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POLICY SUPPORT PROGRAMME**

**International Competitiveness And Value Chains in Selected Manufacturing Sectors  
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**TRENDS AND DYNAMICS WITHIN THE TEXTILE SECTOR'S  
VALUE CHAIN**

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## **INTRODUCTION**

The purpose of this study is to determine the impact of changing conditions of business upon the production of manufactured goods in the Ladysmith/Ezakheni locality. The reason why it has become necessary to pose such a research question has to do with two important changes in the economy that have had a significant bearing on the performance of the industry in the locality. The first of these changes is located within the policymaking sphere, and concerns the changes to the state's industrial location policies. The second source of change originates from the increase in competition within the domestic market as a result of trade liberalisation and the increasing levels of global connectivity within industry.

It would appear as if the impact of these two dynamics has resulted in a gradual decline of the area as a manufacturing locality and resulted in a shift towards higher levels of capital intensity. These are the key issues explored in this research report and form the core of discussion presented in Sections One and Two. Before doing so the significance of Ladysmith/Ezakheni as a focal point for industrial research is, however, highlighted, as is the research methodology that was employed for the study.

### **What is significant about Ladysmith and Ezakheni?**

The area of Ladysmith and Ezakheni is very significant to the process of evaluating the impact of the phasing out of decentralisation incentives. This is largely due to the substantial role that such incentives have played in the recent growth of the locality. During the 1980s, the Ladysmith/Ezakheni locality was one of the fastest growing localities in the province (Harrison & Harrison-Migochi, 1997, pp. 8). This period of growth coincided with the influx of investments that were primarily directed towards Ezakheni (an industrial township next to Ladysmith), and which were, in turn, facilitated by the Regional Industrial Development Programme (RIDP).

The Good Hope Plan, that resulted in the RIDP, was promulgated in 1981. The objective of the policy measure was to effect the redistribution of the country's industrial activity within the context of Grand Apartheid's priorities. As a result, South Africa was divided into nine industrial planning regions, which cut across homeland boundaries. In order to achieve this end, the RIDP offered a range of incentives to industrialists. These came in the form of both long-term and short-term incentives.

Long-term incentives included:

- Rebates of between 40% and 60% for transport costs,
- Subsidies to equate electricity rates in remote areas with those of the cheapest metropolitan areas,
- Housing for key personnel (i.e. white workers),
- A 75% allowance for training, and
- Preferential tender arrangements.

(Woods, 1991, pp. 74).

Short-term incentives included:

- Generous labour subsidies in the form of a 95% tax-free cash rebate of up to 10 years for labour earning up to R110 per month (adjusted over time),
- A rebate of up to 80% on interest paid on land and buildings for up to 10 years,

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- Rental concessions, and
- A R500 000 subsidy to cover relocation costs (ibid.).

Four types of development space were identified in the Good Hope Plan:

- Ten de-concentration points
- 49 Industrial Development Points: These were largely located in the homelands, and were thus important sites for the location of labour intensive industry
- Other Development Points: These were areas which had received incentives under past packages, but have since been later granted lower priority
- Ad Hoc Cases: This category covered any site which could - under special circumstances - be regarded as eligible for assistance (Woods, 1991, pp. 73)

As a result of the domestic economy's recent shift towards trade liberalisation in line with WTO requirements, levels of import penetration within the local market have experienced a dramatic growth. The impact of this growth has been to give consumers higher levels of product variety. Furthermore, an increase of imported products has brought about increased levels of competition amongst local manufacturers. Given the fact that local producers had previously operated behind protective trade barriers, it is essential that the adaptive strategies of these firms be assessed. The assessment process focuses on the area of Ladysmith/Ezakheni. This limitation was imposed because it provides the assessment with a convenient structure to track the impact of increased levels of competition in the local market and the withdrawal of the RIDP.

## **METHODOLOGY**

The research into the impact of policy and market changes upon production in Ladysmith/Ezakheni has been conducted over a period of some three years. It was necessary to observe the response of the locality on an extended longitudinal basis because of the slow nature of the industrial re-orientation process.

The research process that was employed to further the study comprised both primary and secondary research methods. The primary research assumed the form of three rounds qualitative interviews with manufacturers in the locality. It was necessary to adopt the qualitative option of primary research because of the high levels of distrust that were noted to characterise the industrial culture of the locality (which meant that firms were reluctant to participate in the assessment process). The first of the surveys was conducted between January and February 1996. The second set occurred between December 1996 and January 1997, with the last set of interviews being conducted in November 1998.

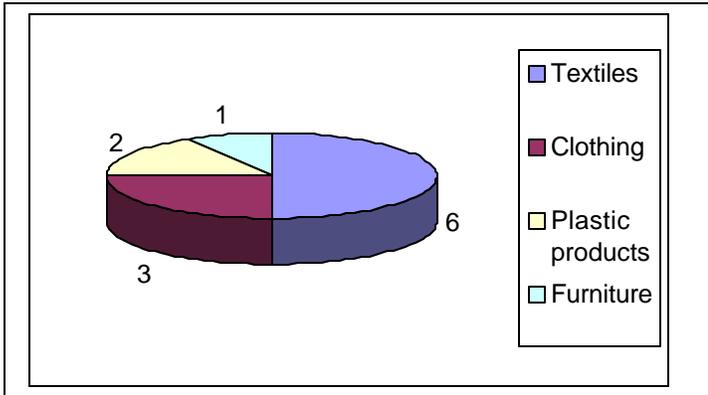
Further qualitative interviews were conducted with officials from the then Transitional Local Authority in Ladysmith, the South African Clothing and Textile Workers' Union (SACTWU), and the KwaZulu Finance Corporation (KFC). These interviews took place at the same time as the first and second round of surveys.

A major difficulty that was experienced during the research process was the steady closure of firms. As a result, only 11 of the initial sample of 17 firms remained in November 1998. Due to the researcher's prior contact with the local textile sector, this sector proved to be more assessable during the sampling process. As a result, the final sample of had a bias in favour of the textile industry (see figure 1).

Figure 1: The sectoral distribution of the sample (n=12):

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The KFC<sup>1</sup> was the primary source of secondary information. This information primarily related to investment and production trends in the locality.

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<sup>1</sup> The KFC has since been incorporated into the KMI (KZN Marketing Initiative)

## **SECTION ONE: DYNAMICS WITHIN THE LOCALITY**

This section deals with the dynamics that help to explain the industrial social milieu that exists within the Ladysmith and Ezakheni locality. The section shall be divided into two sub-sections. The first sub-section is concerned with providing an historical background to the locality, whilst the second sub-section shall address the impact of decentralisation policies in the locality.

### **1.1 An overview of the Ladysmith/Ezakheni Locality**

Ladysmith and Ezakheni fall within the Klipriver and Emnambithi magisterial districts of northwestern KwaZulu-Natal. In 1990, the combined population of the two districts was estimated to be 215 000 (Harrison, 1990, pp. 112). The town of Ladysmith is the most important centre within the district, and it serves the surrounding area as an administrative, retailing and manufacturing centre.

At the end of the Second World War, Philip Frame (founder of Frame Textiles) came to an agreement with the Lancaster Cotton Corporation that laid the foundation for the establishment of a cotton-spinning mill in Ladysmith by 1948. Ladysmith was regarded to be a good location for a spinning mill because of the plentiful supply of both labour and water. The mill represented a major capital investment in Ladysmith, with The Consolidated Cotton Corp. issuing share capital of two million pounds.

In 1968, Ladysmith was declared a 'growth point' under the 1967 Physical Planning and Utilisation Act. This paved the way for the IDC to begin with the development of the Danskraal industrial estate. As a result, the number of industrial establishments in the town grew from 31 to 43 over the course of the 1970s, with most of this growth concentrated in the first half of that decade.

In 1981, the Good Hope Plan was introduced as the new industrial location policy of the Republic. The Good Hope Plan identified the Ladysmith locality as one of the IDPs. As such, the area was well placed to receive the generous incentives that were being offered under the scheme for the purposes of attracting industrialists to peripheral centres.

### **1.2 The 1981 RIDP in Ladysmith/Ezakheni**

Since Ladysmith was one of the localities that was allocated IDP (Industrial Development Point) status under the Good Hope Plan, it is ironic to note that it was under the 1981 RIDP that the focus of development within the locality was allowed to shift. Thus, the 1981 RIDP tended to benefit the KFC-managed estate of Ezakheni (which was established in 1983) much more than Ladysmith. This bias had much to do with the fact that KFC estates tended to offer even better incentives than other decentralisation areas. Ezakheni was also aggressively marketed in the Far East by the (white) managers of the estate who worked intimately with local government bureaucrats in Ladysmith (Hart, 1996, pp. 14).

The bias in favour of Ezakheni was substantial. Between 1984 and 1989, Ladysmith registered 58 decentralisation projects that represented a projected capital investment of R46.3 million and the creation of 4 050 in employment opportunities (Harrison, 1990, pp. 118). By contrast, Ezakheni had 156 projects approved over the same period, representing projected capital investments of R452 million (ibid.).

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**Table 1: The growth of Ezakheni under the 1981 RIDP**

Year	Number of firms	Annual employment
1983	2	1 566
1984	4	1 927
1985	22	4 963
1986	32	7 611
1987	44	8 464
1988	57	9 469
1989	70	10 475
1990	75	11 930
1991	76	13 758
1992	74	10 109
1993	62	10 844
1994	62	10 790
1995	65	N/A
1996	57	N/A
1997	54	N/A
1998	59	N/A

Source: KFC, 1995.

According to KFC figures (see Table 1), the number of establishments in Ezakheni increased steadily throughout the 1980s. There were only two firms operating in the estate at the time of establishment in 1983 (KFC, 1995). The number of firms had increased to 22 by 1985. In 1991, the number of firms in the estate had reached a record high of 76 (*ibid.*).

The fast growth of Ezakheni was significantly boosted by the influx of Taiwanese industrialists who were seeking alternative locations for production due to the rising cost of labour in Taiwan. Hence, the locality can be said to have significantly benefited from the twin developments of the international division of labour and globalisation, which had become realities by the 1980s.

Despite the fact that Ladysmith may have been neglected as far as investment is concerned, the town managed to draw many benefits from the growth of Ezakheni. The town remained the retail and service centre of the area, while nearly all of Ezakheni's white and Asian industrialists settled in Ladysmith. Furthermore, it was estimated in 1990 that industrialists from Ezakheni were spending about R180 million (at 1997 prices) a year in Ladysmith (Harrison & Harrison-Migochi, 1997, pp. 8). The indirect but positive benefits for Ladysmith can be observed further in Table 2, which shows that the percentage contribution of service sectors to the GGP of the Klipriver magisterial district increased by a margin of 6% between 1981 and 1994. Importantly, Ezakheni was not part of the Klipriver magisterial district then. During the same

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period, the percentage contribution to GGP by manufacturing increased from 27.5% to 28% (Harrison, 1990, pp. 117, and Harrison & Harrison-Migochi, 1997, pp. 25). As such service sector activities were increased their percentage contribution to the Ladysmith GGP at a faster rate than manufacturing.

<b>Table 2: The changing contribution of service sectors to the GGP of Klipriver (i.e. excluding Ezakheni)</b>		
Sector	1981 % Contribution	1994 % Contribution
Construction	2.4	4.9
Commerce & catering	8.8	14.6
Transport & communication	26.4	21.3
Finance & real estate	9.3	12.9
Community services	1.0	1.7
Government	12.7	11.2
<b>TOTAL</b>	<b>60.6</b>	<b>66.6</b>

*Generated from: Harrison (1990) and Harrison & Harrison-Migochi (1997).*

### **1.3 The 1991 RIDP/1993 SRIDP in Ladysmith**

The eighties were a period of low profile RIDP activity in Ladysmith. However, this trend seems to be reversing to favour Ladysmith once again, especially in terms of total capital outlays (see Table.3).

<b>Table 3: Patterns of RIDPclaims in Ladysmith/Ezakheni (1991-1995)</b>		
	LADYSMITH	EZAKHENI
NEW FIRMS	6	10
FIRM EXTENSIONS	4	23
DOMESTIC CLAIMS	10	26
FOREIGN CLAIMS	0	7
EMPLOYMENT LEVELS	391	1 763
INVESTMENT LEVELS	R194 691 854	R167 839 387

Source: Reid, 1996, pp. 6.

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The last RIDP patterns that were published by the KFC (i.e. 1995) show that Ladysmith in the end received higher levels of investment, yet it still lagged behind Ezakheni in terms of the number of firms that benefited from the RIDP. Ladysmith firms had a projected investment of R194 600 000 for a total of 11 projects. This means that an average projected investment in Ladysmith was about R17 000 000 per project. On the other hand, Ezakheni firms projected a lesser sum of R167 800 000 for a far greater number of projects (33). As such, the average cost per project in Ezakheni was much lower than it was in Ladysmith, and stood at about R5 000 000.

Industrial activity in Ezakheni was clearly then, more labour intensive than in Ladysmith. The number of jobs created in Ezakheni was 1763, compared to 391 in Ladysmith. However, this data may be misleading since there are a number of small clothing producers in Ladysmith who did not claim incentives. Since these producers are inadequately captured by statistics, the data may have a bias against small but labour intensive producers. There could also be a measure of informalisation that is taking place in the locality. Anecdotal evidence and observations from trips to the locality suggest that there are manufacturers who are setting up operations in Ladysmith without the assistance of the RIDP or the SRIDP. It could be that these manufacturers are too small to fit into the current format of the incentives' schemes or, since they are not reflected in municipal records either, they could be trying to avoid state regulations or union detection.

Another reason for the apparent labour intensity in Ezakheni could be related to the special attention that the industrial township received during overseas recruitment activities. This was established through interviews with the locality's Transitional Local Authority (TLA) and the KFC. Respondents representing these institutions, pointed out that Ezakheni is easier to market because of the availability of land (i.e. for greenfield developments) and subsidised factory sites that the KFC provides. Ezakheni is also the one production area that is located close to the black township of Ezakheni. As such labour has easier access to work opportunities and lower transport expenses.

<b>Table 4: RIDP/SRIDP claims and approvals in Ladysmith by sector (1991-1995)</b>						
<b>SECTOR</b>	<b>RIDP</b>	<b>SRIDP</b>	<b>NEW</b>	<b>EXTENSIONS</b>	<b>JOBS</b>	<b>INVESTMENT</b>
<b>TEXTILES</b>	3	0	1	2	251	R146 706 031
<b>CLOTHES</b>	2	0	2	0	19	R1 297 332
<b>METALS</b>	1	1	1	1	17	R2 556 512
<b>FOODS</b>	1	0	1	0	33	R2 148 446
<b>RUBBER</b>	1	0	0	1	64	R41 064 333
<b>FURNITURE</b>	0	1	1	0	6	R337 000
<b>TOTAL</b>	8	2	6	4	390	R194 109 654

Source: Reid, 1996. pp. 7.

The single biggest sector benefiting from RIDP incentives in Ladysmith was the textile sector. Although there were three claims, the actual number of firms that benefited from these incentives is, in fact, two. There was one new firm that established new operations; one firm made the other two claims, and they were both for the purpose of facilitating extensions. Other sectors that benefited were clothing, metals, foods, rubber and furniture.

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The dominance of the textile and clothing sectors in Ladysmith is not surprising, the area has a long history of textile and clothing production. As such, there exists in Ladysmith significant levels of textile and clothing sector specific social capital in the form of machinists, managers and maintenance staff.

#### **1.4 The 1991 RIDP in Ezakheni**

The number of firms operating from Ezakheni reached the record number of 76 during 1991. The area then experienced a marked trend towards decline, with the number of firms dropping to 62 in 1994, representing an absolute loss of 14 firms. Employment also experienced a corresponding decline and stood at 10 790 at the end of 1994 (see Table 1).

Although Ezakheni as a whole was in a state of decline, there were five new firms that bucked the trend by establishing operations in the locality during the same period (i.e. 1991-1994). The actual number of firms that left the locality or closed down is therefore 19. The relevance of this piece of information is that out of the 76 firms that operated during the peak year, 57 remained by 1995. This means that 75% of the firms from 1991 were still in operation, suggesting a relatively high level of stability for an area that is supposed to be in significant decline. This suggests that although incentives have been important in drawing investment to the area, they are not always the sole reason for investing and maintaining investment in the town. Taiwanese industrialists indicated that a significant Taiwanese community still exists in the area, and as such there were social reasons for remaining in the area. Other industrialists have suggested that increasing levels of capital intensity have given them the option of remaining in the area despite rising labour costs. This was found to be an ironic twist to the fate of the area since its custodians had touted cheap labour as one of the town's most attractive attributes. Furthermore, SACTWU indicated that unemployment levels remain high in the area.

#### **Distribution of Sample 1**

<b>Table 5: RIDP claim approvals in Ezakheni by sector</b>					
<b>SECTOR</b>	<b>CLAIMS</b>	<b>NEW</b>	<b>EXTENSIONS</b>	<b>JOBS</b>	<b>INVESTMENT</b>
<b>TEXTILES</b>	8	1	7	373	R63 240 626
<b>SHOES</b>	2	0	2	74	R4 975 557
<b>KNITTING</b>	3	2	1	350	R10 944 376
<b>CLOTHES</b>	5	2	3	508	R19 490 439
<b>PLASTICS</b>	6	0	6	156	R33 772 875
<b>LEATHER</b>	3	0	3	85	R14 606 206
<b>METALS</b>	1	1	0	68	R938 893
<b>WOODS</b>	1	1	0	2	R3 535 429
<b>PAPER</b>	2	1	1	69	R13 922 594

## **SECTION TWO: CURRENT ECONOMIC PROFILE OF THE LOCALITY**

As has already been stated, the Ladysmith/Ezakheni locality experienced its best levels of growth during the 1980s, when the Good Hope Plan facilitated the establishment of various manufacturing enterprises. It has also been established that Ezakheni was by far the most significant beneficiary of the provision of the Good Hope Plan within the Klipriver district. Furthermore, as highlighted in the previous section, the withdrawal of the RIDP in the locality has resulted in its gradual decline. In this section, we turn our attention to the question of how manufacturers in the areas have responded to the withdrawal of the scheme and increasing levels of competition in their markets. The intention of this undertaking is to establish whether industrialists in the area have adapted their production processes to meet these new demands. The research process was particularly interested to establish whether flexibility enhancing strategies such as improved labour participation in production, sub-contracting, improved technology etc., were being implemented.

Our findings indicate that firms in the locality have been disturbingly complacent with regard to the implementation of the necessary changes that would allow them to increase their competitiveness in the domestic and global markets.

### **2.1 Labour Participation**

Responses from the industrialists indicated that firms in the locality had not taken sufficient steps to restructure the labour process. It has already been indicated that the use of home workers is not a widespread practice. The continued reluctance to diversify the labour market (and the possible impact of the LRA), will surely restrict any restructuring of the labour market in the locality.

The inclusion of labour in the managerial and planning process was also found to be poorly implemented. Essentially, no respondent had thus far attempted to pursue this goal seriously. The only respondent who claimed to engage workers in this manner seems to have restricted the exchange to imploring workers to improve productivity levels.

The low levels of labour participation in production planning and management suggest that the locality is making insufficient progress towards the attainment of flexibility levels that will assist firms in the locality to engage with a rapidly changing market.

### **2.2 New Technology**

The most significant change to the production process in the locality has been the widespread introduction of new technology. This trend was observed in all the interviews, and the 1991 RIDP claims and approvals lists for the locality also confirm this trend. All the firms that were sampled claimed to have upgraded machinery in the past five years. All firms also indicated that there were plans to engage in a further upgrading of equipment in the near future. Although only one respondent claimed not to have reduced batch sizes, there was a greater tendency to reorganize firm layout. Four respondents claimed to have either restructured layout or to have intentions of doing so in the near future. The use of computers was usually restricted to administration purposes (i.e. managing the payroll and record keeping). There was no incidence of firms having computer links to other firms.

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From the firm level interviews, it was clear that higher levels of technological intensity were being partly pursued as a strategy to avoid high levels of labour participation in production. The other reason for upgrading technology, was connected to the need to catch-up to other production localities around the world. Like the rest of the South African manufacturing sector, the Ladysmith/Ezakheni locality had neglected its capital stock during the sanctions era.

However, a disturbing characteristic about mechanisation, is that it does not always lend itself to flexible production processes. Machinery often has to reach a certain production threshold to produce an optimum return on investment. As such, in the quest to achieve adequate levels of capital productivity, manufacturers may find that their machinery compels them to produce higher levels of volumes.

### 2.3 Sub-contracting

In the case of sub-contracting stages of production to other firms, only one respondent admitted to being engaged in such practices. None of the respondents had relations that were other than informal with their sub-contractors. Furthermore, although all respondents indicated that they were members of business associations, it was clear that such organisations were mainly used for engaging about labour disputes and government lobbying.

**Table 6: The number of firms which engage in inter-firm exchanges of information  
(n=12)**

	Never	Occasionally	Often
Firms	1	9	1

As Table 6 indicates, relations between firms in the locality are not very intimate. One respondent claimed never to have had the opportunity to discuss issues and problems affecting the industry with other firms in the locality. None of the respondents engaged in such exchanges on a regular basis, while the rest of the respondents only did so occasionally. Despite the fact that one of the respondents is a major yarn supplier to knitters in the locality, this respondent claimed not to ‘interfere’ in the operation of other firms. Various other respondents did indicate that they were concerned about protecting their ‘trade secrets’.

Once again, the reluctance to sub-contract and/or network with other manufacturers betrays the locality’s restricted capacity to engage in flexible production processes. Sub-contracting can provide the foundation for flexibility enhancing activities such as joint order-sharing and joint procurement.

### 2.4 Building quality into the production process

All sampled firms indicated that they do implement final inspections on products. Forms of quality awareness were also implemented by all respondents among workers. However, none of the respondents had managed to introduce ‘total quality control’ (TQC) into their production process. In the same vein, none of the respondents claimed to have managed to implement ‘just-in-time’ (JIT) production process within their firms. Due to the dominance of the fashion sensitive textile and clothing sectors in the locality, the failure to make progress with regard to TQC and JIT can be potentially

detrimental. TQC helps to make the maintenance of quality cost-effective. It is also a critical component of JIT production. JIT production, on the other hand, is becoming a critical attribute for firms that operate within rapidly changing and diversified markets.

## **2.5 Relations with suppliers**

Firms in the locality were found to have less-than-intimate relations with suppliers. As already highlighted, the occurrence of sub-contracting relations was rare, and industrialists preferred not to exchange ideas with fellow industrialists in the same sector. This means that the organisation of production in the locality is still confined within the firm. The benefit of being in the same locality as other textile manufacturers (or of being close to other localities with textile firms, such as Newcastle), was not realised due to the preference of firms to remain as isolated units of production.

Thus it would appear that the changing conditions in the economy are not leading to the fundamental restructuring of the production process or of production relations in the locality. The only major restructuring which has been evident has been the drive for new technologies. However, given the fact that the major foreign competitors of the industry have both the technology and other necessary provisions that allow their firms to have a greater degree of flexibility, it remains doubtful whether this strategy will ensure the survival of the industry.

These observations indicate that the necessary relationships between firms and institutions, which are important in the process of creating an environment whereby an innovative atmosphere or social capital can be created and sustained, are still to be developed and entrenched within the locality.

## **Summary**

While the impact of the withdrawal of incentives and globalisation has resulted in a number of outcomes that may not have been as disruptive to the competitiveness of the locality as originally assumed, it has nonetheless been profound:

- Firstly, there has been a general slowing down of growth rates within the locality
- The focus of growth (at least in monetary terms) has shifted from Ezakheni to Ladysmith
- The level of labour intensity within the locality has been reduced due to the increasing dependence on technology

## **CONCLUSION**

As highlighted in the research report, the locality of Ladysmith and Ezakheni has in the past benefited significantly from the government's industrial location policies. The cotton mill that was established by the Consolidated Cotton Corp. in 1948 was subsequently able to benefit from statutory wages and tax relief when Ladysmith was classified a 'border area'. This 'border area' policy had stemmed from the recommendations of the 1955 Tomlinson Commission.

In time, the locality was able to secure even more significant dividends from the decentralisation policies of the Apartheid State. Two instances that stand out in this regard are the establishment of the Danskraal estate (which was achieved under the Physical Planning and Utilisation Act - 1967), and the growth of Ezakheni (which occurred under the Good Hope Plan - 1981).

However, it was under the Good Hope Plan in the 1980s that the locality experienced remarkable growth. During this period, the locality's growth rate was among the highest in the province. Ladysmith and Ezakheni's growth in the eighties occurred under very unique circumstances, some of which are listed below:

- The incentive package which was offered under the RIDP was very generous and could be used to good effect for the purpose of attracting investment
- The industrial location policies of the state had the broader impact of restricting the range of localities available for industrial production within the country
- South Africa's relations with Taiwan became very intimate during that decade, resulting in a suitable political atmosphere that helped to encourage Taiwanese investment in the locality
- Anti-apartheid sanctions had driven the country towards a highly introverted production and consumption system which was significantly insulated from global dynamics and competitors

The changes regarding decentralisation policies came at a time when South Africa was re-establishing ties with the world. The economic consequence of those diplomatic developments has been the reintegration of a previously isolated domestic economy into the global economy. It is essential to note that the global economy had been going through a process of far reaching modifications while South Africa was in isolation.

The process of globalisation had been constantly increasing the scope and scale of interdependence within the world economy. In the process, there has been a fundamental compression of space and time. This development has resulted in the bridging of gulfs created by space and time constraints. This aspect of globalisation, together with the parallel movement towards flexibility in production and consumption patterns, has also had the effect of changing the role of the locality within the global economy in a fundamental manner.

In the past, localities merely served as the basis of mass production, accumulation and consumption. Production processes also tended to be fully integrated within the geographical confines of the locality. However, under globalisation, the scale and scope of relations (both social and economic) between distant localities has deepened dramatically. Furthermore, since production can now be fragmented across space and time, production within localities needs not be more integrated. If the role of the locality has changed under globalisation, then one would expect the manner in which localities attract investment to change as well. This process can involve a reconstitution of local resources in a manner that will permit the flexibility that is now required by the global economy. Moreover, interviews with industrialists, labour and city officials indicated that not enough attention is being paid to these dynamics.

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Recently, the locality has begun to recruit investment from China (i.e. the People's Republic) as a substitute for the Taiwanese. The current Tax Holiday Scheme of the DTI (which may be phased out in the near future) has been instrumental in this process. Gaining access into these firms proved to be difficult. The inability to understand English was the common reason that was provided for refusing to participate in the research process. As such commentary regarding the "Chinese invasion", as the local Taiwanese industrialists refer to it, has been very restricted. However, two Chinese manufacturers did co-operate with the research team (one in 1997 and another in 1998). Disturbing features that were noted about the production system in these firms were their:

- Use of outdated machinery,
- Generally low levels of value adding, and
- Poor industrial relation.

Although the research team was able to access only two firms, SACTWU officials were able to confirm that the above mentioned factors were a common characteristic of most of the new Chinese investment.

Firms that operate from Ladysmith and Ezakheni were adversely affected by the overseas competition. This was indicated during interviews with industrialists and labour. Furthermore, due to the high levels of dependence upon the RIDP to sustain growth within the locality, there was understandable anxiety when it became clear that such schemes could no longer be afforded by the government due to both monetary and ideological considerations. It was generally feared that the withdrawal of subsidies would place the locality onto an inevitable path towards decline.

However, it is now apparent that the impact of those dynamics has not been as harmful to the local economy to the extent that was originally feared. RIDP-related research in Ezakheni revealed that the level of firm stability within the estate was actually quite high (given the relatively adverse conditions that existed). Of the Ezakheni based firms that existed in 1991, 75% were still in operation in 1995 (Reid, 1996, pp. 3). Furthermore, city officials indicated that about 65% of the firms that existed in 1996 were still in operation towards the end of 1998.

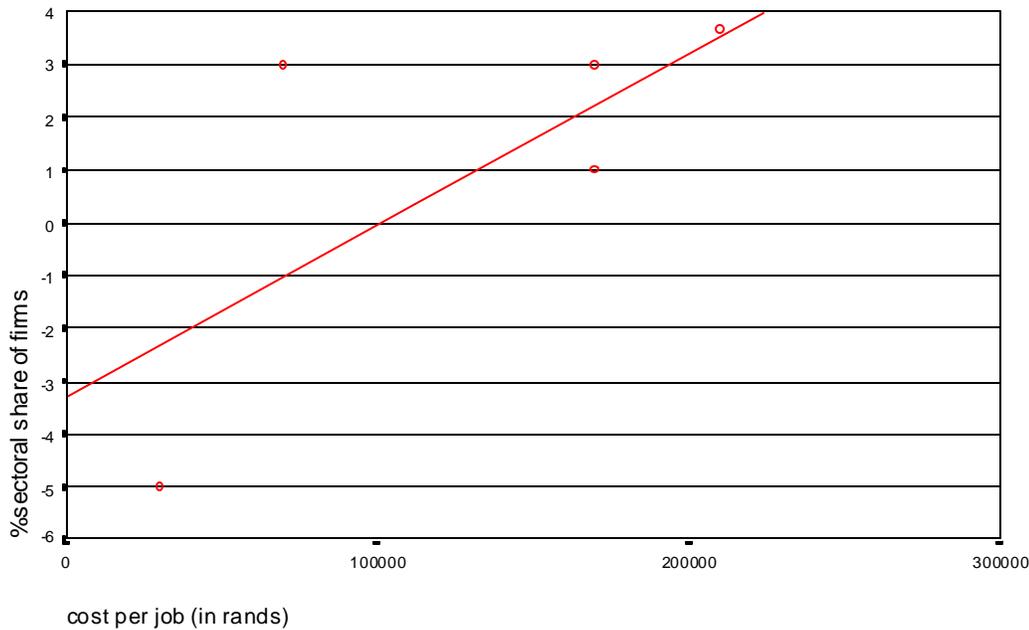
There has been a general trend towards improving capital stock within the locality while reducing dependence upon labour. Therefore, there could be a link between the relative stability within the textile sector in the locality and that sector's shift towards being capital intensive.

In order to establish whether the above hypothesis is valid, the levels of capital intensity within a sector were cross tabulated against changes in the number of firms representing that sector in the locality. The resulting pattern from that cross tabulation indicated that it was the more capital intensive sectors that seemed to show stability or growth. Labour intensive sectors, on the other hand, tended to be ones that were losing representation within the locality.

Figure 2: The relationship between the level of capital intensity within sectors and the change in the number of firms per sector in Ezakheni (1991-1995)

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Source for variables: Reid, 1996, pp. 4 & pp. 9.

Therefore, this assessment of how the locality has responded to the changing nature of industry support policies and the increasing levels of competition suggests the following:

1. The locality is not collapsing at a rate that was feared by many;
2. The most significant impact of change among the remaining firms has been to increase levels of capital intensity;
3. New Taiwanese investment has virtually dried-up, but that has not been a mass exodus of Taiwanese from the locality either;
4. The local authority seems to have redirected its industrial recruitment activities towards China. However Chinese investment has not been sufficient to check the gradual but noticeable slowdown of industrial activity in the locality; and
5. Apart from increasing levels of capital intensity, local manufacturers have not been able to adequately adapt their manufacturing processes to deal with the competitiveness changes confronting them.

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