INTERNATIONAL COMPETITIVENESS AND VALUE CHAINS IN SELECTED MANUFACTURING SECTORS STUDY

RESEARCH REPORT
AN ASSESSMENT OF HOW THE LADYSMITH/EZAKHENI LOCALITY RESPONDED TO CHANGES IN THE DOMESTIC MARKET AND THE WITHDRAWAL OF THE RIDP

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FOREWORD

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa’s manufacturing competitiveness, the automotive industry, the clothing and textiles sectoral, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness. Enquiries regarding IRP material should be addressed to: The Librarian, Centre for Social and Development Studies, University of Natal, Durban, 4041. Tel: 031 2601031; Fax: 031 2602359; email: smithm@mtb.und.ac.za.

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INTRODUCTION

The purpose of the study

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 policy making 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 increasing levels of global connectivity within industry. The impression of the IRP is that the impact of these two dynamics has resulted in a gradual decline of the area as a manufacturing locality and a shift towards higher levels of capital intensity.

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 1981 Good Plan (the RIDP)

The Good Hope Plan, which 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 areas,
- Housing for key personnel (i.e. white workers),
- A 75% allowance for training, and
- Preferential tender arrangements.


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,
- A rebate of up to 80% on interest paid on land and buildings for up to 10 years,
- 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 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)
The impact of increased competition

As a result of the domestic economy’s recent shift towards trade liberalisation, 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 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 is to 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.
1. 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 over a long period of time because of the slow nature of industrial re-orientation processes.

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 happened between December 1996 to January 1997. The last set of interviews was 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 coincided with 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 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:

The KFC (now the KwaZulu Marketing Initiative-KMI), was the primary source of secondary information. This information primarily related to investment and production trends in the locality.
2. 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 shall be concerned with providing the historical background to the locality. The second sub-section shall address the impact of decentralisation policies in the locality.

AN OVERVIEW OF THE LADYSMITH/EZAKHENI LOCALITY

Ladysmith and Ezakheni fall within the Klipriver and Emnambithi magisterial districts of north-western 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.

A brief historical overview

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 the 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.

The 1981 RIDP in Ladysmith/Ezakheni

Since Ladysmith was one of the localities that were 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 4 050 in employment (Harrison, 1990, pp. 118). By contrast, Ezakheni had 156 projects approved over the same period, representing projected capital investments of R452 million (ibid.).

Table 1: The growth of Ezakheni (under the 1981 RIDP), Source: KFC, 1995.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of firms</th>
<th>Annual employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>2</td>
<td>1 566</td>
</tr>
<tr>
<td>1984</td>
<td>4</td>
<td>1 927</td>
</tr>
<tr>
<td>1985</td>
<td>22</td>
<td>4 963</td>
</tr>
<tr>
<td>1986</td>
<td>32</td>
<td>7 611</td>
</tr>
<tr>
<td>1987</td>
<td>44</td>
<td>8 464</td>
</tr>
<tr>
<td>1988</td>
<td>57</td>
<td>9 469</td>
</tr>
<tr>
<td>1989</td>
<td>70</td>
<td>10 475</td>
</tr>
<tr>
<td>1990</td>
<td>75</td>
<td>11 930</td>
</tr>
<tr>
<td>1991</td>
<td>76</td>
<td>13 758</td>
</tr>
<tr>
<td>1992</td>
<td>74</td>
<td>10 109</td>
</tr>
<tr>
<td>1993</td>
<td>62</td>
<td>10 844</td>
</tr>
<tr>
<td>1994</td>
<td>62</td>
<td>10 790</td>
</tr>
</tbody>
</table>
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 (ibid.). 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). This sort of indirect but positive spin-off for Ladysmith can be observed further in Table 2, which shows that the percentage contribution of service sectors to the GGP of Klipriver increased by a margin of 6% between 1981 and 1994 (NB: Ezakheni was then not part of the Klipriver magisterial district). During the same 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 sectors were increasing their percentage contribution to the Ladysmith GGP at a faster rate than manufacturing.
Table 2: The changing contribution of service sectors to the GGP of Klipriver (i.e. excluding Ezakheni)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1981 % Contribution</th>
<th>1994 % Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>2.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Commerce &amp; catering</td>
<td>8.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>26.4</td>
<td>21.3</td>
</tr>
<tr>
<td>Finance &amp; real estate</td>
<td>9.3</td>
<td>12.9</td>
</tr>
<tr>
<td>Community services</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Government</td>
<td>12.7</td>
<td>11.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>60.6</td>
<td>66.6</td>
</tr>
</tbody>
</table>


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).
Table 3: Patterns of RIDP/SRIDP claims in Ladysmith/Ezakheni (1991-1995)

<table>
<thead>
<tr>
<th></th>
<th>LADYSMITH</th>
<th>EZAKHENI</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW FIRMS</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>FIRM EXTENSIONS</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>DOMESTIC CLAIMS</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>FOREIGN CLAIMS</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>EMPLOYMENT LEVELS</td>
<td>391</td>
<td>1 763</td>
</tr>
<tr>
<td>INVESTMENT LEVELS</td>
<td>R194 691 854</td>
<td>R167 839 387</td>
</tr>
</tbody>
</table>


The last RIDP patterns that were published by the KFC (i.e. 1995) show that Ladysmith in the end received higher 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.

Ezakheni seems to be a more labour intensive locality than 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 is a group of 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.
Table 4: RIDP/SRIDP claims and approvals in Ladysmith by sector (1991-1995)

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RIDP</th>
<th>SRIDP</th>
<th>NEW</th>
<th>EXTENSIONS</th>
<th>JOBS</th>
<th>INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEXTILES</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>251</td>
<td>R146 706 031</td>
</tr>
<tr>
<td>CLOTHES</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>19</td>
<td>R1 297 332</td>
</tr>
<tr>
<td>METALS</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>17</td>
<td>R2 556 512</td>
</tr>
<tr>
<td>FOODS</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>33</td>
<td>R2 148 446</td>
</tr>
<tr>
<td>RUBBER</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>64</td>
<td>R41 064 333</td>
</tr>
<tr>
<td>FURNITURE</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>R337 000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>390</td>
<td>R194 109 654</td>
</tr>
</tbody>
</table>


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.

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 is 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 decline. This goes to show 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, 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 attractive attributes. Furthermore, SACTWU indicated that unemployment levels remain high.

Table 5: 1995 RIDP claim approvals in Ezakheni by sector

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>CLAIMS</th>
<th>NEW</th>
<th>EXTENSIONS</th>
<th>JOBS</th>
<th>INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEXTILES</td>
<td>8</td>
<td>1</td>
<td>7</td>
<td>373</td>
<td>R63 240 626</td>
</tr>
<tr>
<td>SHOES</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>74</td>
<td>R4 975 557</td>
</tr>
<tr>
<td>KNITTING</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>350</td>
<td>R10 944 376</td>
</tr>
<tr>
<td>CLOTHES</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>508</td>
<td>R19 490 439</td>
</tr>
<tr>
<td>PLASTICS</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>156</td>
<td>R33 772 875</td>
</tr>
<tr>
<td>LEATHER</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>85</td>
<td>R14 606 206</td>
</tr>
<tr>
<td>METALS</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>68</td>
<td>R938 893</td>
</tr>
<tr>
<td>WOODS</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>R3 535 429</td>
</tr>
<tr>
<td>PAPER</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>69</td>
<td>R13 922 594</td>
</tr>
<tr>
<td>APPLIANCES</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>78</td>
<td>R2 402 412</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32</td>
<td>9</td>
<td>23</td>
<td>1763</td>
<td>R167 835 387</td>
</tr>
</tbody>
</table>
3. The current economic profile of the locality

As it 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 district. Furthermore, the previous section indicated that 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 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 finding indicate that firms in the locality were have been disturbingly complacent with regard to implementation of the necessary changes that would allow them to increase competitiveness in the global economy.

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.
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 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 reorganise 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.

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 labour disputes and government lobbying.

Table 6: The number of firms that engaged in exchanges of information with other firms in the locality, 1998 (n – 11)

<table>
<thead>
<tr>
<th>Never</th>
<th>Occasionally</th>
<th>Often</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

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’.
Building Quality into the production process:
All sampled firms indicated that they do implement final inspections on products. Forms of quality awareness were also implement by all respondents among workers. However, none of the respondents had managed to introduce ‘total quality control’ into the production process. In the same vein, none of the respondents claimed to have managed to implement ‘just-in-time’ production process within their firms.

Relations with suppliers:
Firms in the locality were found to have less-than-intimate relations with suppliers; 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 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 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 developed and entrenched within the locality.
CONCLUSION

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 it was 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

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 in matters of 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 being 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 which 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 need not be fully 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. Interviews with industrialists, labour and city officials indicated that not enough attention is being paid to these dynamics.

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 industrialist 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:

- The use of outdated machinery,
- Generally low level of high value adding processes, and
- Poor industrial relation within firms.

Although the research team was able to access only two firms, SACTWU officials were able to confirm that the above mention scenario is 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 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 show stability or growth. Labour intensive sectors, on the other hand, tended to be ones that were losing firm representation within the locality.

Figure 1: The relationship between the level of capital intensity within sectors and the change in the number of firms per sector in Ezakheni (1991-1995)


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

1. The locality is nor 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 led to a mass exodus of Taiwanese from the locality; and
4. The local authority seems to have redirected its industrial recruitment activities towards China, however Chinese investment has not been enough 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 current change.
BIBLIOGRAPHY


1 The separation of the Klipriver and Emnambithi districts has been terminated due to the introduction a new political regime relating to local government in South Africa.