6 Intra-cluster linkages and embeddedness in La Laguna

The previous chapter examined the structure and characteristics of the Laguna garment cluster and found, amongst other things, an exceptionally strong orientation towards producing jeans for export to the US. It also showed a generally large scale of operation and the presence of very large garment companies in the cluster. These unique features of the Laguna cluster and its explosive growth during the late 1990s prompt questions regarding the significance of intra-cluster linkages, localisation economies and local embeddedness for the competitiveness of individual firms and the cluster. These questions are the subject of this chapter.

The aim of this chapter is two-pronged. First, the prevalence and role of intra-cluster linkages in supporting the position of local companies is discussed. Second, the nature of the economic and sociocultural environment will be examined in order to shed light on their potential contribution to the competitive position of local garment companies. In other words, are the cluster, its firms and linkages embedded in an environment conducive to the construction of trust-based social capital, which – along the lines proposed by Fukuyama (1995) and Schmitz (1999) – may stimulate local development?

This chapter begins by examining intra-cluster relationships between different types of companies, and between companies, public and private meso-level organisations and labour. The final section explores the embeddedness of the cluster. The economic and sociocultural environment in which La Laguna’s cluster is embedded will be examined, as will the way it may impact intra-cluster linkages and ties, the competitive position of the cluster and its individual firms.

6.1 Supply linkages: subcontracting

Many studies of industrial districts and clusters, including those of garment clusters, note the presence and benefits of dense, localised supply linkages in regional agglomerations of industrial activity (cf. Visser, 1996; Cawthorne, 1995). In this section, linkages with suppliers of material inputs (mainly fabric and trim items) and intra-chain supply linkages with other producers or manufacturers (in a subcontractor’s role) will be discussed separately. Intra-chain supply linkages with subcontractors will be discussed first.

Subcontracting is common practice in the Laguna region: 40% of the garment manufacturers in the region indicate the use of subcontractors. Insufficient production capacity to deal with large orders in the high seasons is the main reason to contract out work: 60% of local manufacturers that put out work to subcontractors indicated this as the reason for doing so (see Figure 6.1). Other and less important reasons cited were: increase of production flexibility (20%), tapping into specialised skills of the subcontractor (14%) and lowering of production cost (3%). In other words, subcontracting in La Laguna is overwhelmingly of the complementary industrial type; speciality and cost-saving subcontracting are of limited importance.
Subcontracting arrangements in La Laguna are also highly localised. Based on the ease of control and logistics that comes with short distances between contractor and subcontractor, subcontracting is primarily a local affair.

With the exception of a few specialised embroiderers, subcontractors in La Laguna are responsible for at least one entire stage or node of the value chain, such as assembly, laundry or transportation. By far most common is the subcontracting of pure assembly work (65% of the cases). The assembly process sub-phases or sub-activities – such as the insertion of buttonholes and the attachment of waistbands and belt loops – are not spread over various subcontractors, but are automated by the contractor or performed in-house by one single subcontractor.

While insufficient in-house production capacity is the main motivation for the contracting out of work, the very largest companies with the largest production capacities are the most extensively involved in subcontracting: 75% of these companies use subcontractors. Fewer large, medium and small companies contract out work, and subcontracting becomes increasingly less common the smaller the size of the company. Table 6.1 illustrates some basic patterns in subcontracting in La Laguna.

For smaller companies that use subcontractors, a large share of their total production is produced through subcontracting linkages. In general, as in-house capacity increases, the relative importance of subcontracting decreases. Again, however, the very large companies deviate from the pattern. They contract out a large share (almost a quarter) of their total production. They also maintain links with a large number of subcontractors.

Table 6.1: Features of subcontracting relations, La Laguna

<table>
<thead>
<tr>
<th>Company size</th>
<th>% companies that use subcontractors</th>
<th>Mean % of total production capacity subcontracted</th>
<th>Average no. of subcontractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Small</td>
<td>17</td>
<td>55</td>
<td>3</td>
</tr>
<tr>
<td>Medium</td>
<td>27</td>
<td>21</td>
<td>5</td>
</tr>
<tr>
<td>Large</td>
<td>29</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Very large</td>
<td>75</td>
<td>24</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Baseline survey, 1998-1999

Subcontracting motivations, La Laguna

- insufficient in-house capacity
- flexibility
- specialist skills of subcontractor
- lowering of cost
- other

Figure 6.1: Subcontracting motivations, La Laguna
Emerging pattern

Most subcontractors in La Laguna are SMEs. Overall, subcontracting in La Laguna occurs predominantly between very large contracting companies and small- or medium-sized subcontractors. This pattern is typical of Markusen’s (1996) ‘hub-and-spoke’ cluster model as discussed in Chapter 2. Many very large companies have integrated vertically and have cutting and laundry facilities that are highly modern, automated and large: capacity in these activities generally exceeds their in-house assembly capacity. Thus when Christmas and ‘back-to-school’ orders flood these factories with work, their cutting room and laundry are used to their full capacity and subcontractors are hired to do some of the assembly work. Subcontracting is embedded in the structure of the local giants through a structural mismatch between maximum in-house assembly capacity and cutting and laundry capacities.

This mismatch concerns large volumes: even when on average ‘only’ 24% of their total production capacity is subcontracted, this may still be more than 50,000 garments on a weekly basis. In the management of their local subcontracting network, very large companies spread their risk and limit their dependence on individual subcontractors. Subcontractors seldom carry a responsibility for more than 5% of the total production capacity of their client, which means that contracting firms rely on a large number of mostly SME subcontractors. On average, fifteen subcontractors work for one very large company, but several very large companies have much larger subcontracting networks (the largest at the time of the survey had fifty-eight subcontractors).

Conversely, many subcontractors rely on only one local client. Only a small minority are able to work for various local clients at the same time. It is even rarer for subcontractors to be able to combine subcontracting with working for US buyers. This is because local contractors often monopolise the limited production capacity of their subcontractors. Only in some cases is this a matter of strategy; it usually reflects the wide gap in production capacity between local principal firms (i.e. local giants) and their subcontractors. This general pattern is also followed by large- and medium-sized contracting companies: they assign small orders to each of their individual subcontractors. However, the subcontracting strategies of large companies are different in that they only subcontract a very small part of their total production (see Table 6.1). While network linkages with buyers will be further discussed in Chapter 8, suffice it to note here that inspection of the survey data reveals that most large firms produce directly for a comparatively small US buyer, and that often their entire production capacity is dedicated to just this one buyer. Even though they are not formally captive in the relationship, they have comparatively limited room to manoeuvre. The buyers generally do not issue orders that exceed the production capacities of large companies.

Not immediately evident, but to some extent indirectly deducible from Table 6.1 and illustrated in Figures I.1 to I.3 (Appendix I), is that in general subcontracting within the cluster is confined to one single tier of subcontractors. The limited degree of specialisation in the cluster is one obvious reason for limited tiering. Also, the Laguna cluster is small enough for local contractors to be aware of the production capacity of subcontractors. They distribute production accordingly and avoid contracting out volumes that exceed the production capacity of a subcontractor at any given time. This allows more control and limits non-compliance risks with regard to delivery time and quality. The limited depth of the subcontracting networks results from the nature of the product (which leaves little room for advanced specialisation) and
from the increasing concern of US buyers and their local contractors with control over the subcontractors in their networks.

Local subcontracting patterns have been stable in recent years: fewer than 25% of the subcontracting companies indicated that they had changed their subcontracting strategies. A few companies noted a slight increase in both the number of subcontractors used and the production volumes contracted out. This is hardly surprising bearing in mind the post-NAFTA production boom. In general, however, production growth has been achieved through company expansion, rather than an explosive growth of local subcontracting.

Implications
What are the implications of the above-mentioned features of subcontracting in La Laguna? What may the consequences be of observed local interdependency patterns for the various types of local companies, their competitive position and development or growth potential?

The pattern that emerges is one of a largely dual structure of the local industry, in line with findings in the previous chapter. A relatively small group of principally large and very large manufacturers effectively controls local subcontracting networks. The large army of local subcontracting SMEs functions primarily as a permanent pool of reserve labour for the local giants and is engaged and disengaged as needed. Subcontracting is standard practice but fluctuates with ups and downs in predicted sales in the US. In the slow season, when there is less work, these companies are the ones that may be subject to a shake-out. As a consequence of fluctuations and the absence of formal contracts, subcontracting relationships are insecure and short term, though such relationships are frequently renewed.

Until the turn of the century growth was large and continuous and no massive closure of subcontractors had occurred, but the general vulnerable position of smaller companies is clear. It is also clear that the bargaining position of local subcontractors vis-à-vis the large contracting companies is relatively weak. Thus, rather than interdependent network relations between more or less equal partners, quasi-hierarchical features predominate in local subcontracting in La Laguna. La Laguna’s specialisation in relatively standardised products and the large number of fiercely competing non-specialist subcontractors in the region are reflected in a bias of power relations in favour of the larger contracting companies. No widespread pattern of exploitation through subcontracting linkages has been observed, though. Price differences between assembly contracting and subcontracting are not very large and most subcontractors seem to be doing reasonably well. A cause for concern however, is the apparent lack of investment in subcontracting relationships. As will be examined in greater detail in Chapter 8, subcontracting relations may contribute very little to the upgrading of garment SMEs in La Laguna.

Not all garment SMEs rely fully on subcontracting. A few SMEs combine subcontracting with direct contract work for US buyers or domestic market production. However as will be further discussed in the following chapter, it appears to be increasingly difficult for SMEs to work directly for a buyer outside the region or to otherwise escape the pure subcontractor’s role.

Appendix I illustrates the local subcontracting linkage patterns of the companies introduced in the previous chapter.
6.2 Material inputs

The linkages between producers and suppliers of material inputs receive much attention in the cluster literature. The presence of suppliers within the cluster is seen to contribute to the cementing of the cluster, while a tightening of supplier-producer relations at the cluster level is common in maturing clusters and in clusters facing a crisis (Visser, 1999; Knorringa, 1999; Schmitz & Nadvi, 1999). In La Laguna, supply linkages with suppliers of material inputs have been restricted by production sharing arrangements for decades, but were rapidly built up in the late 1990s.

By contrast, in most GVC-based studies on the garment industry (including those on the Mexican garment industry), no or only limited attention is paid to trim items, shifting procurement patterns or producer-material input supplier linkages.

In La Laguna, these issues have been at the forefront of local developments. To a large extent this initial local preoccupation with the shift of material input procurement patterns results from the restrictive trade regulations that used to govern the US-Mexican garment trade. These regulations meant that for several decades export garment companies in La Laguna had to rely fully on imported trim and fabric from the US. At the time, the local supply infrastructure was limited, of inferior quality and largely isolated from the exporting garment producers. The liberalisation of input procurement under NAFTA led to an improvement of this lagging supply infrastructure, and it rapidly caught up with both the capacity and the quality requirements of the export sector. Since then, the number of garment suppliers located in the region has grown rapidly, as has their diversity in terms of the types of goods, trim and/or services they supply. Virtually all necessary inputs and services can now be obtained locally, and suppliers range from thread and trim to machines and machine part suppliers. Currently, the region accommodates sales offices of a large number of global players in the garment supply business, such as Coats Timón (the local branch of the Coats Viyella thread company), American & Efird (thread), Callaway (laundry chemicals), Groz Beckert (needles) and Scovill (accessories). Besides these large global players there are numerous Mexican-owned sewing supply stores of varying size. They range from very large machinery stores (e.g. Indire and Pafer Huichita), which have licences to sell or are formal representatives of global machine producers, to small stores with an almost informal appearance. Textile production in and close to the region also received a significant boost. The company Fabrica La Estrella S.A. (also known as FLESA), which has a long history in nearby Parras de la Fuente, expanded production and improved quality to export standards. In addition, a joint venture mill between Compania Industrial Parras S.A. (the mother company of FLESA) and US-based Cone Mills opened there in 1994. One of the largest garment manufacturers in Torreón (depicted in Figure 5.4) also opened a textile mill, Lajat-Textil, which became part of the Parras textile group in 1999.

With greater local supply availability, the procurement pattern – especially with regard to trim items – became more localised. This trend is very pronounced, especially in thread, where by the end of the 1990s most ordering was done locally. Intra-cluster supplier-producers linkages in La Laguna have been rapidly built up since the cluster’s boom in the 1990s. Non-critical supplies – viz. supply goods that do not go directly or visibly into garments, such as office supplies – have always been procured locally. Likewise, producer services, including catering and security guards are also contracted within the region.

There are two exceptions to this general pattern: fabric and, to a lesser extent, machinery. In fabric (a garment’s principal and most expensive material input), the shift of responsibility
from buyer to manufacturer is progressing slowly and is still not so pronounced. Many local companies still receive fabric from their US buyers or, in the case of subcontractors, from their local client (see also Chapter 7). Many local contractors do not have a sufficient cash flow to pre-finance fabric.

Other exceptions, also because of the high cost involved, are machinery and machine parts. Because of the fiscal benefits under the maquiladora program (as well as PITEX and ALTEX), it used to be common for local export companies to buy machinery in the US. Now, however, there is no longer a clear pattern to the buying of machinery: machines are bought mostly on a case-to-case basis and decisions are based on prices, special offers, credit facilities, urgency and transportation possibilities. The main consideration in the purchasing of machinery and parts is the price and credit differential that exists between the US and Mexico. Generally, machines are somewhat cheaper in the US, but credit facilities are limited. In Mexico credit facilities are more readily available. Over all, many informants report a slight tendency towards the increased use of local machinery suppliers.

Emerging pattern

Since the late 1990s, most companies engaged in a direct exporting relationship with US buyers have started to buy their trim for the majority of their export production, some also buy the fabric. Most of the procurement of these items is concentrated within the cluster; only fabric is also commonly bought at denim mills in the US.

The procurement of material inputs is concentrated in the hands of locally owned companies that maintain a direct export linkage with US buyers. These companies place bulk orders with suppliers and then distribute apportioned amounts of trim items and fabric to their subcontractors. Therefore, subcontractors in the SME sector generally do not buy trim or fabric. Also, few FDI facilities in the region carry direct responsibility for the acquisition of inputs. Several foreign-owned companies receive fabric, sometimes already cut, and all the necessary trim from other facilities in the US. Others receive trim from suppliers in the region, according to orders issued by their US headquarters.

A caveat needs to be inserted here: the localisation of the procurement pattern should not be interpreted as a sign of limited buyer governance and true local decision-making in this area. Local decision-making in the choice of suppliers and supplies is limited. Almost all buyers specify which types of trim are to be used and from which suppliers these can be bought. In thread, for example, the local producer generally receives details from the buyer concerning the type and colour of thread to be used. Often the brand of thread is also specified, or a choice between a limited number of suppliers is given. Producers then order directly from one of the specified suppliers and payments are made directly between producer and supplier. In other cases the procurement is dealt with through the headquarters of the US clients and the headquarters of the global supplier in the US. If the procurement is handled through the headquarters, usually the financial transactions involved are also handled at the headquarters level; all the local manufacturer does is pick up the trim items earmarked for him. In still fewer cases, the producers in La Laguna buy as needed and specified by the clients, while the US customers receive the bill. Over the past years there has been a clear trend towards shifting practical responsibility for procurement of the right types, brand, colour and quantity of inputs to the contractor, including the financial negotiations and administration. Noted trends are similar for other types of trim, where developments may be a little slower but are
headed in the same direction. Only the shift of responsibility for fabric procurement is progressing more slowly than that for trim items, and is also more problematic. Over all, local input procurement by producers in La Laguna is on the rise, but is driven and specified by their clients outside the cluster.

6.3 Meso-level (support) organisations

The presence of effective support organisations may be highly important to the functioning of a cluster or a region, and especially to the improvement or upgrading of its competitive position (Helmsing, 2001; Park, 1996; Weijland, 1999). Here, the presence and functioning of the various meso-level organisations involved in industrial and regional development in La Laguna or specifically with the garment industry are discussed. The institutional context in its broad, sociocultural sense (see Chapter 2) will be examined in the last part of this chapter.

As illustrated in Table 6.2, and in line with the situation for Mexico as a whole, a considerable number of institutions and organisations are concerned with regional and industrial development issues, especially because many of the public, federal government institutions are present on both state-sides of the region. For example, both Torreón and Gómez Palacio accommodate offices of the secretariat for commercial and economic development (Secretaría de Comercio y Fomento Económico [SECOFI]) and the industrialists’ chamber CANACINTRA. Government institutions predominate but there are also two public-private institutions that are relevant in this context.

The public-private organisation most directly concerned with local garment companies is the national chamber for the garment industry, la Camera Nacional de la Industria del Vestido (CNIV or CANAIVE). This organisation of employers in the garment business has branches in various cities in Mexico. One of these branches was established on the outskirts of the industrial park in Gómez Palacio in 1994 and serves the garment industry in the entire Laguna region. CNIV is run by a board composed of elected local entrepreneurs. Membership of the chamber is voluntary and requires a yearly contribution based on the number of employees. Approximately 60% of all garment companies in the region are a member of the chamber. Mexican-owned companies that work directly for US buyers are especially well represented.

In general, the presence of a CNIV in itself is important: it serves as a first point of contact for foreign buyers and underscores La Laguna’s export cluster status. The main function of the chamber is to promote the local garment cluster both within and outside Mexico. Most notable in this respect is the ‘Expo Laguna 807/Private Label’-fair that the chamber organises every October. At this three-day trade fair, every company in the region has the opportunity to present itself and its work to buyers and potential clients. The Expo was most effective in the early days of the cluster, when few US buyers had knowledge of the region, its companies and their capabilities. During the 1990s buyers became more and more familiar with the companies in La Laguna, and the companies in the region found out to whom to turn in search of work. By the end of the 1990s, the Expo had largely outlived much of its original purpose.

Besides promotional activities, CNIV provides training and courses for personnel and organises specialist lectures or social events for its members. It also publishes a small monthly newsletter (Entero Puntadas), which contains announcements and the bolsa de trabajo, which announces business opportunities. Finally, the chamber maintains contact with SECOFI, Bancomext and other pertinent government institutions, in order to communicate relevant
policy changes to its members. CNIV also actively lobbies on behalf of local manufacturers vis-à-vis government institutions and policymakers. While generally the interest and the participation in CNIVs activities are limited, in this latter role, as a forum through which local garment exporters express their common interests with regard to industrial policy or regional development policy, it appears most effective. Overall, the chamber is highly focused on defending the interests of its members. The relatively high membership reflects general support of many local companies for this role of the CNIV. On the other hand, the lobbyist nature and overall defensive attitude of the chamber has not always promoted good relations between CNIV and other local government organisations. For some companies this is reason not to join the chamber. As one manager of a very large foreign-owned company in the region explained:

---

Table 6.2: Organisations involved in industrial/regional economic development, La Laguna

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Location</th>
<th>Main function(s)</th>
<th>Relationship with garment companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNIV</td>
<td>- Gómez Palacio</td>
<td>Representing and defending the interests of local garment entrepreneurs.</td>
<td>Often one-sided, though comparatively frequent, involving a large share of local garment companies.</td>
</tr>
<tr>
<td>CANACINTRA</td>
<td>- Torreón, - Gómez Palacio</td>
<td>Representation of and meeting grounds for the entire local industrial sector.</td>
<td>Minimal; most garment companies are a member of CNIV.</td>
</tr>
<tr>
<td>SECOFI/SE</td>
<td>- Torreón, - Gómez Palacio</td>
<td>Registration of companies in the region and of their activities. Communication and implementation of legislation formulated by federal government.</td>
<td>Minimal; generally unilaterally initiated by SECOFI.</td>
</tr>
<tr>
<td>IMSS</td>
<td>- Torreón, - Gómez Palacio</td>
<td>Collection of employers' share of contribution to social security per worker; IMSS collects and publishes employment data.</td>
<td>Antagonistic but frequent. Payments to IMSS are compulsory for all companies; changes in workforce need to be communicated to IMSS.</td>
</tr>
<tr>
<td>Bancomext</td>
<td>- Gómez Palacio</td>
<td>Facilitation of credits to export companies (at commercial rates), promotion of the region and its firms and general support for export sector.</td>
<td>Provision of credit limited to already successful, large and very large companies. Relations between Bancomext and the garment industry are largely limited to this group.</td>
</tr>
<tr>
<td>Local economic development secretariats</td>
<td>- Torreón, - Gómez Palacio, - Cd. Lerdo</td>
<td>Monitoring, promoting and supporting local economic development and industrial investment.</td>
<td>Minimal; main focus is on monitoring and public relations.</td>
</tr>
<tr>
<td>FOMEC</td>
<td>- Torreón</td>
<td>Promotion of La Laguna-Coahuila.</td>
<td>Minimal; mostly limited to foreign investors in La Laguna-Coahuila.</td>
</tr>
</tbody>
</table>

Source: Interviews, 1998-2000
'We are not a member. We choose not to be because we don’t believe we will benefit from it. All they [at CNIV – its members] do is nag and complain. There is no positive, proactive attitude there... instead of developing strategies and looking for opportunities, they just feel threatened all the time.'

The dissatisfaction expressed by the manager quoted above indicates the limited effectiveness of CNIV as a platform for inter-firm cooperation, or for stimulating strategic thinking and action. One of the clearest examples of this is the anti-poaching agreement initiated by CNIV and ratified by a large number of its members in 1997. Basically, the agreement formalised the intention expressed by companies in the region to no longer engage in labour poaching. Despite general consensus on the detrimental effects of poaching and the bidding up of wages, the agreement was not respected; in fact, it was broken just a few weeks after it was signed. This failure points to one of the main weaknesses of CNIV: it has no power to enforce measures or codes of conduct at the cluster level. Another problem is that not all companies are members of the chamber and non-member companies are not bound by any CNIV agreements. At the same time, the chamber can only be as strong and proactive as its members want it to be. The ineffectiveness of the chamber with regard to stimulating cooperation within the cluster also reflects the non-cooperative spirit of its members – an issue to be further discussed later in this chapter. Despite the fact that CNIV does not serve as a proactive, strategic think-tank, a large share of the local garment companies are a member of the chamber. Only FDI facilities appear to be under represented.

CANACINTRA has a similar position and function, although it has a broader base that encompasses the entire industrial sector. Except for a few foreign or very large companies, few garment companies are a member of CANACINTRA. Most garment companies do not see any additional advantages in membership of this larger industrial chamber.

FOMEC, which was briefly introduced in Chapter 4, is a uniquely local, public-private partnership aimed at the development of the Coahuila side of the Laguna region. It focuses specifically on the promotion of La Laguna-Coahuila as a place for foreign investment. It has aided the establishment of several of the foreign-owned companies in the region, by finding a suitable location and getting through the administrative red tape. Many local garment companies regard FOMEC as somewhat of a mixed blessing, since local manufacturers would prefer it to effectively support existing companies rather than attract new companies. Only garment companies that came to La Laguna with help from FOMEC maintain relations to it; most local garment companies do not.

SECOFI (now Secretaría de Economía (SE)) has local branches in many cities throughout Mexico, including Torreón and Gómez Palacio. These local branches are in charge of the official registration of all commercial and industrial activity undertaken on their side of the region and serve to implement policies designed at the national level. Registration with SECOFI is obligatory for all companies in the region. The relations between garment companies and SECOFI seem to be largely limited to the required official legal registration and other paperwork. Any additional government information that is of interest to specific groups of companies or specific industrial sectors is often communicated through the branch institutions. In the case of the garment industry, specific policies, programs and opportunities are communicated through CNIV. SECOFI places great emphasis on registration, monitoring and the communication of regulations, though it also plays a role in support programs such as
the much publicised COMPITE program, which is aimed at increasing the competitiveness of Mexican industrial SMEs (see also Chapter 8).

The other public institution that is important to exporting garment companies in La Laguna is the nation-wide credit institution Bancomext, which was briefly introduced in Chapter 3. Within the liberalised Mexican economy it now operates under commercial conditions. Its main aim continues to be to support and stimulate industrial export activity. It does so through promotional activities, specific publications on export opportunities and courses aimed at improving marketing strategies. According to the director, the interest of garment companies in these activities is minimal, in spite of the fact that Bancomext widely publicises the possibilities offered. In line with the adaptation of the role of Bancomext to liberalisation of the Mexican economy mentioned in Chapter 3, the position of Bancomext in relation to the Laguna garment cluster has changed. The bank supports local export companies through the granting of credits for investments less than it did in the past. Most specifically, during the late 1990s the local Bancomext branch had to write off a considerable fraction of its loans to the local garment industry as *carta vencida* (unrecoverable). In order to avoid problems in the future, in La Laguna over the course of the 1990s Bancomext increasingly confined its credits to the larger, already successful and thus creditworthy companies, in most cases the local giants.

Clearly, local bureaucracy is extensive: there are many organisations in La Laguna that local garment companies have to deal with or can recur to. While they appear to have had a more active role in industrial policy-making and support in the pre-liberalisation years, nowadays few of these organisations directly support local garment companies. No organisations resembling the ‘policy and planning’ institutions found elsewhere (see Helmsing, 2001) are present in the region. Policy-making and planning are carried out by the state governments of Durango and Coahuila (see also Box 4.1). Only in the case of FOMEC is there a linkage between the state, a local organisation and local entrepreneurs. On the whole, there does not appear to be a clear, direct connection between state government planning and local organisations. The limited strategic vision and lack of communication of a clear policy direction to the region’s inhabitants and entrepreneurs – as well as the lack of involvement of entrepreneurs – appears to have harmed the relations between them and the local organisations.

On the whole, linkages between garment entrepreneurs and local organisations are both minimal and frictional (see Table 6.2). In fact, many local entrepreneurs have a low opinion of government institutions; some even see a direct threat in their policies. The most frequently heard complaint concerns ‘excessive’ taxes and payments made to IMSS. However, the adverse attitude extends beyond IMSS to include all government organisations. The owner of one of the garment giants was especially clear on his view of the government:

‘El gobierno no está para ayudar a las empresas’: they [the government] don’t support us. They never have – not in good times, not in bad times. Do you know how much we have to pay to the IMSS? It’s outrageous. And it wouldn’t be so bad if it was worth it. But have you been to an IMSS clinic? Go! So you can see the lines, the lack of good doctors and medicines […] And what if things go wrong? We will have to pay our workers immense compensations. In fact, the workers are more protected then we are. I tell you: el gobierno está contra nosotros [the government is against us].’
Most local entrepreneurs are not so outspoken as that, but there is a general negative opinion of 'the government' that is projected onto local organisations. This worsened when around the turn of the century the peso increased in value against the dollar. Most local garment entrepreneurs felt the peso was maintained at an overvalue for political reasons despite the fact that this posed a direct threat to the position of the Mexican export sector.

The position of local government organisations is a reflection of the liberalisation of the Mexican economy carried out in the 1990s (see Chapter 3), and the frustration of local entrepreneurs needs to be placed in this general context. Most organisations in the cluster are not or are no longer directly involved in policy-making or support for local businesses, and have seen their task reduced to administration and/or attracting and facilitating investment in the region. This has resulted in many officials of several organisations focusing on the same or similar activities. New investors are brought into the region and new employment opportunities are created to benefit the development of the region, but this does not benefit the local entrepreneurs, nor does it support local industrial development or upgrading.

6.4 The position of labour

In many studies of industrial regions and districts, the important and positive role of skilled labour is stressed. In fact, skilled labour in such districts is seen to be appreciated and rewarded accordingly. In contrast, in industrial clusters in LMIC environments, while the presence and important role of skilled labour has been noted, rewards do not always reflect its importance (Tewari, 1999; Cawthorne, 1995). Experienced or skilled personnel occupy centre stage of the development of the Laguna cluster, but – in extension of the pattern discussed in Chapter 3 with regard to the US – are generally regarded as a troublesome production factor.

Over the course of the years, job creation and training have resulted in a large army of skilled sewing-operators in the Laguna cluster. Whereas in the early years companies were able to restrict hiring policies to operators with sewing skills acquired at home or in other factories, in later years in-house training became a must. Most sewing operators need specific skills for the operation they perform. Currently, with the exception of the ‘bundle boys’, who take care of the physical flow of carts with bundles of trousers from one worker to the next, all beginning operators need and receive on-the-job training. Generally, operators start producing soon after they have been hired, but it may take anywhere from three to eight weeks of training, depending on the operation, before a new operator achieves full efficiency. Operators receive a basic wage of around 200 pesos per week during the training period, which is complemented through piece rates as soon as a satisfactory efficiency level is achieved. Training represents an expense to companies and they try to limit it as much as possible. A garment worker performs one specific operation and, to avoid bottlenecks in the production flow due to the absence of individual workers, some workers are trained to perform a task normally performed by a colleague. This cross-training is commonly done for key operations in the sewing lines.

What are the prospects for garment workers in La Laguna? As mentioned in the previous chapter, on average sewing wages in the region are around 410 pesos, with significant differentiation based on the type of operation and between companies. For individual operators, however, the wage depends exclusively on their own efficiency. As soon as an operator reaches full efficiency, she or he also earns the maximum wage attainable for that operation in that particular company.
Legal increases in the minimum wage are set by the central government, but hardly affect garment workers in La Laguna who are already earning above minimum wage. There is no effective system of collective wage bargaining. Garment workers in La Laguna lack meaningful, formal representation of their rights through unions. Mirroring the situation at the national level (Carrillo, 1994; Williams & Passé Smith, 1992), companies in the region maintain collective contracts with pro-industry and pro-government unions. In the Laguna region, most companies have a contract with the Confederación de Trabajadores Mexicanos (CTM). The collective protection contracts between garment companies and the CTM prevent genuine unions from coming in. Operators’ attempts to organise themselves and form a company or local union have so far been frustrated. The current arrangement allows the region to present itself as having a friendly investment climate, free of labour union trouble and effectively bars collective bargaining by operators. All in all, intra-firm upward mobility of garment workers in La Laguna is limited to the small number of operators who become supervisors and a few workers who can shift to better paying operations for which they have been cross-trained.

Despite the fact that specialisation on assembly activities has lowered barriers to entry with regard to expertise (see Chapter 5) upward mobility opportunities through the establishment of own businesses appear equally limited. The large scale of operation in the local garment industry limits opportunities for garment employees to start their own garment business, as they would need a minimum of twenty to thirty sewing machines. Many new garment businesses were established during the late 1990s, but few are owned by former garment workers. Instead, owners of new businesses in the region are related to garment entrepreneurs, or their families have been in businesses other than garments for a long time. In other words, they already belonged to the middle or entrepreneurial class. Employees typically do not have the capital, access to credit facilities or the contacts required to start a garment business in La Laguna.

The absence of collective bargaining power, limited upward mobility and highly monotonous job routines, frustrate individual operators who want to improve their situation and/or maximise their earning capacity. In this situation, factory workers themselves must capitalise on their skills, for which there is a large demand in the cluster. For skilled operators in La Laguna, it is not hard to find a job. Rather than waiting for minimal raises within their company, they may take advantage of the current market forces to change employers in order to obtain a higher wage or improved fringe benefits. Approximately 25% of the local garment workers regularly switch jobs. This causes unrest in the industry. Most companies in La Laguna report that their turnover is caused by a small share of their operators that constantly rotates, while the remaining share remains comparatively stable. Nevertheless, the average weekly turnover rate for the industry is 14%, and gives cause for great concern.

Frustration and limited job satisfaction are also reflected in the generally high rates of absenteeism in the region. It is quite common for operators not to go to work for a day or even a couple of days. Throughout the cluster, Monday is an especially notorious day for empty seats in the factory sewing lines. The average weekly absenteeism rate in La Laguna is 9% and appears to be caused by a constant weighing of work and its rewards against other responsibilities or opportunities.
By the end of the 1990s, the tight urban labour market, which is seen as the cause of high absenteeism and turnover rates, was the main preoccupation amongst manufacturers in the region. Even some of the buyers outside the region mention it as one of their main doubts regarding the future development of the region. Indeed, the relationship between the garment companies in La Laguna and the regional labour force has been a much debated issue for the past couple of years and especially so in the cities. The labour market dynamic as sketched above has harmed company-labour relations in the region. When discussing absenteeism and turnover rate problems, manufacturers frequently refer to a general falta de cultura or falta de disciplina (lack of moral values/ethics or a lack of discipline) amongst operators as the cause of the troubles. The general attitude can be characterised as slightly condescending, departing from the premise ‘these employees do not appreciate how well off they are’. This attitude is reflected in the strategies of individual companies aimed at retaining their personnel and disciplining it. More than 50% of the garment companies in La Laguna indicate that over the past years they have started to pay higher wages and to offer better benefits in an effort to gain employees’ loyalty. Several managers indicated that in their view local wages no longer reflect the value of workers to the company, but are based purely on intra-cluster competition for labour. They shift the emphasis to inventive but largely insignificant fringe benefits – such as televisions and stereos being raffled among loyal employees – and bonuses for punctual operators. On the other hand, many companies still accept skilled operators trained by other companies in the region, thereby stimulating the inter-company mobility of operators. Urban manufacturers constantly stress the need to formulate more effective reactions in order to curb turnover rates; some of their strategies will be discussed in Chapter 8.

### 6.5 Embeddedness and its impact on local business

Spatial but also social and cultural proximity within the cluster has resulted in a strong identification of most companies with La Laguna, especially with its status as the ‘New Jeans Capital’. Above, various types of actors, including firms, organisations and labour, have been introduced. The presence and nature of network relations between them have also been examined. This last section sheds light on the broad institutional environment or regional identity of the Laguna region and the way embeddedness in it may affect the functioning of the garment cluster and its participants. Finally, the cooperation or competition impetuses that may emanate from the economic environment are briefly explored.

**Firms and entrepreneurs: are they locally embedded?**

Most garment firms and suppliers in La Laguna are owned and/or managed by entrepreneurs who were born and bred in the Laguna region. Few have been educated outside the region or have left the region for other reasons. They have a common history through attending the same schools, sport clubs and social gatherings. Even now, many local entrepreneurs, especially those running larger firms, move in relatively small circles and meet each other regularly at social and business events. Many manufacturers maintain social and personal linkages with a number of their local peers, resulting in a close-knit garment circle.

Within the Laguna cluster as a whole, it is not hard to identify subgroups with especially dense social networks. Notable in this respect are the influential companies owned by Mexicans of Lebanese descent (see also Figure 6.2). But other subgroups are based on long-lasting friendships or membership of the same campesino (country club) or business association. Many of these groups are horizontal in structure: the managers of large local firms are linked to each
other, while foreign-owned companies and SMEs have local linkage networks confined to their own groups. In this respect, the density of family links between leaders within the regional industry is especially noteworthy (see Figure 6.2). The owners of several of the region’s largest and leading garment companies are brothers or first cousins and descendants of pioneers in the local garment industry. Owners of other large companies are related to them through marriage.

![Family ties in the garment industry, La Laguna](image_url)

Source: Baseline survey, 1998-1999

N.B. All families included in the figure are of Lebanese descent.
Most garment families in the region operate medium to very large companies. They are in a unique position since they control the first-hand knowledge and information obtained from their buyers. Furthermore, in a few cases the sphere of influence of this business elite is not confined to industry but extends into the sphere of local and regional politics and policy-making.

The individual embeddedness of a firm’s key-decision makers in the cluster is a determinant factor in the embeddedness of the firm (see Oinas, 1997; Boschma et al., 2001). One does not need to spend much time in La Laguna to notice that social, interpersonal aspects of business relations carry great weight. This stimulates localisation of business relations within the cluster, because such relations are facilitated by short distance, face-to-face contact and the shared history and values of entrepreneurs. The importance of social relations is revealed by the way the cluster functions: many of the intra-cluster productive arrangements are arranged through word of mouth and personal recommendation. For example, subcontracting arrangements – and sometimes the sale of second-hand machinery – help in filling rush orders, and recommending local companies to clients is often dealt with on the basis of such informally gathered information. The reputation of almost every company, including the smaller ones, in La Laguna is common knowledge or is easily verified. On the whole, most firms are well connected within the cluster and firmly embedded through the local roots of their management as well as through intra-cluster linkages.

Embedded in what? The local sociocultural environment
The Laguna region is recognised as a region with its own character by its inhabitants as well as by outsiders. The precise nature of the local sociocultural environment and its impact on the way business is conducted in La Laguna is not so clear and is hard to uncover. While it would be going beyond the scope of this study to look at these issues in great depth, a number of general observations and characteristics stand out and are relevant here.

As mentioned in Chapter 4, history marks La Laguna as a comparatively prosperous and dynamic region: it had a head start in the industrialisation process and is amongst the largest metropolitan areas in Mexico with a relatively broad industrial base. Local sources attribute this dynamism to the prevailing social values that are conducive to entrepreneurial spirit, hard work and perseverance. Indeed, most entrepreneurs in the region exhibit a dynamic entrepreneurial attitude built on such values. In La Laguna, the ‘selection environment’ – which selects which initiatives, new ideas or new firms will be sustained (Boschma et al., 2001) – is a liberal one. This is also illustrated by the rapid expansion of the garment industry in the post-NAFTA years and the readiness of people with no or only limited prior experience in the industry to start garment factories. In La Laguna, business initiatives are broadly appreciated.

On the other hand, the social culture in the region is not perceived to facilitate trust and cooperation. In fact, it could be argued that it promotes widespread mistrust, suspicion and secrecy. In reference to their sewing operators, local garment entrepreneurs often characterised their culture as ‘prohibitive to teamwork’. These cultural values affect business linkages and interpersonal relationships throughout the industry. Highly illustrative is the tale that several respondents, independent of each other, offered as an illustration of the local business culture:
'Once there was a fisherman fishing for crabs in Mexico. He’d been at it for quite a while and had caught a great number of crabs, which he’d put in an uncovered bucket. A passer-by looked at the man and his bucket for a while, and then said to the fisherman: ‘Why don’t you put a lid on your bucket? If you don’t, the crabs will escape and your work will have been for nothing.’ The fisherman smiled vaguely and said: ‘Well, you see, these are Mexican crabs.’ The passer-by didn’t understand, so the fisherman continued: ‘You see, anywhere else, in Japan for example, you’d be right: I’d need to put a heavy lid on the bucket. Otherwise the crabs would team up and they’d climb on top of each other until one reached the edge of the bucket, and that one would help pull the other crabs out, and soon they’d all be gone. But with Mexican crabs I don’t need a lid to prevent them from climbing out. You see, even if one crab were able to climb on top of the others, as soon as he approached the edge, all the other crabs would pull him back in.’

While it is hard to put one’s finger on the day-to-day cluster reality that most likely also includes interpersonal relations, cooperation initiatives and information sharing, it is clear how local entrepreneurs perceive these issues. For example, one local entrepreneur explained:

‘One of the most serious defects of Mexican society is that we’re not united but we are very envious. Everyone wants to copy the business tactics and strategies of the one who’s doing well, but in a destructive way, not in a healthy manner. Here, in our industry, we started to grow too fast, we became too large and we lack a vision.’

It is hard to determine precisely how these perceptions of the local sociocultural environment affect the reality of competition and cooperation within the cluster. However, the following section will show that formal cooperation between garment firms or entrepreneurs is uncommon in La Laguna. The general attitude towards cooperation is negative. This is further underscored by the tremendous amount of gossip. There is a lot of jealousy and there are a lot of misgivings, and many industrialists eagerly report another’s supposed misfortune, flaws and mistakes. Local entrepreneurs often spontaneously engage in this type of gossip, while they are much more reluctant to discuss their own alliances, friendship or cooperation with other local manufacturers. Though innocent in itself, the amount of gossip is an indication of the general atmosphere of mistrust and animosity that predominates in La Laguna. When asked for an explanation for this apparent general attitude, most entrepreneurs point to their cultural background: ‘That’s just how we Mexicans are’ was the most commonly offered explanation.

The result: embedded local supply linkages and cooperation?
Despite the local embeddedness of entrepreneurs and firms in La Laguna, quasi-hierarchical aspects dominate in local subcontracting networks centred on very large local companies. True interdependence is limited and there is little evidence of trust and reciprocity in subcontracting relations. Several respondents who worked as subcontractors for one of the local giants, complained that it was very hard to discuss, let alone solve, their problems with their clients. One subcontractor complained about his relationship with his local client:

‘Whenever I phone, he’s never there, or he’s in a meeting. I get put on hold and when I leave a message he never calls back. I don’t like that. It’s not polite. I just want to talk and all I get is a formal, impersonal fax message.’

The general managers or owners of the local giants are largely inaccessible to their smaller subcontractors, who deal primarily with production managers. Also, the presence of many subcontractors with similar capabilities within the cluster makes it easy for local contracting firms to discontinue the subcontracting relationship. Although this mainly happens when work is slow, it also happens when a relationship is unsatisfactory.
In general, cooperative linkages between garment firms are limited: only 15% of the sample firms maintain such linkages with other firms in the cluster. Bilateral cooperation within the cluster is not common; the sociocultural environment as outlined above, does not facilitate trust or positive cooperation. So much so that, akin to Fukuyama’s (1995) ‘low-trust societies’, in La Laguna the mutual trust required for structural cooperative arrangements is confined to family ties. Even then, the nature and extent of cooperation varies widely: in a few cases, formally independent companies owned by family members are run as though they were a family-owned industrial group. More commonly, family ties provide an apparently normal subcontracting relationship with stability. On the whole, and even in the case of family members, true cooperation between garment firms in La Laguna is limited.

Also with regard to information sharing or strategic consulting, both bilateral and multilateral cooperation appear limited. The trust, confidence, solidarity and trustworthy behaviour often associated with network relations in clusters are not characteristic of communication within informal subgroups in La Laguna. Even amongst good friends, information exchange does not generally extend beyond general indications of the state of the business, company and clients. Truly strategic decisions are often not discussed or disclosed until they have become definite. Even family ties do not generally appear to translate into strategic cooperation. On the contrary, rather than a collaborative attitude there appears to be a certain level of competition or even animosity between family members in the business (certainly between owners of very large companies).

Thus the depth of the feedback network amongst peers in the local industry is more restricted than one would expect based on the local embeddedness of most entrepreneurs. The role of local embeddedness with regard to cooperative behaviour is largely limited to the solving of practical matters. For example, a broken-down machine can be temporarily replaced easily and rapidly through favours based on social relations within the cluster, as family, friends and acquaintances are commonly willing to lend a hand. While this certainly helps, such supportive behaviour is hardly ever structural in nature. The limited impact of embeddedness on local supply linkages may in part be caused by the horizontal character of social subgroups within the cluster, where contractors belong to a different group than their subcontractors. However, on the whole the nature of the local sociocultural environment in La Laguna appears to hamper the translation of local embeddedness into social capital that may support local business. A shared inclination towards secrecy and mistrust has not supported the creation of stable, trust-based, embedded local linkages in La Laguna.

Economic environment

The sociocultural environment appears to limit the role of cooperation in enhancing the position of firms in the cluster. However, the role of the economic environment within which the cluster operates should not be overlooked. In general, complexity and dynamism in the economic environment are believed to stimulate trust-based, embedded linkages (Boschma et al., 2001). Chapter 1 discussed the main features and trends in the global garment industry and showed it to be highly dynamic and complex. This was certainly the case during the early export years when local garment companies were unfamiliar with their market, its standards, trends and main buyers. It has hardly diminished in recent years because jeans producers have been increasingly impacted by fashionisation and retailing strategies based on flexibility and rapid response (see also Chapter 7). In order to operate in such an environment, local garment firms can be expected to rely on embedded, trust-based relations.
In La Laguna, increased embeddedness is sought in vertical linkages with buyers, rather than in horizontal intra-cluster linkages. The interplay, or indeed mismatch, between a complex and dynamic, far-away market and the strong local orientation and frame of reference of local entrepreneurs appears to have caused local producers to focus primarily on linkages with their buyers. Strengthening their vertical linkages with buyers gives producers a better grip on the trends and demands of their export markets (see also Chapter 7). Horizontal intra-cluster linkages receive little attention and have not become closer or more embedded. An important reason for this is the narrow orientation of the cluster as a whole, as outlined in Chapter 5. Cooperation is hampered by the fact that garment producers in La Laguna operate in the same market segment and compete for work from buyers that may not always be loyal. The fact that they are direct competitors explains their drive to secure a close linkage with their buyer. It appears also to cause reluctance to cooperate with other local producers (that are seen primarily as competitors) and even hostility between local producers.

6.6 Conclusion
This chapter examined the internal relationship structure of the Laguna cluster. The first important observation was that the localisation of network linkages is strong: the local supply infrastructure is extensive and subcontracting and material input linkages are concentrated within the cluster. There is a dense local bureaucracy allowing firms to maintain the necessary linkages with government institutions and other organisations within the cluster. The region also has a skilled workforce that companies, though with some difficulty, can tap into. The regional agglomeration of an extensive industry-specific infrastructure allows local firms, through the localisation of network linkages, to benefit from localisation economies along the lines as suggested by van Dijk and Rabellotti (1997).

With regard to the various types of intra-cluster linkages a number of aspects are noteworthy. First of all, in local supply linkages very large local companies hold a dominant position. So much so that the intra-cluster linkage pattern in La Laguna is best typified in terms of Markusen’s hub-and-spoke structure. Local giants, in their position as the hubs in the hub-and-spoke linkage pattern, coordinate and control the production undertaken by their subcontractors. Commonly, their local subcontracting networks comprise a comparatively large number of small- and medium-sized subcontractors, each of which takes care of a minimal share of the total production of the principal firm. For the local giants in general, subcontracting allows for the flexible expansion of production capacity necessary in peak seasons and represents only a small percentage of total production. While not exploitative in terms of payments, subcontracting linkages are unstable and function for the local giants as buffers against market fluctuations. The resulting pattern is highly biased in favour of the local giants, and the existing power imbalance characterises local subcontracting as quasi-hierarchical. Interdependent network relations, described in both the business network and the cluster literature, were not found in local supply linkages in La Laguna. Instead, similar to the pattern found by Kragten (2000) in rural Java, relations are skewed in favour of the contracting firm, and while both contractor and subcontractor benefit from the arrangement, the former benefits more.

During the 1990s an extensive local supply infrastructure was built up. By the turn of the century, trim items were predominantly being procured locally. Subcontractors generally receive trim from their local principal firm but most other firms are now directly responsible
for supply procurement. This represents a significant break from pre-NAFTA times, when US buyers shipped in all material inputs from the US. At the same time, tight governance exercised by buyers limits true responsibility of local firms, as detailed buyers’ specifications with regard to exact items and their suppliers need to be adhered to.

Local garment firms maintain relations with a number of local organisations. Several government or semi-government organisations are concerned with the economic development of the region in general and focus primarily on the attraction of foreign investment and employment creation, while others regulate or support local businesses selectively. In general, the relations between local garment entrepreneurs and these organisations are kept to the minimum required, and are distant and sometimes tense as they appear to do little to support the local industry. The garment industry chamber represents and defends the interests of the cluster’s garment entrepreneurs vis-à-vis these organisations. While it is the only platform for multilateral cooperation, it has remained ineffective as a platform for cluster-wide consultation, cooperation, strategic planning and other ways of pushing the cluster forward.

Intra-cluster labour relations are a hot issue on the agenda of local entrepreneurs. With the growth of the cluster, the tightening of the local labour market and high labour turnover rates, labour is increasingly viewed as a subordinate, troublesome factor rather than as a valuable resource – mirroring a pattern noted for the US garment industry in Chapter 3. The build-up of expertise in the local labour force was not reflected in a high incidence of small garment business start-ups by former factory workers. Limited opportunities in this respect coupled with the high demand for skilled garment operators is causing some workers to move from one company to another in order to improve their wages and benefits. The resulting intra-cluster competition for labour not only puts upward pressure on wages and fringe benefits, but it also pitches garment companies against each other.

In several ways the local embeddedness of garment entrepreneurs and firms is strong. Most local entrepreneurs are embedded socially and culturally in the region and in the cluster, and this facilitates the flow of information as well as incidental practical support amongst industrialists. However, local firms reap few direct benefits beyond passive external economies from being part of the New Jeans Capital.

In general, the local sociocultural environment is marked by a pronounced go-getters’, entrepreneurial mentality as well as by suspicion, mistrust and secrecy. Intra-cluster linkages appear to mirror the local culture. Local social capital based on embedded relations characterised by trust and cooperation was not found to support the Laguna cluster. In fact, La Laguna displays features of the low-trust societies discussed by Fukuyama (1995), most notably a reliance on family ties in cooperative business relations. As a consequence, despite the common cultural background of entrepreneurs, subcontracting relations, for example, are not characterised by stability, cooperation or the open sharing of knowledge and information. Instead they predominantly take the shape of traditional subcontracting linkages: governance is highly formalised and relations are dependent, unstable and relatively distant. Local embeddedness has also not contributed to the development of joint, proactive action or cooperation between firms in the cluster.

On the whole therefore, while few cooperative linkages within the cluster exist in La Laguna, more emphasis has been placed on the embedding and tightening of vertical, intra-chain relations with buyers. These findings stand in contrast to a large part of the local
embeddedness literature. However, some parallels may be drawn with the situation in Fiji, where Taylor (2002) found garment companies to be socially and culturally embedded in their local environment, but structurally embedded in the highly competitive GVC.

The previous chapter already marked La Laguna as a deviant garment cluster and this chapter underlines that characterisation. Unlike in many other clusters that thrive on a positive mix of competition and cooperation between local firms, in La Laguna, competitive forces between local firms far outweigh cooperation impetuses. As a result garment firms in the region benefit from external economies, but not from collective efficiency, that also requires proactive joint action on the part of local firms. These findings need to be related to the structure and the history of the Laguna cluster. La Laguna displays the physiological hub-and-spoke characteristics of the late, mature stages of LMIC cluster trajectories. However, the relatively short history of the cluster casts doubt on the maturation process that lead to this structure. In La Laguna the endogenous base of this development was relatively small: while a large part of the cluster, most notably the SMEs, were just being established, the existing large companies were already supplying the US market. The cluster largely appears to have come into existence based on the achievements of the first successful pioneers. The success of these pioneers was built on their incorporation into the production networks of US buyers and not so much on the collective efficiency of intra-cluster linkages. This contrasts with the traditional cluster development path that deals primarily with SME clusters within which some firms have exploited the years of collective efficiency more successfully than others and have grown and acquired a lead position.

This peculiar and short history of the Laguna cluster and the dramatic impact of its insertion into the GVC appear to have contributed to the direct competition between local firms and their focus on vertical extra-regional linkages rather than intra-cluster linkages. As such, La Laguna may be illustrative of current and future LMIC clusters that grow out of the interaction between globalisation processes and industrialising regions in ever-new tiers of LMICs.

Notes

1 This research focuses on the economic geography interpretation of local embeddedness (see Chapter 2), viz. the presence and nature of backward and forward linkages. The nature of the research and its methodology do not allow for a detailed, systematic analysis of the sociological or ‘ties’ aspects of networking in the (local) garment industry. However, the significance of these aspects is recognized and therefore the general issues that affect network ties (such as the socio-cultural environment, a reliance on family ties and existing prejudices) are discussed in section 6.5 of this chapter and are briefly revisited in section 7.3 of the following chapter.

2 The pattern of a small number of subcontractors that take care of a large share of total production of small principal firms in La Laguna may give the impression of a more equal, interdependent subcontracting relation. This, however, is not the case. Smaller companies that subcontract out the work maintain distant and formal client-contractor relationships.

3 Personal observation in the region established that sub-subcontracting, although not reflected in the survey data and not at all common in the region, does happen but is a largely secret matter. The two cases found of subcontractors who in turn contracted out serve to illustrate the fact that it is generally ‘not done’. In both cases, the managers were unwilling to provide the name of or any other information about their subcontractors and the work contracted out to them. This may be evidence of very tight governance by buyers with respect to the subcontracting of their work.

4 The maquiladora and PITEX/ALTEX regulations allowed for the duty-free import of machinery used for the production of goods destined for export markets. Since there were still only a few sewing machine suppliers in
Mexico and prices were generally somewhat higher, many producers bought their machines at one of the numerous suppliers in El Paso. However, as the availability of machinery in La Laguna increased, the number of suppliers in El Paso declined due to the collapse of the garment industry in that city. Stimulated by the peso devaluation of 1994, investment in machinery has increased. The extra profits accruing to local companies as a result of the devaluation, and the need to invest them (for tax reasons) greatly stimulated investment in the industry.

The most important exception in this respect is the printing of labels. The caution on the part of buyers is related to the fact that the label can be seen as the embodiment of the brand and brand reputation: faulty labels directly affect the sales of the garments. Furthermore, the label is so tightly connected with the brand that on the basis of good label copies counterfeit would hardly be recognisable. High levels of trust need to exist between buyers and producers for producers to be allowed to produce labels to the exact standard specified by the buyer. Commonly, therefore, labels are shipped from the US or even attached in the US.

Since many of the services rendered by the chamber are not directly relevant to the foreign-owned companies, they see little benefit in membership. Indirectly, the limited presence of foreigners in the chamber affirms their isolated position within the local garment industry which in some cases is also caused by their physical isolation through their rural locations. It is quite common to hear a Mexican industrialist complain about the business tactics of ‘those Americans’ and, vice versa, to hear foreign representatives of foreign-owned companies complain about the conditions at and practises of some local companies.

An example is the conflict of interest between CNIV and FOMEC, as voiced by a number of the chamber’s prominent members. In a protest letter, they expressed their concern about the further tightening of the local labour market as a consequence of FOMEC’s promotional activities and success in attracting new industrial investors.

A recent example of employees insisting on their rights is the hunger strike organised by eleven employees of a very large company in the region. The hunger strikers were part of a larger group of employees who were fired after attempting to organise an independent labour union. The direct reason for the strike, however, was the fact that they were not given the minimal legal compensation (El Siglo de Torreón, 2000) after they were fired.

There is a general atmosphere of secrecy surrounding the solution to turnover and absenteeism within La Laguna. The researcher at one point was shown a report based on inter-company espionage aimed specifically at wages and benefits offered by the largest companies in the region.

This status has aided in the construction of a certain level of common identity, especially since in 1999 it was advertised nation-wide as ‘the garment exporting cluster in Mexico’. To the outside world, industrialists in La Laguna clearly project a strong sense of what Crewe (1996) has called ‘shared identity based on collective association’.

Linkages are not limited to business owners or managers. In La Laguna, linkages and their impact cut through the business hierarchy as, especially in the case of the large companies, not only do owners know each other, but so do management, administrative and especially the human resources personnel. Also at these levels information regarding wages, systems/administrative systems, clients, the general state of affairs in the company, etc., are exchanged (see also Box 8.4).

For example, one of the owners of a very large garment company became mayor of Torreón in 1999, his son became president of the garment chamber in 2002 and other family members have been involved in state politics.

The researcher was often, and without asking, updated on the ‘local news’. During the survey, when asking for general opinions about the local business environment and climate, it was quite common to be given a rather detailed expose of the ‘bad and evil’ aspects of certain companies or types of companies in the region. Amongst manufacturers such novelties are also readily exchanged as the talk of the town.

In the present examination, bilateral, cooperative linkages are broadly defined as those relationships that lack a contractual basis, but are relatively stable and long term and work to smoothen the workings of the local cluster and participating firms. Cooperative linkages may take the form of the joint exploitation of facilities or a stable or preferential subcontractor status, in which cases it is tangible. Alternatively, cooperation may be more informal and intangible, for example when it concentrates on the exchange of information or of knowledge.
Appendix I
Illustrations of local production networks

In this appendix the local multi-plant companies introduced in Chapter 5 are used to illustrate the structure of the local production networks centred on very large garment companies in La Laguna.

Roman produces primarily casual pants and occasionally small volumes of jeans. The company doubled its production capacity in 1996-1997. In 1998 its main factory moved to a large and new facility that has room for further expansion (approximately 30%). Even when expansion will be completed, Roman wants to continue to work with subcontractors for flexibility reasons.

The total volume of subcontracted work generally does not exceed 20% of the company’s total production capacity and is spread evenly over five to six subcontractors. Only pure assembly work is subcontracted. Its subcontracting linkages change with fluctuations in demand and are temporarily suspended in times of low demand. The majority of its subcontractors are small factories that dedicated 100% of their capacity to Roman; they are so called ‘captive’ subcontractors.

Figure I.1: Local production network, Roman
Casolco produces jeans, primarily basic 5-pocket models but also increasingly large volumes of more fashionable styles. The company was established in 1986 and remained comparatively small until the coming into effect of NAFTA after which it expanded rapidly. Since 1994 four new facilities have been opened, including the distribution centre in El Paso and the cutting room in Villa Juárez. In time, the urban factories will also be moved to Villa Juárez – a village just outside Cd. Lerdo where the labour force is more stable and wages and benefits are slightly lower.

Despite its expansion, demand often exceeds Casolco’s in-house production capacity and therefore Casolco engages subcontractors. The total volume of subcontracted work is approximately 15% of the company’s total production capacity and is spread over six or seven subcontractors. The owner of Basic Jeans is related to the owner of Casolco: Basic Jeans does up

![Diagram showing local production network, Casolco](image-url)
to 4% of Casolco’s production volume, other subcontractors do slightly less. Only pure assembly work – preferably of the more difficult fashion styles – is subcontracted. Though the relationships with Basic Jeans and Alaska Jeans (whose owner is also related to the owner of Casolco) are fairly stable, subcontracting linkages do fluctuate and may be temporarily suspended in times of low demand. Casolco has worked with a large number of subcontractors over the course of the years and tries to work with those subcontractors it has had the best experiences with. The majority of its subcontractors are ‘captive’ subcontractors.

Grupo Lajat started to produce jeans in 1988. As it was an entirely new activity for the diversified Grupo Lajat, the garment division was a joint venture with US-owned Kentucky Apparel. Lajat learned and expanded very fast, a process that lead to the acquisition (and closure) of Kentucky Apparel by Lajat. Before the turn of the century Lajat was already leading the ranks of the local garment giants.

Figure I.3: Local production network, Lajat

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90.A_TT van Dooren BW.job
To avoid tightening of and rising wages in the urban labour market, Lajat has located its assembly facilities in the rural areas of La Laguna and even outside the region. It was one of the first companies to invest in rural factories. Its very large cutting room and laundry facility are located in the industrial park Lajat – built and owned by Grupo Lajat.

Together, Lajat’s subcontractors take care of approximately 20% of its total production volume. In peak seasons, Lajat has had to work with subcontractors outside the region because many of the local subcontractors were already filled with work of others. Lajat has worked with a very large number of subcontractors over the course of the years. The precise configuration of its network depends on volume requirements and availability of [preferred] subcontractors. Somewhat surprising is the engagement of Comercial Waco as Lajat’s subcontractor; it belongs to a very large garment company, that generally do not rely on subcontracting work, certainly not in peak season.