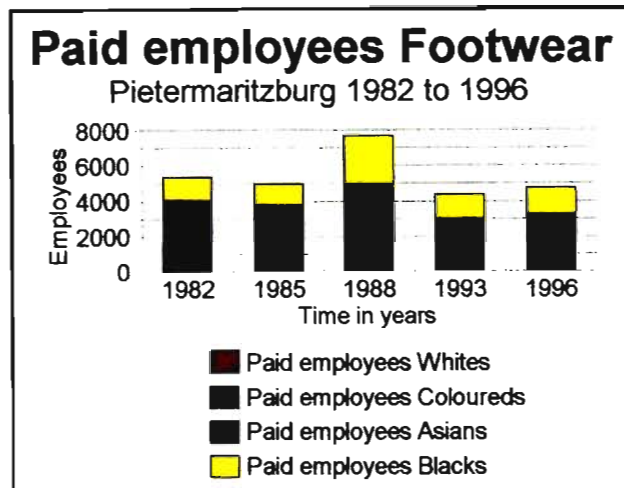


Figure 10 Pietermaritzburg-Msunduzi footwear industry's paid employees by racial group 1982 to 1996.

Source: Census of manufacturing.

There seems to be an increase in employment between 1993 and 1996 this is due to the fact that a large number of employees were racially unspecified (1464) in 1993 and so falsely deflated the data. The figure shows that the industry as a whole has lost a large number of employees, the losses are not specific to any one racial group although proportionately more Asian workers have been laid off. In 1991 the footwear and leather industry employed 5 845 of the 25 197 people working in the local industrial sector. That is to say the industry employed 23% of the total and that is 8% more than its nearest competitor which is the food industry. By 1996 the figure had decreased still further to only 4800 people (Harrison, Futter and Meth, 1996 pg xii). This is obviously linked to the decrease in the level of production which the industry has been experiencing.

In figure 11 the importance of the footwear industry is very clear in that the highest concentration of employees per industry is found in this industry in which 21% of the employees in the manufacturing sector find work.

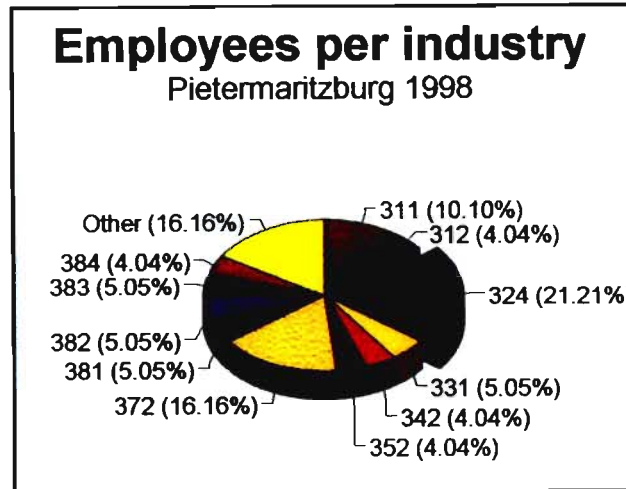


Figure 11 Concentration of employees per industry

Source: Industrial Development Corporation 1998
Pg 20

SIC	Industry Name
310	Food
321	Textiles and apparel
324	Shoes and leather goods
331	Wood products
332	Furniture
341	Paper and paper products
342	Printing and publishing
350	Chemical/Rubber/Plastic
360	Non-metallic minerals
370	Basic steel(Including non-ferrous metals)
381	Metal products except machinery
382	Machinery except electrical
383	Electrical: Machinery and appliances
384	Motor vehicles & Parts
385	Other transport equipment
386	Controlling/Measuring equipment
390	Other manufacturing

Table:5. List of SIC codes and industry names

The other major employers in Pietermaritzburg-Msunduzi's manufacturing sector are non-ferrous metals which is accountable for 16% of the employment, the food industry which

accounts for 10% of the employment, and other which accounts for 16%. Of great concern is the possibility that without some suitable intervention many more people may, in the not too distant future, find themselves without work. This, in turn could have further disastrous effects on the local economy.

4.4 OUTPUT

The levels of output in the Pietermaritzburg-Msunduzi footwear industry as one would expect have decreased. In order to be accurately interpreted the data must first be adjusted to remove any inflationary effects which are evident. It is for this reason that the data obtained from the Census's of Manufacturing has been adjusted using the Production Price Index. The values needed for the adjustment have been obtained from Statistics South Africa. Looking at the figure below one will note the decrease in output that as a result of the deflation has become evident.

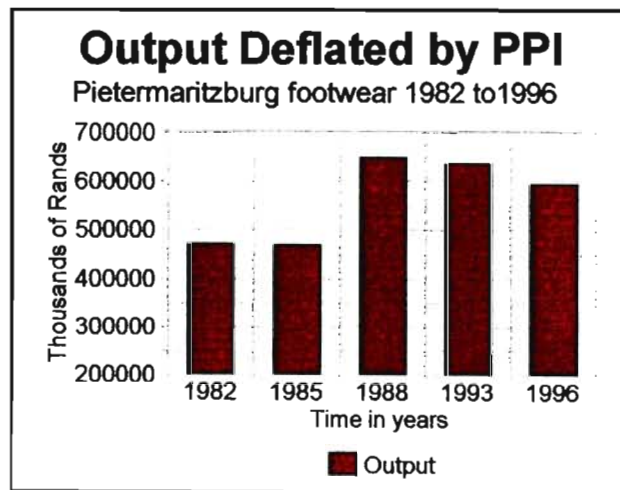


Figure 12 Pietermaritzburg-Msunduzi footwear industry output deflated by PPI 1982 to 1996.

Source: Census of manufacturing.

Looking at the figure the decrease in output which has taken place over the last few years is clear. It is important to note that output is still higher than a decade ago so while output has declined a great deal there is still hope of a turn around. This decline is, however a cause for concern especially when one looks at the profitability of the footwear industry.

4.5 PROFIT

As has been seen the level of output has been decreasing in the last few years and with this in mind it is not surprising that the industry has also become less profitable. The figure below shows how the profit figures have changed.

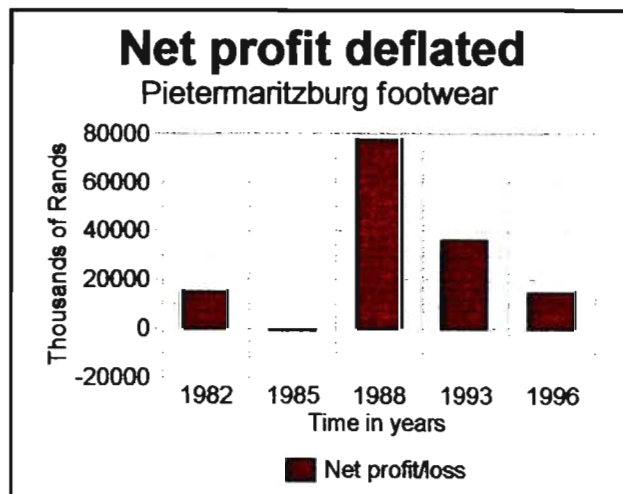


Figure 13 Profit/loss figures for the Pietermaritzburg-Msundizi footwear industry 1982 to 1996.

Source: Census of manufacturing.

The industry's profit figures, once adjusted using PPI, show that the profit being experienced has been on the decline in recent years. This would account for the decline in the number of factories operating as well as the dwindling number of employees in the industry itself.

The declining profitability of the industry is a cause for concern as the consequences of this situation could be far reaching and could serve to aggravate the problems which are already evident in the industry. Let us examine two possible contributors to the profit problem.

The level of salaries and wages that the industry is paying out is a factor which could effect the profitability of an industry. By looking at the figure below one will be able to see if salaries and wages are responsible for the change in profitability. In this case, as in the case of output, the data has been adjusted using PPI in order to deflate the data.

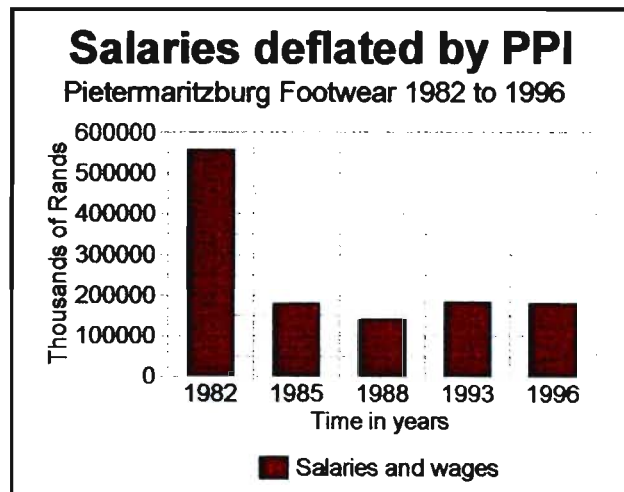


Figure 14 Pietermaritzburg-Msunduzi footwear industry’s salaries and wage figures deflated using PPI 1982 to 1996.

Source: Census of manufacturing.

The figure shows that salaries and wages have not changed a great deal, however, if one considers the fact that the number of employees in the industry has been on the decline in recent years one can see that the producers have been paying roughly the same amount despite the fact that they employ fewer people. This means that the cost of labour has been rising. As stated earlier the labour market has been seen as too rigid and this serves as one example where the cost of labour, although not been totally to blame, has affected the profitability of an industry.

The cost of inputs are another factor which can affect profitability and is of crucial importance to producers. If the inputs are priced too high producers may not be able to make a profit on the production of a good. It is for this reason that it is important to examine how the price of inputs has changes in relation to profitability. Again this data has been deflated using PPI.

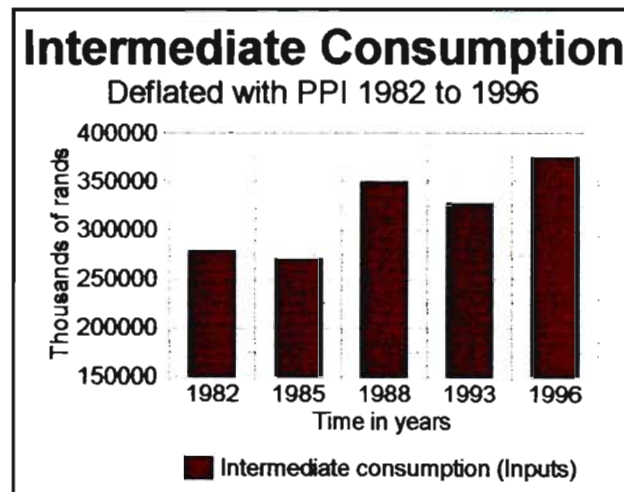


Figure 15 Cost of inputs for footwear producers in Pietermaritzburg-Msunduzi 1982 to 1996.

Source: Census of manufacturing.

As can be seen despite being deflated the cost of inputs to producers has been on the rise. The consequence of this is that the profit figures will decline as we have seen to be the case. The reasons for the price increases regarding inputs will be discussed in the section on linkages.

4.6 LINKAGES

The problems being experienced by local producers due to the removal of tariff barriers are aggravated further by these problems related to backward linkages. The backward linkages in the Pietermaritzburg-Msunduzi footwear industry are strong with 21 percent

of the inputs coming from Pietermaritzburg-Msunduzi itself and a further 40 percent from Pinetown (Oldham and Hickson 1992 pg 33). However the availability, or lack there of, of some inputs does cause problems for producers. The producer's job is made difficult by two factors. Firstly, there is the problem that the farming of leather as a product in its own right does not readily occur in South Africa but rather, farmers see it as a commodity that arises merely as a by-product of beef or milk farming. This has the effect of a relatively small amount of good quality leather being present in the market. The farming processes themselves can have a detrimental effect on the quality of the leather as brand marks or scratches from fences all serve to lower the quality and make the leather unsuitable for a large number of footwear associated uses.

There is a further problem of offshore purchasers who can also afford to pay higher prices and who purchase the better quality leather for use in footwear production in their own country. This means that only a small proportion of leather is available to the footwear industry and that this remaining leather which is available is not always of the high quality desired for production of quality products. The footwear industry has high international linkages for this reason with 24 percent of materials being imported (Oldham and Hickson 1992 pg 33).

The closing down of Sutherlands Tannery in 1995, and more recently Edendale Tannery, has also adversely affected the industry. These closures have had the effect of making the components more expensive as producers now have to pay increased costs due to transport.

As has been mentioned the producers of footwear, due to the scarcity of leather, have to compete with other industries not only in South Africa but the world for the hides they need. This is becoming ever harder to do as the diagram below shows.

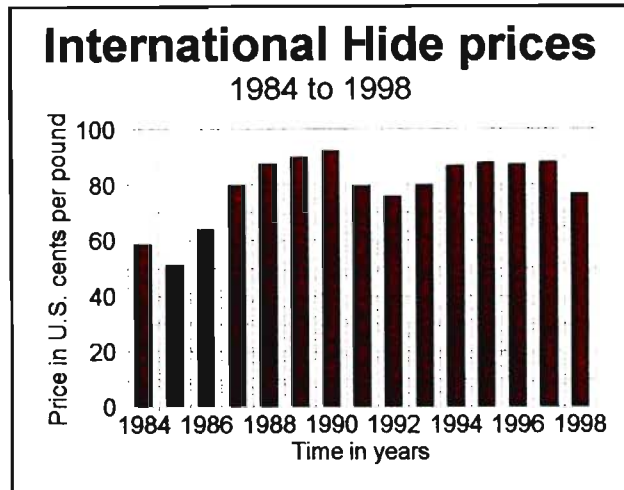


Figure 16 International Hide prices 1984 to 1998

Source: International financial Statistics 1999
pg 177

As can be seen the value of hide prices are denoted in U.S. cents per pound. While the shape of the diagram does not seem to denote that prices have in recent years increased a great deal, in relative terms to South African producers they have. If one considers the way in which the Rand has depreciated against the Dollar as was discussed earlier and depicted in figure 3 it will become clear that in actual fact the international price of hides for South African producers has increased a great deal.

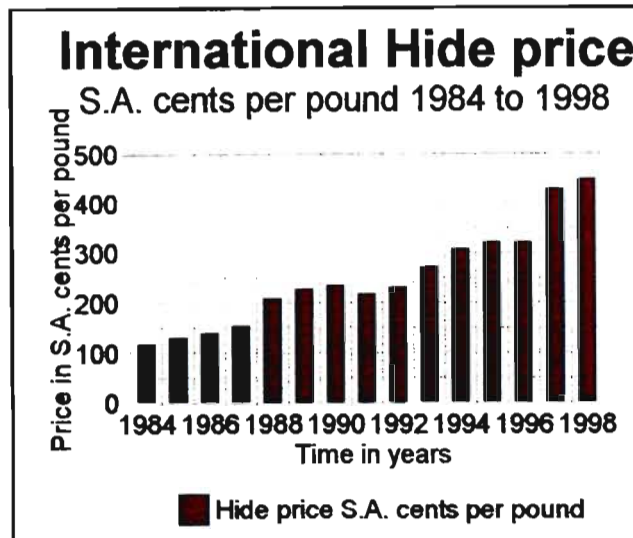


Figure 17 International hide price in S.A. cents per pound 1984 to 1998.

Source: International financial statistics 1999.

Figure 17 reveals how the depreciation of the currency has served as an agent to worsen the problem of obtaining high quality leather. With the new relative prices that seem to be continually on the rise the local producers are going to be even less able to afford the raw materials that are needed to produce their products. The increased price of hides means that the price of locally produced footwear will increase which will serve to remove some of the advantage which the poor exchange rate gives us when selling our shoes in international markets.

The leather industry, however, is not the only components' industry which is in a precarious position. There are a number of firms which produce the various other components for the footwear industry. These firms due to the decreased demand for footwear, and vicariously for their products, have had to increase their prices in order to cover their costs.

These problems relating to backward linkages all serve to make the production of footwear more expensive locally. As a result of this the local products, when faced with

overseas competition, find it difficult to retain the market share which they have been used to. The result of this is that they begin to lose market share and so have to cut back on the level of production and employment.

It is hoped that a footwear cluster could help to rectify these problems. By strengthening the position of the footwear producers it is hoped that the component suppliers' position would also be improved. These producers of components would be encouraged to join the clusters as in so doing the industry as a whole would stand to gain. International examples have shown that the related industries tend to strengthen their positions when a cluster system is implemented and if this holds true for the local situation it could lead to the resolving of a number of the linkage problems. The inference is that through the use of the cluster the footwear and related industries' situations will be improved.

Forward linkages are important factors which have can adversely effect the local footwear producing firms. The majority of firms operating in the Pietermaritzburg-Msunduzi area market their shoes nationally supplying the big chain stores with their products and in so doing have to go through an independent footwear retailer (Oldham and Hickson 1992 pg 33). Despite having good access to these buyers and the channels needed to market their products problems have arisen. The problem with the situation is that the retailers are reluctant to pay promptly while the manufactures seem to operate on a COD system. This results in undesirable cash flow problems for the manufactures. A further problem is that the market targeted by the footwear producers has been predominantly domestic, this is not large enough to sustain the industry as it stands. The need is for a governing body in charge of improving the position of the industry to set their sights on international markets. Such a body would be required to work on a marketing strategy and to try to secure supply lines to other countries. This can only be done, however, once the industry is in a situation in which it can meet the demands placed on it. Furthermore it will have to produce footwear of a high quality, faster and for less than it has done in the past. At

present few of the firms export any significant amount of their products overseas. It was found that only around 20 percent of the firms in Pietermaritzburg-Msunduzi exported their products and that those that did only exported between 1 and 13 percent of their annual production (Harrison, Futter and Meth 1996 pg xii). The reasons for these low export figures are seen to be related to price in that local producers just cannot produce footwear at competitive prices, as well as produce quality products. The industry could make inroads into international markets if it could overcome these obstacles.

These problems relating to forward and backward linkages aggravate the problems already evident in the industry and only serve to reduce the possibility of success against the foreign competition. These problems need to be addressed if the local footwear industry is to stand a chance against foreign competition. It is for this reason that the idea of a footwear cluster seems worth investigating, as it appears to be the sort of strategy that may be able to help to rectify these problems.

CHAPTER 5: POSSIBLE SOLUTIONS TO THE PROBLEMS IN THE PIETERMARITZBURG-MSUNDUZI FOOTWEAR INDUSTRY

In this section Micro and Small Enterprises (MSE's) and Small Medium and Micro Enterprises (SMME's) in southern Africa are reviewed. Then flexible specialisation and clusters are discussed paying attention to international examples. An examination of these concepts in the light of the Pietermaritzburg-Msunduzi situation follows.

5.1 SMALL MEDIUM AND MICRO ENTERPRISES (SMME'S)

It is becoming increasingly clear that an important role is being played by small businesses in all parts of the world including southern Africa. The MSE (Micro and small) or SMME (small medium and micro) enterprises are beginning to be noticed and their importance affirmed. According to Liedholm and Mead (1996 pg 125) this statement is assuring or alarming depending on the way one looks at the situation. On the one hand one must consider the case that there are a vast number of people who have managed to rise above their respective problems and who have established themselves as entrepreneurs and, in a large number of cases, as employers too. They have found a sector of the market that needs to be filled and have managed to fill it. In the process they have been able to generate income for themselves and their families. The converse of the situation is that the reason why these people have found themselves in the position, where they need to open their own businesses in order to survive, is linked to a poor economic climate. The fact that a large number of these people have not been able to find work anywhere else, or have lost the work they had, has led to the search for another venture. They open their own businesses in the hope that these will bring in some form of income.

There is little known about the phenomenon of SMME's and MSE's and little or no data about their respective numbers or activities. The reasons for this are for one, that owing to their size they are often missed out in surveys, possibly because they are overlooked or choose to be ignored due to fear they have breached the law in one way or the other. It is also the case that up until fairly recently the importance of these businesses had not been fully realized and that the powers that be, have in the past, paid little attention to them.

Liedholm and Mead (1996 pg 127) note that the occurrence of MSE's in southern Africa is considerably larger than reported by most official statistics on the topic. In South Africa more than eight percent of the population of 40 million is employed by a MSE. It was found that most firms employed a small number of people, often just one person, who operated the business alone. Those businesses that had employees often employed family members who, in a number of cases, worked for little or no wage as they got paid by other means, the most common being shelter, clothing and or food.

As one would expect, a large number of MSE's are engaged in trading, but a significant number are involved in manufacturing. It has been the general perception that very few MSE's were involved in anything but trading and that the majority of them were vendors.

These SMME manufacturers have been identified as being involved in three main activities, namely textiles and wearing apparel, food and beverages and wood and forest products. These three categories comprise the majority of manufacturing enterprises in both the urban and rural areas and account for between 75 and 90% of the total manufactured goods (Liedholm and Mead 1996 pg 129).

An important finding for the dissertation is that the size of the operation affects efficiency. It has been noted that the single owner operated business is far less efficient than those employing even one additional person. This is calculated by examining the returns that are made per hour. It seems clear that the size of the marginal return increases

with the number of people employed. These findings by Liedholm and Mead (1996 pg 129) are reported similarly by other authors who confirm that the same situation pertains in other countries. What emerges is that single-person operations tend to be the least efficient and that any small change in the number of workers will lead to a substantial increase in the level of returns.

There appears to be a ever increasing role to be played by the MSE as a job provider and so far it seems to be dealing with the task very well. During the 1980's, for example, the expansion in employment in micro and small enterprises absorbed nearly 30% of the increase in population of people of working age (Liedholm and Mead 1996 pg 137). This is a significant proportion in view of the fact that a large number of people are only starting to take notice of the existence of MSE's now and that during the 1980's one would have surely not known very much about them at all. Despite the fact that so little was known about them they still managed to employ a significantly large number of people.

The MSE path is one frequently chosen by people seeking to earn a living in less developed countries or those entering the labour force for the first time. It seems that the MSE is seen as a good option as an employer as, despite the fact that in a large number of cases the incomes people receive are very low, it is still possible for someone to obtain work. It serves as an option in a situation where few other alternatives are available. Relevant here are two concepts, the first being flexible specialization and the second, the cluster.

5.2 THE CLUSTER

In this section two related concepts of central importance to the dissertation are addressed the first being flexible specialization. Flexible specialization is a concept that is closely

related to the cluster. It can be described as 'a particular strategy for competitive success based on efficient and flexible production and marketing of quality-competitive products' according to Asheim (1992) as quoted by Knorringa (1994 pg 71). The general idea behind this concept is to maintain a competitive edge in the market by having a system of production where costs are kept to a minimum and the quality is kept high. The process relies on improvements like multi tasking one's workers so that one worker can perform a wide range of roles competently. This means that one can maintain a smaller labour force yet still produce a diverse number of products.

A further example of flexible specialization is that of the cluster in which firms are grouped so as to reap the economies of scope and produce their same goods in a more efficient manner. This efficiency may be due to the sharing of knowledge about production methods or a working agreement on the prices for various components charged to members of the cluster by other members. Essentially the whole agreement serves to make the various agents more competitive by increasing the efficiency of their operations. The cluster concept is commonly found in the footwear industry but is not exclusive to it. Pedersen, Sverrisson and van Dijk (1994) examine a further approach known as flexible manufacturing which is closely linked to the phenomenon of clustering. The latter is the grouping of related firms in a specific area in order to form symbiotic relationships which make possible improved economies of scope.

The need for increased efficiency stems from the fact that competition in the global shoe market has intensified in recent years and those firms which in the past made a good profit with ease are starting to find it ever more difficult to make ends meet. Firms are having to become increasingly efficient in order to try to maintain the market share that they have had in the past. As Schmitz (1999 pg 1628) points out, as beating a competitor such as China on labour cost is hardly possible, the challenge is to produce better quality shoes faster and to open up new markets and marketing channels. This is where the concept of the cluster comes in as a strategy to try to ensure higher levels of efficiency.

In a number of countries clusters have been successful when applied to situations as a means of ensuring the competitiveness and the survival of various industries, with the most famous cluster possibly being Silicone Valley. This cluster of computer software and hardware producers situated in California in the United States of America has been highly effective in maintaining a high level of efficiency in the industry and has inspired, though its success, a number of attempts at replication. The concept of a cluster is a simple one and essentially encompasses a group of producers who are united by the fact that they produce goods for one industry such as the footwear industry. They are able to unite due to the fact that they are both geographically and sectorally concentrated.

The idea is to group these producers in one area in the hope that they will benefit from each other. Behind the idea of being in close proximity to each other is the intention that they will work with each other and in so doing pool knowledge and expertise and create a situation where economies of scope exist for all who participate to enjoy. The situation also serves to create healthy competition between each participant producers to help spur the industry on. Porter and Wayland (1995) in Schmitz (1999 pg 1629) argue for the importance of proximity, not just of suppliers but also of rivals and customers, for dynamic business development. This according to others is not always desirable as increased levels of competition can undermine the essential foundations of the cluster operation. Clusters strive to become holistic systems, characterised by a high degree of efficiency rather than the pure sum of efficiencies of the single agents. According to Rabellotti (1994 pg 131) this in turn serves to ensure the survival of all participating members and to help prevent foreign competitors from entering their markets.

The Italian footwear and other clusters have served as examples which others are now trying to emulate by implementing the same strategy and adopting similar policies. Italy has a number of famous industries which all flourish due to the collaboration of firms and the formation of clusters. The auto industry, clothing and textiles as well as spin off

industries such as machine-tool manufactures are examples of industries which have risen above foreign competition with the aid of flexible specialization and clusters (*The Economist* 1999 pg 57). Many of the countries trying to emulate this success are less developed countries which experience similar problems to those experienced by South African footwear producers with regard to maintaining a competitive edge in the market place.

One such country is Mexico where the footwear industry's future has, at times, looked uncertain. The Mexican case is much like the South African one in that for a long time the industry was protected from foreign imports by trade policy which allowed it to flourish. Like its South African counterpart this industry also served the local domestic market which was big enough to maintain a fairly large industry. Again it was the altering of trade policy that proved to be a problem as cheaper foreign imports started entering Mexico's boundaries and taking more and more of the market from the local producers. Rabellotti (1994 pg 131) has commented that, in the light of the new trade policy, competition has become steadily stronger and that more and more the local firms are starting to realize that the only way to survive is to become increasingly efficient. The idea in Mexico has been to follow the Italian example.

The Mexican industry, fortuitously like the South African, is highly concentrated, based predominantly in three cities Leon, Mexico City and Guadalajara. These areas are already highly specialized in terms of the types of footwear produced, each producing for a different sector of the market. The industry is also dominated by small to medium size firms, many of which are owned and operated by a single family. It is easy to see a number of similarities between the Mexican footwear industry and the local Pietermaritzburg-Msunduzi one.

Another parallel is found in the Sinos Valley in Brazil, an area which produces large quantities of footwear, much of which is exported to other countries. The area attributes

its successes to two things, the first of which is the ample supply of cheap labour for the industry and the second is the increasing return from the clustering of highly specialized producers and suppliers (Schmitz 1999 pg 1627). A further factor of interest to the topic at hand is that a large number of the firms which export their products abroad are small and medium size firms. For example, in the 1980's the cluster had roughly 500 shoe firms of which more than half fitted into the small enterprise category. The industry also had over 700 subcontractors most of which were small firms (Schmitz 1999 pg 1632).

These international examples suggest the potential that small firms have to become important players. The importance of the SMME needs to be noted and the owners of these firms looked after and encouraged. Schmitz (1999) suggests that a spread of firms produces the best results. Having a situation with some large and medium firms operating along side the smaller firms would be advantageous as the key to resolving the solution is co-operation.

In assessing the performance of clusters various statistics were drawn upon. The results which have been obtained pertain to two of the three Mexican cities mentioned earlier namely Leon and Guadalajara. The sample included 51 firms of which 30 were from Guadalajara and 21 from Leon. The sample also included both small, medium and large firms in near equal numbers. Generally the results were encouraging but not conclusive. The pattern that emerged in Brazil shows that the cluster has generally been effective with some clustered firms such as those in the Sinos Valley faring well while those in clusters in other areas did not.

With regard to Mexico, when asked about the general trend of firms' profits for the last five years the following trends were given:

- 35% said that their profits had increased
- 27% said that theirs had remained stable and had not changed much while

- 27% said that they had decreased during this period (Rabellotti 1994 pg 135).

It is noted by Rabellotti that the trend in profits is positively correlated with the trend in employment. The firms interviewed noted the following correlations:

- 40% of those who had increased employment also increased their profits
- 50% of firms that reported stable employment have also had stable profits
- 71% of firms with decreasing employment also suffered decreasing profits.

Again one can see that while it seems that the cluster may have worked fairly well in some cases it has worked less well in others. One possible reason for this unevenness in performance, which in the light of the above data seems relevant, are problems which have been experienced in the labour market. These problems related to the labour force, if resolved, could lead to further success in the industry. But while it may in some cases be possible to solve some of these problems others are a great deal harder to solve.

When asked about the problems most commonly faced these firms listed a number of them:

- the low availability of qualified work-force (73% of firms)
- the high turnover of labour force (28% of firms)
- the low availability of unqualified work force (24% of firms) and
- absenteeism (20% of firms) (Rabellotti 1994 pg 136).

There seems to be a lack of skilled labour which has the effect of making what skilled labour there is more expensive. These increased costs make it more difficult for firms to be efficient and produce at low prices. This damages the small and medium firms the most as many of them lack the money to pay their workers what the market dictates.

The problem of unskilled labour is less of a problem as there are always young people who will work looking for a source of income. The one problem which does arise, however, is that a very high turnover exists as these people generally after a period of time seem to move on in the search for more lucrative employment. These problems seem extraordinary when compared with the problems being faced in our local industries as there are a large number of both skilled and unskilled labourers in South Africa, and in Pietermaritzburg-Msunduzi who would seize the opportunity of employment.

Turning our attention to India now one can look at the footwear cluster which exists in Agra, a city with 1.5 million inhabitants (Knorringa 1994 pg71). Despite the fact that the cluster and specialization have led to a strengthening of the industry's position here, too, problems have arisen. These problems seem to be mainly based on a lack of trust which exists between those who produce the products and those who market and trade in them. The problem appears to be related to the caste system, the system of hierarchy which has existed in India for hundreds of years. The problem can be summarised as a power struggle between the skilled artisans responsible for the production of the footwear and the better educated trained entrepreneurs who market and sell the products. There is a perception of conflicting interests between the two groups which seems to fuel the problem. So despite the fact that an ample supply of labour exists for the industry, and that this as well as the clustering of the industry have enabled very low priced footwear to be produced, this age old problem of distrust between the castes seems to be holding the industry back.

Looking at these international examples one can clearly see that the cluster and specialization could be beneficial for our local footwear industry. Given that our industry is in such a precarious position already and that some of the disadvantages pertaining in some of the international examples do not seem to apply in the local situation, it seems that there is little reason not to try to implement a similar cluster. Given that there are ample supplies of both skilled and unskilled labour who are ready to work if needed it can

be said that certain favourable factors pertain. Of importance is the constant worsening of the Rand/Dollar and Rand/Pound exchange rate which both serve to make our exported products cheaper to foreign consumers and give us a slight advantage for sale in foreign markets. If one could produce good high quality footwear and export it to foreign markets the industry's position would surely be strengthened.

A significant characteristic of a cluster situation is that it aids growth and, in fact, encourages it by making the process less daunting. Schmitz says that the significance of clustering is that it facilitates growth in "riskable steps". In short it allows small firms to overcome the growth constraints which he sees as being common in less developed countries (Schmitz 1999 pg 1630). This observation links to the point that in order to improve one's situation some form of upgrading is imperative.

Schmitz (1999 pg 1628) suggests that, while price is an important concern, the goals of production should be to increase the speed at which production takes place as well as increasing reliability and quality. This point is reiterated by a number of experts in the field whose native countries all find themselves trying to compete with the Chinese for market share. Often the higher quality goods can actually in fact be more lucrative. For example, the Italian producer of high quality eye ware, Safilo, posts high earnings each year despite the fact that South-East Asia dominates the mass market for spectacles. The difference is that these Asian producers produce a pair of spectacles for \$4 and sell them for \$15. The Italian producer, although spending a great deal more on production, \$12 a pair, sells the completed product for \$150 a pair thus making a great deal more profit (*The Economist* 1999 pg 58). It is a foregone conclusion that the local industries will need to make some form of improvements to their plants in order to achieve the growth that they desire.

As Schmitz (1999 pg 1644) notes one firm's success tends to have a positive effect on others firms in the area. Italy serves as one of the best examples of this benefit in that

certain of their industries have experienced positive spin-offs from other clustered industries. *The Economist* (1999 pg 57) points out how the success of certain clustered industries in Italy, such as the spectacle and jewellery industry, have led to an increased demand for machinery. This in turn has led to the Italian machine-tool manufacturers being the fourth largest such group in the world, after countries like Japan, Germany and the United States of America.

5.3 FEASIBILITY OF A FOOTWEAR CLUSTER IN PIETERMARITZBURG-MSUNDUZI

The local footwear industry is in need of a solution and the footwear cluster is a likely possibility. Research has been done concerning the feasibility of a footwear cluster, especially for the small medium and micro enterprises which would be based in the Failsworth Road area in Pietermaritzburg-Msunduzi (Jordan 2000) but this plan has yet to come to fruition. A feasibility study was done on the proposed Songololo Project, a SMME shoe manufacturer in the Pietermaritzburg- Msunduzi area (Jordan 2000) and this reveals much about the local situation. A lot more work, however, will be needed before that problem can be properly addressed and the project implemented.

As has been mentioned there is a place for a controlling body in the local footwear industry, for instance, as a source of funds for the local producers looking to expand their operations. The producers will need some aid in obtaining the funding required to improve their operations and obtain new machinery as well as advice on the best way to go about solving their respective problems. To a large extent the new manufacturing incentives of the Department of Trade and Industry that were discussed earlier will aid producers with these difficulties, however, the industry would benefit from the coupling of the local TLC and the Department of Trade and Industry and their joint efforts at attempting to relieve

the problem.

Other important roles for a regulating authority identified by Schmitz (1999 pg 1631) are pertinent in the local situation. These are ensuring that the process of improving the capital stock of producers is as efficient as possible, as well as mediating, resolving conflict and diffusing information. *The Economist* (1999 pg 57) argues that such a organisation could help the producers by providing cheap premises as well as other infrastructure to aid the production process. The authority should also provide other incentives as a lure for potential entrepreneurs from other industries, as well as serving as an incentive for producers already in the footwear industry. To this end the Pietermaritzburg-Msunduzi TLC has in fact signified its intention to provide incentives such as rebates for new business ventures (Pietermaritzburg-Msunduzi 2000).

The advantage of such a governing body is that it can keep the industry abreast of any important global developments in the industry or any problems being experienced by it. The idea is to facilitate production and to allow for a more efficient operation. Clusters, as has been mentioned, in order to be successful, need high levels of collaboration between the players and a governing body of one form or another to ensure the industry operates as it should in maximising the benefits of a cluster. As noted a major draw card of clusters is that industries directly related to the targeted industry have also benefited. As suggested by Schmitz (1999 pg 1644) above one firm's success tends to have a positive effect on others firms in the area.

By improving the condition of one industry through clusters one can ensure the survival of a number of other industries which are linked together, the leather industry in the local situation, for example. This industry has experienced a number of tannery closures, such as Sutherlands as mentioned earlier, and more recently, Edendale Tannery. The revival of the footwear industry could have a beneficial effect on the leather industry and could help it to increase production and become more stable. This was the case with the leather

industry in the Sinos Valley, Brazil (Schmitz 1999 pg 1632).

The leather industry is not the only one that will be positively effected by the improvement of the footwear industry's position. Firms which produce components for the industry will benefit from the associated increased demand for their products. Retail outlets in the city will also benefit. As the footwear industry is a major employer the strengthening of its position will lead to increases in the disposable income of the workers and residents which will mean they can spend more on consumption. The fact that the industry employs such a large number of people means that the increase in consumption will be large.

The spin-offs from an improvement in the position of the footwear industry will be extensive and highly desirable. If employment generally in the TLC area increases, with increased consumption, this will serve to improve the economic climate of the city as a whole.

As discussed earlier the SMME or MSE is a phenomenon, the importance of which is becoming more and more accepted throughout the world. These types of businesses play a valuable role as producers and employers in today's economy. The proposed Pietermaritzburg-Msunduzi Songololo Project intends to group these producers together in a specially built factory complex in the hope that they will be able to benefit each other and will be able to reap some sort of economies of scope from being in close proximity to producers and firms involved in the same industry. On the one hand the theory is good and as it has been seen in a number of other clusters in other parts of the world one can be successful. On the other hand there are a number of problems that will be difficult to address which must, however, be resolved in order for the project to be successful. In the case of the Indian cluster, in Agra, it was noted that there was mistrust entrenched in the industry between the producers and the traders. This mistrust has been the cause of output and sales being less than maximised and the industry being less successful than it could be. One is confronted by similar mistrust when one looks at the local SMME.

For years these operators have produced in small tucked away factories and have built up a lack of trust in the authorities. One gets the impression that they may well wonder why, after so many years of being ignored, they are suddenly being offered the sort of assistance by the TLC which is described above. This problem could be seen as being linked to problems experienced during the apartheid years with mistrust of the old local authority structures as a number of these producers are people of colour. These producers have learnt to survive on their own and may well be likely to be suspicious of help being offered now. This lack of trust one hopes can be overcome and must be if the project is to be successful. In order for such a change of attitude to take place these producers must be told about the intentions of the projects and they must be informed of the possible benefits that they could receive if the project were to be successful. Jordan (2000 pg 6) notes that some of the producers were very interested in the idea once it was fully explained to them. This may well be how the majority of producers would react once given a proper explanation of the objectives and intentions.

A further problem which is linked to the very nature of the SMME is that so little is known about them. This is because they are often very minor operations running their businesses out of small premisses, possibly even on the owner's property. It has also been suggested that in a number of cases the clandestine nature of their operations is intentional and for one reason or another they have intended to remain hidden. Information will be needed about these manufacturers to avoid producing a plan of action for enterprises one knows virtually nothing about. A great deal more information will have to be gathered from these producers if one wants to tailor make a project for them. This process of course will be hampered by the lack of trust which has been mentioned. One must agree with Jordan (2000) that in securing co-operation by all players one will have a better chance to address all major concerns.

The above statement links to a very important point which is that the authorities should not only target the SMME but all footwear producing firms in the hope of securing the

footwear industry. It must be agreed that these players have been underestimated and are vitally important to the survival of the industry. However, it has been seen in a number of cases that it is desirable to have firms of all sizes operating in the area of a cluster if one wants high levels of success. It is for this reason that one feels the authorities should not only target the SMME but all footwear producing firms in order to try to unite them.

The intended site for the Songololo project is on a main transport route that carries a lot of traffic, in particular, buses and taxis. These vehicles would be accommodated near the complex and toilet facilities and food vendors would be situated close at hand for the use of the travellers. The idea is that these people come to purchase products and would buy the shoes they need there if it were convenient and easy to do so (Jordan 2000 pg 8). This is a good start but the project should aim higher in seeking to unite all footwear producers with the ultimate goal of producing high quality shoes for export.

The clustering of footwear producers would also hopefully relate to some exciting new relationships being created between the various producers. This could have the effect of inspiring new designs and/or new and improved production methods. This is an important result from the cluster as it could lead to the entering into of new footwear markets, most importantly those overseas. The depreciation of the local currency serves to make this task even easier. If the Pietermaritzburg-Msunduzi industry is to flourish it will have to get to a position where it is supplying high quality shoes to overseas markets and all local producers should unite in trying to attain this goal. The long term future of firms producing for domestic markets is not good as the local demand for high quality shoes is not sufficient to keep the industry going. It is for this reason that producers must look overseas.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

In this chapter the conclusions of the study are summarized and recommendations for action are made.

6.1 CONCLUSION

There are considerable gains to be had from being a member of a free trade area such as SADC . Trade can be beneficial to consumers directly, with regard to the increased choice of consumable goods available, and it also allows for the possibility that the balance of payments problem could be addressed. Freer trade can contribute to increasing the level of efficiency in industry as the factors of production are relocated from less efficient to more efficient industries, usually those in which the country possesses a comparative advantage. Furthermore it results in shared technology which can have far reaching effects making for cheaper, easier production. These relatively long term effects are clearly beneficial but what this dissertation investigates is how to address the negative short term effects. It has been shown that in the short term less efficient industries like the footwear industry suffer unless they can be made more efficient. As inefficient industries cannot compete with the foreign producers their products become less desirable and this results in harsh consequences such as job losses due to decreases in production (which are in turn based on decreases in demand) and in many cases, the closing of the factories which used to employ workers. Vast numbers of workers have lost their jobs in Pietermaritzburg- Msunduzi shoe factories alone.

The aim of this dissertation is to show that this need not be the case if strategies such as flexible specialization and clustering are used to make industries more efficient. These

strategies have been largely successful in other parts of the world and there is little to suggest that they cannot work as well in South Africa if creatively adapted to local conditions.

Globalization was defined and its effects described in chapter 2. Globalization makes for freer and easier trade which in turn makes trade with numerous foreign nations possible. Cross border trade, however, has enabled cheaper imports to be flown or shipped into the country to compete with locally produced goods. This factor has led to the virtual demise of the footwear industry both nationally and locally. This has had a major effect on the situation which the industry is in now, where a remedy needs to be found in order to ensure the industry's survival.

Protectionism serves to protect industries from some of the negative aspects of globalization. However, the dissertation showed that there are negative aspects to the implementation of such a policy. Such policy can be highly beneficial in situations where an industry is particularly vulnerable to competition, for instance, in the case of the footwear industry, yet most critics rule this out as a long term solution. This industry is unlikely to be able to compete against foreign competition unless remedies can be implemented to make it more efficient.

The World Bank's Structural Adjustment Programs aim at aiding countries in becoming more efficient. Its success in doing this is questionable in the context of a large number of less developed countries, including South Africa. While intended to alleviate certain hardships in the targeted countries, the programme has, in a number of cases, failed to rectify the identified problems and in some cases has aggravated already unsatisfactory conditions. Vulnerable industries such as the footwear industry are placed in precarious positions. In the absence of real alternatives to such policies, industries like the Pietermaritzburg-Msunduzi footwear industry require creative but informed solutions to their problems.

Chapter three looked at recent political change in South Africa and its effect on areas of the economy starting with the Reconstruction and Development Programme. In post apartheid South Africa two objectives of economic policy were: to create employment and to embark on an export oriented approach to industrialization. The freeing up of markets had a highly adverse effect on the footwear industry and resulted in decreased levels of production and thousands of job losses in the Pietermaritzburg-Msunduzi area alone. The footwear industry at a national level was reviewed to determine whether the Pietermaritzburg-Msunduzi case was an isolated one. It is evident that the footwear industry in the country as a whole is depressed and obvious results are the laying off of staff and factory closures country wide. Foreign imports, primarily from China, are able to be sold at lower prices than the local product and the result of this is the decreased demand for local products and the decreased levels of production.

The situation in Pietermaritzburg-Msunduzi mirrors the national one with a few exceptions. The local industry is important as it is the largest employer in the industrial sector of the city and hence a source of income for many of the city's residents. The Pietermaritzburg-Msunduzi industry has seen a drop from 7 315 458 million pairs in 1990 to 5 199 654 in 1995. The results of this reduction are vast retrenchments of redundant labour. From 1988 figures of 7 700 employees we have seen a drop to 4 800 in 1996 and it does not seem that the problem will end there. As can be seen from the new census data not only has there been a severe drop in output and employment in the industry, but various factors have contributed to the industry being less profitable so that further factory closures and lay-offs can be expected. The Pietermaritzburg-Msunduzi footwear industry is in a desperate situation and alternative strategies need to be addressed. The SMME has the potential to play a role in attempting to rectify the problems in the local footwear industry. It has been shown that these smaller manufacturers and retailers are untapped resources which could employ large numbers of people. As has been shown in so doing

they make not only their own operations more efficient but also help to make the industry as a whole more competitive. The importance of the smaller firms has been seen in a number of international examples in which these entrepreneurs helped to rectify the problems experienced as a result of globalization. The cluster concept has been shown to be pertinent in the SMME context as the uniting of producers from small, medium and large firms in a cluster has benefits for all. The more firms that participate within reasonable limits, the better the outcomes. SMME operators, for instance, gain in terms of the knowledge they accrue from exposure to the bigger firms.

As has been shown in the course of this dissertation, the cluster as a phenomenon has been effective in a number of other countries around the world. Industries have been able to claw their way into international markets through the use of flexible manufacturing and the cluster. The footwear industry in South Africa is in need of some such policy that can aid its survival. The economy can ill afford the job losses and factory closures that are taking place. But one must establish whether a cluster is appropriate in the local case. This dissertation has shown that it is. The local footwear industry, it cannot be denied, is in need of a solution to the problems it is facing. The footwear cluster, having been largely effective in other parts of the world, is a good approach to adopt. The approach has been effective in a wide range of industries, one of which has been the footwear industry. The local footwear industry, importantly, is localized geographically in one area which is a vital prerequisite for the success of the cluster. The local industry also possesses the infrastructure that will be needed if the project is to be successful. Here one is referring to a supply of skilled and unskilled labour; access to main transport routes, and close proximity to inputs required for production. With all these factors in mind it seems likely that the Pietermaritzburg-Msunduzi footwear industry will be able to replicate the success of the other footwear producing nations.

6.2 RECOMMENDATIONS

Regarding the recommendations derived from this study it is suggested that

- The footwear industry requires an authority which the majority of producers regard as legitimate. Such a body would investigate the cluster idea further and adapt it to the local situation. The obvious choice for such an authority would be one comprised of both the local TLC and the Department of Trade and Industry.
- This authority devises a sound plan for uniting firms of different sizes in a cluster with shared goals and objectives. The authority will need to make a concerted effort to initiate and retain SMME participation in the clusters as they are a vital ingredient to the success of the cluster strategy and one that is significantly lacking at present.
- The authority sets up special concessions for the industry, for instance, cheaper factory rentals and utility concessions.
- The authority develops international trading partners and supply lines, for example, for marketing the local products in international markets.
- The authority acquires financial backing for producers in order for them to be able to purchase the machinery required to increase their quality and efficiency of production.
- The authority instructs producers about the desirability of certain purchases in terms of infrastructure, machinery and materials.

- The authority ensures that the producers produce products of a suitable standard for export.
- The authority monitors the price of the footwear, although is less important than the quality of the products, price must be monitored in order for the supply lines to be kept open and so that the authority can instruct the industry regarding optimum pricing to retain their market share.

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