9 Summary and interpretations

9.1 Summary of main findings
The globalisation of the world economy has given rise to rapid and far-reaching changes in the organisation and geography of industrial production. New production locations, often LMIC clusters, are constantly becoming incorporated into globalised value chains. Operating on demanding export markets through GVCs orchestrated by powerful buyers, presents clusters of producers in developing countries with new challenges and opportunities. For buyers, sourcing linkages to new LMIC clusters represent a low-cost opportunity to tap into geographically concentrated knowledge and experience. Whilst both the globalisation and the clustering of industrial production are well-known phenomena, the need for a more detailed insight into the interaction between the two has only recently become apparent. It is this interaction that is the topic of this study.

A focus on networks is the most suitable for the analysis (at multiple levels of scale) of the highly volatile and dynamic garment industry. Currently, two network-based approaches are receiving much attention: the global value chain and the cluster approaches. The former focuses on the division of labour patterns at the global level and on the governance mechanisms used to control and coordinate these patterns and their underlying processes. The cluster approach focuses on cooperation and competition dynamics that support the competitive position of clustered firms in a certain geographical place. Both approaches share a focus on industrial organisation but also incorporate geographical aspects.

This study concerns the garment cluster in La Laguna, northern Mexico, which has recently boomed thanks to its growing exports to the US. Whichever criterion is used to measure industrial success – growth in local production capacity, growth in exports, the creation of new firms or employment growth – all the evidence indicates that La Laguna is an exceptional case of rapid, export-based growth. Its success is based on the preferential access of Mexican imports to the US under NAFTA since 1994. In fact, based on its development, La Laguna has been hailed as ‘a NAFTA success story’ (Gereffi & Martínez, 2000). This study focuses on this exceptional export cluster in order to examine the interaction and network linkages between the producers in the cluster and global forces in the industry and poses a few specific research questions. In the first part of this chapter, the main findings are summarised in order to answer the research questions. In the second part, the case of La Laguna is positioned in a wider, national context. Then the findings are interpreted.

Research question 1: What are the main features and trends of the global and North American industrial context within which the Laguna garment cluster is operating?

The global, industrial context within which the Laguna garment cluster operates is characterised by geographical and organisational complexity and dynamism. Over the past decades, the garment industry has constantly changed under the influence of shifts in the wearing apparel market and/or the marketing strategies adopted to shape and manipulate it.
Among the most relevant trends is what in this study has been called ‘fashionisation’, that is, the faster pace of fashion change and the increased introduction of fashion elements in basic commodity garments which until recently were characterised by standardisation. Also, retailers of wearing apparel, marketers of designer label garments and branded manufacturers are adopting increasingly similar business and retail strategies which lead to hybridisation, making it harder to tell them apart. A reflection of this development is the use of the term ‘buyers’ in reference to all of them. A common element in the strategies of buyers is an increased emphasis on the retailing aspects of the industry, where brands and labels are commonly applied tools for the manipulation of consumption patterns. With regard to manufacturing, buyers generally rely on international sourcing networks, while their new retailing strategies call for tight control and coordination, Quick Response and a shortening of their supply chain and lead times. These latter developments are facilitated by developments in telecommunications and computer technology but without annihilating the relevance of geographical distance: nearby suppliers benefit most from these trends.

Many studies deal with the geography of garment production – more specifically, with the motives and drives underlying the process of the continuous incorporation of new garment-supplier countries. The fragmented nature of the industry, its history of vertical disintegration and specialisation, and the labour intensive nature of the manufacturing process formed the foundation of its position as forerunner in the globalisation of industrial production. Undeniably, there is truth in the view that garment production is constantly shifting to new low-wage areas, as evidenced by the recent entry of China, Vietnam and many other countries. On the other hand, several high-wage countries still maintain considerable production levels, thanks to the elaborate MFA trade regulation system designed to protect Western market from imports. More importantly, there is a segment in the Western garment markets for which quick response and short lead times are equally or more important than paying the lowest wages and, as a consequence of the general trends discussed above, this segment appears to be growing. Furthermore, as buyers are getting bigger and broadening the portfolio of brands and labels, they balance their sourcing strategies and engage in strategic localisation across the globe. As a result, more garment suppliers in countries on the periphery of the main markets are incorporated into the production networks of buyers operating on these markets.

Mexico is one of the countries that benefits from the regionalisation trend in garment sourcing. But it would be misleading to attribute its recent rise as a garment exporter solely to new marketing strategies and a push for quick response: it was aided by the powerful incentive of NAFTA liberalisation, and in less than a decade it has become a significant player in the international garment trade. Rather than participating in global trade, Mexico’s exports have a regional destination; the vast majority is destined for the US. Mexico is thus a relative newcomer on the global garment scene: for decades, rules regulating US-Mexican trade limited the role of Mexican garment manufacturers exporting to the US to that of pure assemblers, in production networks orchestrated by US manufacturers. The organisational and logistical complications of such arrangements and the comparatively limited cost advantages proved to be significant barriers to the success and growth of such bi-national manufacturer-centred networks, and their impact remained modest. NAFTA changed this: it paved the road for a geographical reconfiguration of the US-Mexican garment value chain towards greater local integration of the production process in Mexico. Under this liberalised model, several garment export clusters have grown explosively and have turned Mexico into one of the main suppliers.
to the low to mid segment of the US market for basic garments. On the US side, more buyers and, more importantly, new types of buyers are beginning to source from Mexico. This broadening of Mexico’s buyer base, or even the succession of manufacturers by retailers and designers, may play a vital role in the development of the Mexican garment industry. Most particularly, the involvement of retailers and designers with their specific sourcing standards is believed to be pushing Mexican garment export firms to transform themselves from pure assemblers into more all-round, ‘full-package’ suppliers.

As the US continues to lose jobs in the wearing apparel manufacturing sector, Mexico is gaining them. The result is a bi-national division of labour in garments in which the US and Mexico can fully exploit their complementarities. The US specialises in those (capital and knowledge intensive) activities in which it has a competitive advantage, viz. design, textiles and marketing. Mexico does the same and employs its army of industrial labourers to broaden its garment manufacturing base. Within this context, in the 1990s the Laguna region of Northern Mexico developed into one of the world’s main production sites of blue jeans.

Research question 2: What are the main economic, geographical and historical characteristics of the Laguna region, and does its current position as garment export cluster stem from these characteristics?

The economy of the semi-desert Laguna region was for the major part of its history centred on agriculture. Yet now it is known as the main Mexican jeans export cluster. The industrialisation and urbanisation processes that set in during the 1970s and accelerated in the late 1980s lie at the basis of this regional transformation.

La Laguna was once the country’s main producer of cotton, and this brought the region much prosperity. However, a few decades ago, problems started to arise with regard to agriculture in La Laguna. The monoculture of labour-intensive cotton became a problem, especially with declining world market prices and fierce international competition, and in response local production was diversified. Also, the climatic conditions in the region became increasingly adverse. The impact of these changes was felt most acutely by the ejido or smallholder segment. Nowadays, the agricultural sector is still very important but it is becoming concentrated in large farms where processes are capital intensive and mechanised. The smallholder segment is under pressure and in general employment in agriculture is diminishing, causing grave unemployment in the rural areas of the Laguna region. Faced with a lack of employment opportunities, rural inhabitants began to leave the countryside and over the past decades depopulation has affected the rural municipios of the region.

Fortunately, a forceful industrialisation process (La Laguna was one of the first regions in Mexico, outside the major cities, to industrialise in the 1970s) was well on its way in the urban core of the region. Early industrialisation was based largely on the processing of the region’s agricultural products: processed food and textiles and garments were amongst the early industrial products of the region. Towards the end of the twentieth century, export processing became diversified and now, in addition to garments and food products, includes different industrial products, such as television tubes and components for the automotive industry. FDI in large and modern factories has underlined the importance of mass production to the regional economy and set it firmly on the export path. At the same time, the urban service sector has expanded and modernised partly also under the influence of foreign investment and
both the urban industrial sector and the service sector absorbed the rural labour reserve and thrived on it.

As a result of diverging developments, today the Laguna region is marked by a deep dichotomy: its relatively modern, prosperous and industrialised urban core is surrounded by a largely poor rural hinterland marked by high unemployment and a limited infrastructure. The impact of this economic dichotomy is reflected in the opposing demographic trends of a growing urban core and a rural hinterland facing a sizeable exodus of its population.

The region’s geographical location – away from the overcrowded, highly industrialised Northern border cities but still relatively close to that border and the US market on the other side – and its position as infrastructural hub have played an important role in the region’s current economic success. Its historical economic development is also important. The region’s industrial experience built up over decades and its large labour reserve of unemployed rural inhabitants have provided fertile grounds for the region’s recent development into the New Jeans Capital of the World. In a counter-reaction to the commuter flows that bring workers to their work, recently garment factories have been established in the rural areas. They provide an escape from the wage pressures in the booming urban industrial environment. At the same time there is hope that they may be the start of a more diversified rural industrialisation process.

Research question 3: What is the structure of the Laguna garment cluster, in terms of product- and market-orientation and firm characteristics and does it correspond to the structure of other garment clusters?

The first garment factories in La Laguna in the 1940s made use of locally produced cotton and denim and specialised in the production of jeans and other types of pants. During the 1990s the centre of gravity shifted towards assembly for export, a shift that severed the links with local cotton and denim production. Today, La Laguna produces mostly blue jeans for export to the US. By the end of the 1990s, over 200 garment companies were engaged in this industry; between them they operated more than 400 factories in the region. New are the few foreign-owned garment factories that were established in the years immediately after NAFTA came into effect. They are exceptional, as the vast majority of local companies are in local ownership. Local garment companies in the region range from small to very large, but on average the scale of operation is large and the cluster is dominated by several giant companies, many of which predate NAFTA. Many of the SMEs in the region were established during the mid to late 1990s. Garment factories are distributed fairly evenly over the region: though initially concentrated in the cities, they are beginning to disperse into the rural areas. Formal factories and fairly standardised mass production predominate while sweatshop-type informality is exceptional.

The structure of the garment industry in the Laguna differs from that of other garment clusters dealt with in the literature. Whereas many garment clusters are more diversified and produce a range of garments, garment firms in the Laguna region share an exceptionally narrow focus on blue jeans and a limited volume of other ‘bottoms’ for the US market. The large scale of operation of local garment factories is also exceptional: even small companies are generally larger than small factories in other regions, but most exceptional are the very large local companies that employ a few thousand operators. There is a very large gap, in terms of size as well as of competence, between them and the other companies in the region. Furthermore, the narrow export orientation of La Laguna is not found in other LMIC garment clusters.
The cluster’s exceptional features and its tremendous post-NAFTA boom evince the key role of the demand pull exerted by US garment buyers in moulding the cluster into its current shape. The large exogenous demand of the late 1990s rather than a historically grown localised, endogenous industrial expertise and know-how, appears to have played a determinant role in shaping the Laguna cluster. While distinctive, the mentioned characteristics do not disqualify La Laguna as a cluster or even necessarily place it outside the cluster literature. La Laguna is a garment contracting cluster specialised in export production, and it displays the broad features of Pederson’s (1997) ‘subcontracting cluster’. In trajectory terminology, it has the physiological characteristics (viz. a few large firms amongst an army of SMEs) also found in mature LMIC clusters. However, given the relatively short history of the Laguna cluster and its particular development path, the maturation process that led to the current structure does not appear to have originated from a broad base of specialist garment SMEs, as was the case in other clusters recorded in the literature.

Research question 4: To what extent is the garment industry in La Laguna locally embedded through intra-cluster linkages? If it is embedded, how does embeddedness in the economic and sociocultural environment affect the competitive position of the cluster and its firms?

An examination of intra-cluster dynamics reveals the localised nature of many network linkages of local garment companies. Supply linkages to trim suppliers and subcontractors as well as linkages to organisations and the labour force are mostly geographically concentrated within the cluster. This localisation is based on and also translated into extensive factual knowledge regarding the local industrial infrastructure and actors. Moreover, local industrialists strongly identify with La Laguna as ‘the jeans cluster’. Local business linkages are embedded in social or even family ties and networks; this smooths the flow of general knowledge and facilitates practical support amongst industrialists. However, many other positive side effects or by-products often associated with the spatial concentration of industrial activity are not or are only to a limited extent found in La Laguna. Inter-firm supply linkages predominantly take the shape of traditional subcontracting linkages: governance is highly formalised and relations are dependent, unstable and relatively distant. Very large local factories are the pivot of often large local subcontracting networks. Though the supply linkages to trim suppliers are also mostly confined to the cluster, foreign suppliers play an important role. Global suppliers of machinery, thread, buttons, rivets and other trim items are all represented in La Laguna and, based on the specifications of US buyers, have become incorporated into the local production networks. Their presence, as well as that of local suppliers and subcontractors, contributes to the passive economic externalities (reduced transaction costs, and scale and scope economies) in the cluster, but true local decision-making is limited: sourcing decisions are dictated by buyers outside the cluster.

A large number of organisations are directly or indirectly involved with the local garment industry. Within the liberalised Mexican policy environment, the role of public organisations has been greatly reduced, mostly to administrative and facilitative tasks. State and local governments are primarily concerned with the attraction of foreign investment and with employment creation. Direct, effective support for local business is hardly being developed and financial support for local businesses is selective and against market credit rates. There does not appear to be a clear, coherent medium- to long-term industrial policy or regional development plan behind the activities of public organisations.
The local labour market is putting a strain on intra-cluster relations. With the growth of the cluster, the tightening of the local labour market and high labour turnover rates, labour is increasingly viewed as a troublesome factor rather than as a valuable resource. The build-up of expertise in the local labour force is not reflected in a high incidence of small garment business start-ups. Barriers to entry to the local garment industry are too high for individual garment workers, who lack access to capital and face the minimum requirement of twenty to thirty sewing machines to be able to operate as a subcontractor in the local networks.

The generally assumed benevolent relations between geographical and cultural proximity, specialisation, interdependence, trust and cooperation hardly exist in La Laguna. In general, intra-cluster linkages mirror local sociocultural values and display low levels of trust and cooperation. This does not contribute to the development of joint, proactive action or of local social capital. Moreover, the very narrow competitive focus of the cluster works against internal cohesion and cooperation, as individual firms are direct competitors. Even though there is a strong localisation of many network linkages, in the case of La Laguna such localisation does not appear to promote dynamic cluster effects, which – through co-operation, local learning and upgrading processes – support a cluster’s competitive position.

Research question 5: What is the composition of the garment production networks connecting La Laguna to the US market, in terms of the actors involved and their productive, organisational and strategic activities and responsibilities?

Chapter 7 examined the various types of networks that connect the Laguna cluster and its garment firms to US buyers. Traditionally, in La Laguna – as in the rest of Mexico – branded manufacturers were the most important buyers for the cluster. However, in the 1990s the buyer base of the region expanded significantly and now includes a large number of retailers and a few designers/marketers.

The network structures and strategies of these different types of buyers in La Laguna differ. The importance of manufacturer-centred networks in La Laguna is reflected by a modest number of FDI facilities, and especially by a relatively long history of extensive sourcing in the region. Branded manufacturers work directly with local producers of different sizes, including in some cases SMEs, and do not allow the subcontracting of their work. Although initially local firms in these networks did pure assembly, branded manufacturers increasingly expect them to take over input procurement and other manufacturing activities and are increasingly looking for large suppliers. Branded manufacturers exercise tight governance and offer practical support and expertise in the area of product quality and the efficiency of the production process.

Designers are the latest buyers to have become engaged in the Laguna cluster. They work only with the largest local companies and buy full packages from them. During the initial stages of the relationship, they are directly involved with their suppliers to ensure that their standards and requirements are understood and respected. As their standards are higher than those of many other buyers and they exercise tight governance, their work is rarely subcontracted and then only to certified subcontractors. By the end of the 1990s, several designers were sourcing from the region, but generally in small, pilot programs. Despite the initial investments in the relationship and the production capabilities of the local contractor, no stable relationship with designers have materialised. It is not quality problems that hamper these relationships, but
flexibility and more intangible aspects of the sourcing relationship, such as service-mindedness and business mentality.

Most of the jeans produced in La Laguna are bought and sold by retailers, viz. mass merchandisers and department stores. Though some retailers work directly with local contractors, the bulk of the work for retailers is channelled to the region through and by US intermediaries. Some of the most important intermediaries for La Laguna have local production facilities through which they supply full packages. Some have cutting rooms, laundries and sewing facilities, but also subcontract a large share of the assembly work to local SMEs. The subcontracting of work for retailers is pervasive and facilitated by the fact that the intermediary/key supplier is responsible for respecting any codes of conduct and for certifying subcontractors.

The network strategies of buyers are important for the network position and opportunities of local producers. In general, local giants are in the best position to plug into the networks of all the mentioned types of buyers and to be engaged in several at the same time. By combining various types of buyers, they are able to fill their factories with work for branded manufacturers and designers, and to subcontract the less attractive and/or profitable work for retailers. In doing so, they mimic the intermediaries and occupy a strategic hub position in the local export networks, which allows them to control and coordinate production in many local assembly subcontractors. This position is reserved almost uniquely to local giants: even large local companies are much less able to combine direct work for several US buyers; instead they commonly combine direct export work with local subcontracting orders. While the local giants are directly exposed to the demands of buyers and are working to adapt to these demands, most other firms are not or are doing so only to a much more limited extent. In fact, for most firms, especially subcontractor SMEs in the Laguna region, the difference between being incorporated into manufacturer-centred as opposed to retailer-centred networks may not be very large at all.

Research question 6: Have upgrading processes taken place in the garment cluster, and if so, what kinds of upgrading processes are found, which factors are driving these processes and who are the actors involved? Chapter 8 examined the dynamics concerning upgrading of products, processes and position in the value chains as well as changes in labour strategies and the geography of production within the cluster.

Several of the shifts in the garment market as described in Chapter 1 are evident in La Laguna’s product composition. Though specialised in the production of garments that traditionally are mass-produced and standardised, fashionisation has made inroads into the cluster. La Laguna is increasingly producing ‘mass-produced fashion’. Furthermore, much attention is focused on quality improvement and on the consistency of quality levels. By comparison, the production organisation in most factories has changed comparatively little over the past years. There is a growing awareness, especially among the larger firms, of the need to strive for good and consistent quality and higher efficiency. However, few companies have implemented changes on the shop floor to improve quality control, shorten through-put times and limit the impact of the turnover of personnel. Also, the advantages of La Laguna’s geographical proximity to its main market have not yet been fully exploited. EDI and other quick response technologies have not been implemented, partly because the telecommunications infrastructure in the region does not support the intensive use required by these systems.
The establishment and ensuing boom of the garment industry in the Laguna region is part of a supra-regional process of spatial reconfiguration of the US-Mexico garment value chain. Pre-dating NAFTA, the garment industry in the region and in the rest of Mexico was largely confined in its export activities to pure assembly. NAFTA’s gradual elimination of restrictive trade rules has allowed companies in the region to extend their command to other, non-assembly nodes of the chain. While most local exporters have assumed responsibility for input procurement, many have also become more integrated and have extended their command over the chain by developing laundry, finishing and, more recently, cutting capabilities. However, by the turn of the century, only the very largest local companies had mastered full-package production. They were still combining full-package production with more limited export roles, but were gradually increasing their full-package production. There is a tendency towards the greater local integration of the production process. However, developments are more cautious and selective than may be expected on the basis of recent literature. Characterising La Laguna at the turn of the century as a full-package cluster is too hasty and too much of a generalisation.

The above-mentioned changes, especially in the areas of products but also in the local integration of the production process, are driven partly by actors external to the cluster, viz. its US buyers. These gradual changes are more a reflection of a shift in the demand of buyers than of strategic behaviour on the part of local entrepreneurs. Efforts towards process upgrading were especially for SMEs facilitated by local branches of government organisations, but in other cases they were supported by active coaching on the part of buyers. In general, towards the end of the 1990s local direct exporters were mostly trying to keep up with demand growth and shifts, and displayed little purposeful strategic behaviour in any of the mentioned fields. Driven by market trends and steered by buyers, local firms were in the process of adopting new processes, new products and new standards. The high degree of market unawareness of local entrepreneurs and their one-sided dependence on buyers explains why these changes did not happen overnight and why they met with resistance. Steady adaptation and dissemination of new practices were the challenges faced by the Laguna cluster; innovation was not (yet) an issue. As buyers are steering many of the noted changes, these are only indirectly relayed to SME subcontractors. In other words, mental distance from the market or market unawareness increases with more subordinate positions in the export networks, which in La Laguna applies generally to SMEs.

As mentioned, the examination of local dynamics of the Laguna cluster and its firms in Chapter 8 also includes changes in the labour and relocation strategies of local firms. The one challenge that affects all firms in the cluster and is a uniquely local concern is the negative impact of local labour-market dynamics. The tightening labour market and its consequences for labour turnover rates, wages and benefits are at the forefront of entrepreneurs’ concerns, and all firms are trying to devise means and strategies to attract and maintain a stable labour force. Based on the urban-rural employment imbalances outlined in Chapter 4, organised commuting between the rural areas and the urban core is an important facet of garment production in the region. Faced with a tight urban labour market, urban factories have increasingly resorted to the recruitment and daily transportation of rural inhabitants to the cities. Over the course of the years, personnel transportation routes have covered increasingly large distances and penetrated remote areas.
Geographical dispersal of garment factories into the rural areas has also occurred: rural garment factories have been established throughout the region. Subsidiaries of US-owned TNCs, factories in private ownership of urban entrepreneurs and locally-owned cooperativas have become important sources of non-agricultural employment in ejidos, villages and towns. Notwithstanding differences in ownership and locational preferences, rural factories share a relatively isolated position vis-à-vis their local production environment and a narrow focus on assembly activities. The latter observation points to the emergence of an intra-regional division of labour, between the conurbation and the rural hinterland. The resulting pattern of intra-regional division of labour indicates the relevance of NIDL principles at a lower level of scale. The process has been depicted as a further reconfiguration phase of the bi-national value chain. In other words: parallel to the bi-national reconfiguration of the value chain there is an intra-regional shift based on the progressive incorporation of the low-cost rural areas as assembly locations. The latter points to a combination of low- and high-road strategies in local business behaviour.

9.2 La Laguna: a unique case?
Chapter 5 examined the structure of the Laguna cluster and showed it to be different from other garment clusters described in the literature. This may prompt questions on the relevance of the research findings of this study. In other words, are the findings of this study relevant beyond this particular case? How do they relate to garment production for export in other parts of Mexico? As discussed in Chapter 3, since the passage of NAFTA, garment production for export is a booming business throughout Mexico and not just in La Laguna. During the 1990s, new garment factories were established in cities, towns and villages from northern Chihuahua to the southern states of Chiapas, Oaxaca and Yucatán. The question concerning the possibly unique nature of the Laguna cluster and its development will be briefly explored here with reference to the Mexican context.

As in La Laguna, garment factories in other regions tend to cluster together. There are a few Mexican clusters that are comparable to La Laguna in size and significance. The two export clusters that will be briefly discussed here are that in Puebla/Tehuacan and the recently

| Table 9.1: General characteristics of the Laguna, Tehuacan and Yucatán garment clusters |
|---------------------------------|---------------------------------|---------------------------------|
| Types of product                | Jeans, casuals                 | Jeans, casuals                 |
| Market destination              | Export US                      | Export US                      |
| Weekly Production Capacity (est.)| 6 million                      | 3-3.5 million                  |
| FDI                             | Some; mainly US                | Hardly any                     |
| Position in value chain/prod. activity | Assembly, CMT + wash, full package | Assembly, CMT, full package |
| Source: Fieldwork 2000          |                                 |                                 |
| NB. Words in italic are a region’s main production activity/market destination. |
developed Yucatán or Henequen cluster; these are also the most direct competitors of La Laguna. Table 9.1 summarises the basic characteristics of the three production regions.

Especially the Tehuacan region is perceived by both clients and local manufacturers in the Laguna region as a direct competitor. The table clearly shows the similarities in product- and market-orientation between the two clusters. The history of the Tehuacan cluster is similar to that of La Laguna: there was a local garment production capacity throughout most of the late twentieth century and it was oriented towards the domestic market. While the opening up of the Mexican market at the end of the 1980s inflicted many casualties among garment factories, just a few years later large export opportunities provided new ways to exploit local expertise. In its current form and orientation, the Tehuacan cluster has its roots in the early 1990s. The cluster in Tehuacan is also dominated by a few very large garment firms. In Tehuacan fewer very large companies exist next to more and generally smaller SMEs. The dynamic of the local

Table 9.2: Main buyers with interests in La Laguna, Tehuacan and Yucatán

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<thead>
<tr>
<th>La Laguna</th>
<th>Tehuacan</th>
<th>Yucatán</th>
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<tbody>
<tr>
<td><strong>Main clients</strong></td>
<td><strong>Marketers/designers</strong></td>
<td><strong>Marketers/designers</strong></td>
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<tr>
<td>Old Navy/Gap</td>
<td>Gap</td>
<td>Old Navy/Gap</td>
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<tr>
<td>Liz Claiborne</td>
<td>CK</td>
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<tr>
<td>Tommy Hilfiger</td>
<td>Guess</td>
<td>Victoria's Secret</td>
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<td>Eddie Bauer</td>
<td>Liz Claiborne</td>
<td>OshKosh B’kosh</td>
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<tr>
<td>The Limited</td>
<td>Mudd</td>
<td>Ralph Lauren</td>
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<tr>
<td>Polo Jeans</td>
<td>Mudd</td>
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<td><strong>Branded manufacturers</strong></td>
<td><strong>Branded manufacturers</strong></td>
<td><strong>Branded manufacturers</strong></td>
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<td>VF (Wrangler)**</td>
<td>Levi Strauss</td>
<td>La Perla**</td>
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<td>Sara Lee/Hanes**</td>
<td>Savane</td>
<td>Sara Lee**</td>
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<td>Levi Strauss</td>
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<td>VF (Lee)**</td>
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<td>Savane</td>
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<td>Vogue**</td>
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<td><strong>Retailers</strong></td>
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<td>JC Penney</td>
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<td>Wal-Mart</td>
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<td>Sears</td>
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<td><strong>Intermediaries</strong></td>
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<td>(vendors/hybrid)</td>
<td>(brokers/vendors)</td>
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<td>Kellwood</td>
<td>Tarrant**</td>
<td>Kellwood</td>
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<td>Aalfs**</td>
<td>Oxford Industries*</td>
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<td>W. Stevens*</td>
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<td>807**</td>
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<td>Easy Wear Group</td>
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<td>A &amp; A Consultants</td>
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* These US intermediaries are also involved in retailing through licensing or own brand production.

** These US companies have FDI production facilities in the region.
labour market is also largely similar and, as in La Laguna, a tight urban labour market has caused factories to flee the urban area. In fact, garment production is much more dispersed than in La Laguna, and many garment factories have been established in the indigenous villages surrounding Tehuacan.

A few differences between the Laguna and the Tehuacan clusters also need to be noted. On the whole, the development of the Tehuacan cluster appears to be one step behind that of La Laguna. Local companies, even the very large ones, are overwhelmingly pure assemblers and by the turn of the century the concept of full packages was only just being introduced into the cluster. Also, labour conditions, especially in the village factories, are below those found in La Laguna: more children are working in the factories, and the facilities are often improvised and not built specifically to serve as a garment factory, as is mostly the case in La Laguna. The dispersed pattern of production as well as the larger distance from the US makes direct governance by buyers in these areas more difficult.

The Yucatán cluster – which was also briefly discussed in Chapter 5 – differs somewhat from the other two cases: it is more diversified in terms of its product orientation, and FDI assembly facilities now play a much more important role in the cluster, in fact they play a dominant role. As in the other two cases, local garment industry expertise was present in Yucatán before its recent export boom. The Mayans in the region are known for their traditional garments and embroidery work, and traditional men’s shirts made in Yucatán have had a strong position in the domestic market for decades. In the garment industry in the region today, little remains of the former specialisation in guayaberas. In recent years it has been replaced by export production. While the presence of a very large skilled local labour reserve (especially in the rural areas) is the main pillar supporting the rapid growth of the cluster, local ownership of garment factories is comparatively limited, certainly in the export sector. The garment industry is dominated by the large-scale facilities of US, Asian and even European manufacturers and contractors. Export production is overwhelmingly destined for the US market and is transported by ship from the Progreso port in Yucatán to several eastern US ports.

Table 9.2 shows the main clients of the industries in La Laguna, Tehuacan and Yucatán. Although the precise mix of clients differs between the clusters, clearly all three clusters work predominantly for major US buyers. They also occupy a dependent, contracting position vis-à-vis these buyers.

All in all there are a few striking similarities between the three clusters:

- They are narrowly oriented towards the export market (domestic market production has been mostly crowded out);
- They produce basic, mass-produced garments;
- The average scale of operation is large and dominated by a few very large companies; and
- Their recent growth and success is a result of exogenous demand rather than of endogenous, evolutionary growth.

On the whole, rather than a deviant case, La Laguna appears to be a rather typical example of the Mexican garment industry and its recent export-oriented boom. Its peculiarities (especially since they appear to apply to the entire Mexican garment export industry), raise questions with regard to the cluster’s future prospects.
9.3 Interpreting the findings

The evidence presented does not necessarily warrant great optimism. In fact, La Laguna has not stepped out of the looming shadow of El Paso and its dramatic demise. Of course, less than a decade has passed since the garment export boom took a hold of the Laguna cluster and significant headway has been made in this short period: growth has been impressive, more fashion is being produced, a few nodes of the bi-national value chains are shifting to Mexico, which has led to a greater local integration of the manufacturing process, and more US buyers are buying their jeans in La Laguna. Yet, perhaps because of the daunting quantitative challenges posed by the US demand boom, the more qualitative and strategic of these changes have been made hesitantly and, in some cases, under direct pressure exerted by outside buyers. Words like pro-activity and flexibility do not describe the local business attitude. And while there may be sound reasons for this, it is cause for concern in an industry that places growing emphasis on commitment, cooperation, flexibility, speed and service on the one hand, and is marked by apparent locational volatility on the other, low-end hand. Generally, LMICs that participate in regional sourcing patterns are thought to compensate for their often higher prices by offering the mentioned other, quick-response-related advantages. La Laguna does not do this, yet. With the upcoming integration of garments and textiles in general WTO rules in 2005 and the expected global reshuffling of garment production locations, the local garment industry offers little or no competitive advantages allowing it to look forward with great confidence. This appears to be validated by the cluster’s crisis in 2001 and 2002, which was briefly discussed in Appendix IV.

This study does not validate the idea that the development of the Mexican garment industry will be modelled after the East Asian example. In this proposition, a number of important factors are ignored. First of all, timing: over the past four decades, especially with revolutionary improvements in computer technology, the garment industry and most notably its marketing and sourcing strategies have changed. The competitive environment and challenges facing current newcomers like Mexico are very different from those of the East Asian pioneers. Many of the new entrants start as pure assemblers and are restricted by existing trade regulations or by a dependent supplier position vis-à-vis their buyer. East Asian pioneers initially faced no such restrictions. Also, East Asian garment exporters had few or no LMIC competitors, whilst current newcomers have many, some of which have longstanding experience. Besides these general changes in the competitive environment, a few specifics of the Mexican case need to be noted as well. As the Laguna case clearly shows, Mexico’s market orientation is narrowly focused on the US market and its participation is based on regionalisation and not on globalisation, as was the case for most Asian suppliers. Compared to the more all-round Asian suppliers, Mexico is in a more dependent position and is more limited with regard to learning about other markets and governance styles. Finally, Mexico’s sociocultural environment and, more importantly, its policy environment are very different from those in East Asia. All in all, it cannot be taken for granted – in fact, it is unlikely – that Mexico will follow the path established by the East Asian NICs.

So, how is Mexico’s position to be regarded? Trade policy (changes) are highly important in explaining Mexico’s development and current position. Here, Loo’s (2002) cake metaphor appears appropriate. Loo envisions the global garment industry as divided into a cream portion of flexible production regions with creative, innovative and high value-added activities, and a cake portion of low value-added activities. In between the cake and the cream, she describes a
layer of artificial cream resulting from the international regulatory framework and uniting the low-paid and low value-added activities of the cake portion with the high profits and export values for industrialists and governments found in the cream portion. Mexico is a typical example of an ‘artificial cream location’ that may lose much of its raison d’être with the ending of the MFA in 2005. Trade policy changes, in the form of NAFTA, have opened up a window of opportunities for the Mexican garment industry but a decade later impending international trade policy changes are already threatening to close it again.

La Laguna differs from most other garment cluster described in cluster literature. Most LMIC export clusters were broad SME clusters that have become internally diversified and/or oriented towards exports as the outcome of a steady endogenous development process. La Laguna is different. Its humble garment industry was devastated by a surge in cheap imports, and then a few years later what remained of the industry was faced with an overwhelming demand from the US that launched it as a major player onto the world’s largest market. Local factories that predate NAFTA found themselves in a forerunner position. Several became local industrial giants that dominate the cluster and especially the newly established SMEs that work as their subcontractors. The result is a polarised cluster, where polarisation not only separates domestic market producers from export producers, as noted by Chinchilla and Hamilton (1994). This study clearly shows internal polarisation within the Laguna export cluster, which may serve as a model for the export-oriented segment of the entire Mexican garment industry. Moreover, polarisation has increased during the export boom. In this respect, the case of the Laguna cluster is illustrative of the warnings issued by Dussel Peters (1997a) and Valdes-Ugalde (1995) concerning the development of the Mexican economy in general under the influence of its current liberalisation course.

In relation to the cluster literature, two lessons can be drawn from this study. First, without being able to precisely pinpoint or rank the reasons, the Laguna case shows that the prevalence of trust-based, cooperative linkages as a basis for collective efficiency in clusters cannot be taken for granted. While the nature of the local sociocultural environment may play an important role that should not be overlooked, the exogenously driven growth spurt may be especially disruptive to the materialisation of such links. Such a dramatic outside demand boom may well position local firms as each other’s direct competitors. Direct competition for a position in the export networks of not necessarily loyal, external buyers is likely to form an important structural barrier to cooperation within the cluster. This is all the more relevant and deserving of academic attention, not only because La Laguna is exemplary of the Mexican garment industry, but also – and more importantly – because progressive globalisation and the incorporation of ever new LMIC clusters into GVCs may well bring into existence many more new clusters like La Laguna outside Mexico as well.

Second, the above mentioned structure and dynamics have negative repercussions for learning and upgrading processes that support the competitive position of the cluster. There is no local think-tank, and hardly any sharing of information or lessons. Furthermore, while dominant large firms do function as upgrading pioneers (Scott, 1992; Humphrey & Schmitz, 2000) – subcontractors in the lower tier generally do not receive the incentives and information –, there is little evidence that their efforts benefit the cluster in general. In La Laguna, learning is not a collective process.
The GVC perspective has contributed significantly to the understanding of the Laguna region’s development and of the core issues at stake. In the post-NAFTA export boom, vertical, chain-based linkages to US buyers have played a determinant role. Learning from global buyers (Schmitz & Knorringa, 2000) and buyer succession have been important, and one of the important challenges facing the larger local producers is to extend their command of the value chain in the direction of full-package production. With regard to the outcome of these processes, however, the narrow focus on intra-chain dynamics and vertical, top-down linkages that is typical of GVC studies does not do justice to the complexities of global-local interaction that lies at the heart of the success or failure of La Laguna as a major supplier to the US market. In this case, local and historical circumstances are highly important. For example, the former limited role of local producers as pure assemblers appears to have had a paralysing effect that is currently reflected in market unawareness, dependency and risk avoidance on the part of local producers. Also, the turn to liberalisation and the current absence of focused policies have harmed the relations between public organisations and industry, which receives little or no support. Leaving these aspects out of consideration introduces the risk of applauding potential instead of actual results and of oversimplifying the difficult upgrading process to be undertaken. In other words, there is a clear need for a more explicit and extensive incorporation of extra-chain elements into GVC studies.

Upgrading efforts have been concentrated on the improvement of production processes and techniques. There is no indication that the upgrading trajectory will extend beyond production, viz. into the design, marketing and sales activities of the GVC. Gibbon (2000) has already cast doubt on the validity of quoted examples of OBM garment producers in East Asia, and thus on the development trajectory modelled on these examples. Dussel Peters, Ruiz Durán and Piore (2002) also stress the fact that US buyers generally do not teach their Mexican suppliers the skills they need to operate independently on the international market (see also Schmitz & Knorringa, 2000; Hobday, 1995). For La Laguna it is highly unlikely, at least in the short to medium term, that local firms in La Laguna will attain an independent OBM position in the US market. This leads to questions concerning the developmental result: even if the cluster manages to safeguard its competitive position in the US market, it may not be able to appropriate much of the gains. In a locked-in position as a successful but subordinate contractor cluster, the benefits of local upgrading processes will likely be reaped by the cluster’s buyers rather than by the local producers.

As mentioned, the relevance of the observations with regard to the internal development of the cluster as well as the cluster’s (and its participants’) position in the GVC extend beyond the Laguna case to the rest of the Mexican garment export industry. Not only that, there appears to be little reason to believe that these observations do not apply to large parts of the Mexican maquila, or export, sector. If this is true (and more research is needed to determine whether it is), one of the effects of the economic integration of the US and Mexican economies in NAFTA may well be the lock-in of Mexico in a subordinate position vis-à-vis its northern neighbour. It also raises questions with regard to the relevance of the distinction between ‘buyer-driven’ versus ‘producer-driven’ GVCs in relation to the local developmental outcome that incorporation in such chains may have.

Finally, what conclusions might be drawn concerning the relation between global and local? It is almost unavoidable to relate the findings of this study to the dispute between anti-globalists and the proponents of export-based local development. Unsurprisingly, the findings of this
study affirm the wisdom of steering a middle course between the complete rejection of
globalisation – as is done by the anti-globalists – and the belief that participation in
globalisation will lead to development – as proposed by EOI enthusiasts. Certainly in the
garment industry, the globalisation process cannot be reversed – nor should it be, as it brings
with it many valuable economic development opportunities for LMICs. On the other hand, this
study clearly shows that insertion in the global market or GVCs does not automatically
ensure the beginning of growth and an upgrading process with positive developmental
results in the medium to long term. Learning from global buyers and their standards is not
enough, even if only because these buyers’ primary concern is with sales and profits and not
with pushing the development process in their sourcing countries. To achieve industrial and
regional development based on (export) industrialisation, involvement of the state is needed.
Both the success of several East Asian NICs and the difficulties of La Laguna may serve to
underline this general but important point. The involvement of institutions that support the
adjustment of Mexican firms to the needs of the market and that promote the continuous
upgrading needed to stay in the market would appear a worthwhile initiative. Strengthening
of the domestic market (for example, through striving for a more equal distribution of income
and power) and of the position of domestic firms on that market is especially important, also
because it would somewhat attenuate the risks of depending on the volatile US/global market.

Notes
1 In terms of concrete measures one could think of extending and improving the existing government-sponsored
consultancy programmes for SMEs and of improving credit or loan conditions and availability. Institutions akin to
the Fashion Development Centre in El Paso (see van Dooren & van der Waerden, 1997) can serve to improve market
awareness amongst local entrepreneurs. The promotion and support of ‘empresas integradoras’ (see section 3.3)
could strengthen the position of SMEs as well as help them to achieve the capacity requirements needed to operate
on export market