

Manufacturing Firms and Local Jobs:
The Influence of Competitive Strategies on Labor
in the Garment Sector of San Francisco El Alto, Guatemala.

by

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Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the
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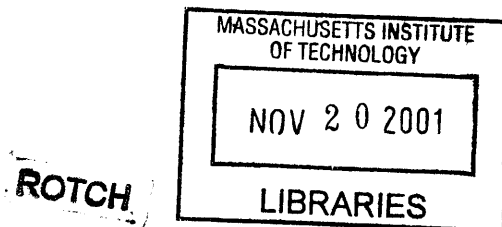
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ABSTRACT

This empirical research address how the growth gained by San Francisco El Alto's garment sector has spread across the local population. It makes evident how the family-owned firms that comprise the local industry have learned to built the strategies they use in order to be competitive at their core set of markets, and how these strategies have influenced the patterns of jobs creation, and working conditions that today exist in the municipality. A moving picture of connections between firms and local labor market development is described through the historical account of the evolving local industry.

Main findings include political-economic ones at the local and national level supporting the capacity of local fabric wholesalers to reduce the costs of raw materials to local manufacturers at the time that the expansion and diversification of small and medium-size manufacturers have spread local jobs. Class clashes, ethnic ties and long term family economic strategies are found having influence in local leaning about how to build competitive strateties. The importance of domestic and regional markets, as well as similar markets from neighboring Central American countries, as well as the South of Mexico, as their core market niches is also addressed.

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This thesis is dedicated to the people of San Francisco El Alto.

Introduction

Through this empirical research I explore how some firms in the garment sector of San Francisco El Alto have learned to build strategies that have allowed them to cope better with competitive pressures than other firms, and how these strategies have shaped the local jobs and working conditions that firms provide. These are the main set of questions that this empirical research addresses. Today's local garment sector in San Francisco El Alto is four times the size it used to have back in the 1970s. A shift in the municipality's economy has occurred through the second half of the last century, particularly during the 1980s and 1990s, from a rural economy based on a combination of agriculture and handicraft production of clothes and textiles to a semi-urbanized economy based on garment manufacturing. My estimate is that seventy percent of today's local labor force becomes involved in some way the garment industry during the peak season of demand –from October through March. This involvement may be direct through garment manufacturing, or may be indirectly connected to the sector as service providers (i.e. machine sales and repairs, automated embroidery, etc.), or garment traders.

An important part of this thesis attention is focused on understanding how the growth of the local industry occurred. More precisely I will focus on the process of expansion and diversification of the family-owned manufacturing firms that comprise the local industry. Nevertheless, this research is mainly interested in understanding how growth gains have become widespread across the local population. For this reason it explores how the birth,

expansion and diversification of firms is related to the patterns of jobs creation, and working conditions that exist today in the municipality.

San Francisco El Alto's local garment industry is not an idyllic island disconnected from what is happening with garment manufacturing firms and their workforce in other regions of the country, or from the changes that the garment industry is experiencing globally. However, the nature of its connections, as this thesis stresses, is different. Considering their *k'iché* ethnicity roots, San Francisco El Alto's entrepreneurs have found their place in the manufacturing industry in ways that could seem striking to an outsider because of the way they have learned to build upon their traditional resources and then access and combine them with more modern ones.

A first clear evidence of this involves the kind of products that they manufacture. These entrepreneurs produce and sell "westernized" garments, not the traditional ethnic ones that are usually associated with rural Mayan towns from the Southwest region in Guatemala. San Francisco El Alto's garment sector mainly specializes in the production of pants and shirts –mostly jeans and casual wear pants, as well as polo type, formal, and casual wear shirts. Women's and girls' dresses, jackets, and more recently, backpacks are also being produced in the municipality. The garments they manufacture are similar in fashion and fit to those that consumers would find at department stores in Guatemala City, or any major urban center in Central America, or Mexico. However, generally speaking, the quality of the clothes that San Francisco El Alto's manufacturers produce is not as high as what their consumers would find at department stores that distribute recognized brands; their prices are much lower

than what these same consumers would pay at those stores, or if they would have them tailor made.

A second evidence of how they combine traditional and modern resources concerns the market segments they have learned to target. During the initial stages of their development these entrepreneurs certainly took advantage of their historical connections to the “Plazas” – the traditional market days of rural Guatemalan towns – in which they have specialized in selling since colonial times; but interestingly enough, they developed a capacity to sell beyond this market frontier and into urban markets (*low-income plus low-middle income markets*) in Guatemala City as well as in smaller cities at the interior of the country. Furthermore, they have managed to sell to similar markets, both rural and urban, in almost all Central American countries (El Salvador, Honduras, Nicaragua, Panama, Belize), and in the neighboring south region of Mexico (Oxaca and Chiapas). In fact, these segments of rural and urban consumers represent their current market niche.

This thesis shows how San Francisco El Alto’s entrepreneurs have learned to built their own strategy to cope with competitive pressures by using what usually would be considered *low-end markets*, specifically low income and low-middle income domestic markets in Guatemala and neighboring countries. This strategy contrasts with *up-market* oriented ones –the garment assembly firms from the municipality of San Pedro Sacatepequez¹ are a good example of the latter– which usually pursue steady connections to export markets

¹ Firms from the municipality of San Pedro Sacatepequez, located in the central region of the country, close to Guatemala City, represent such a case. Those firms are subcontracted to do garment assembly by larger Guatemalan and international firms (mostly US and Asian) also located in the Capital City.

through buyers that form part of the global garment assembly industry². Moreover, this thesis shows how the kind of labor market relations embedded in these strategies have made it possible for the local industry to spread the gains of its economic growth. What kind of causes have been at the base of this outcome? I suggest that three basic causes have been working in developing the setting of firms and labor that we see in San Francisco El Alto's garment industry today.

The first of these causes has been the interplay between local k'iché ethnic politics and national politics. At the local level, ethnic politics, together with economic relations, has played an intermediary role between firms and workers. One important example of this that is shown in this thesis is how the labor-management clashes of 1973 were afterwards dealt within the local political as well as the economic arena, and how this process completely changed the face of the local industry: a new rural middle class of garment manufacturing and trading entrepreneurs emerged in the municipality, some firms disappeared and new types of firms were created, with new organizational characteristics and new labor relations.

The second cause which has driven firms ability to cope with competition, with the accompanying adjustments at the level of local jobs, has been the long term economic strategies that local families have adopted. Among others, migration has been a relevant piece of these strategies, allowing household members to increase their human capital –i.e. acquiring new manufacturing skills or garment trading knowledge– as well as financial capital which has been re-invested in the household manufacturing business. From the economic

² For further conceptualizations on global commodity chains and its applications to the global garment industry

perspective, individual household members actions such as migrating, sharing merchant distribution channels, diversifying into manufacturing different and complementary garment lines form part of a deliberated long term family agenda that aims at positioning the household –with more or less success– within the realms of this new rural middle class of garment manufacturer-traders that has emerged in the municipality. Even household members’ engagement in civic and political actions seem to be better understood in light of this family-economy logic.

The increasing strength obtained by the local market during the last fifty years is the third cause that has helped to spread the gains of the local industry’s economic growth across the municipality. There is some circular causation happening here though: on the one hand the importance of San Francisco El Alto’s market in the Southwest region has been a given historical heritage that can be tracked back to the 17th Century, however, on the other hand this inherited local market has been cyclically improved by the development of the garment industry during the 20th Century. In few words, the local market has facilitated the garment industry’s expansion, while in turn the industry’s growth has reinforced the local market. During the last fifty years, the strength of San Francisco El Alto’s Plaza market has been used by the leading local entrepreneurs either as a safe retreat during difficult times, or as a springboard that has enabled them to jump into other regional domestic markets, and afterward, into markets of neighboring countries. Nowadays, this logic is still used similarly by subcontracted *home-based workers* and *small manufacturers* either to scale up, or to gain a bargaining capacity with their subcontractors.

see Gareffi (1994) and Abernathy (1999).

Through the whole document I argue that the ways in which these three causes – politics, family economic strategies and markets– have interacted has created a locally embedded knowledge about how to turn competitive threats to the local industry and its jobs into opportunities. Certainly some firms in San Francisco El Alto’s garment industry have been more successful than others at up-scaling or diversifying; similarly, some workers have shown to be better equipped than others to take advantage of the opportunities that the local industry’s growth has offered; the thesis provides explanations of why these differences occur. Nevertheless, the overall balance across the decades is that the local garment industry has improved the levels of employment in the municipality, and the income of many families in the villages.

Chapter One describes San Francisco El Alto’s garment sector. It gives a picture of the local industry as it exists today: its composition of firms and labor force, and the constraints that manufacturing firms are likely to face. Additionally, it provides a brief account of the nature of those firms in a historical perspective. The remaining chapters unfold the central argument that has been stressed above.

Chapter Two explains the role played by small and medium size firms in contributing to local economic development. This chapter explores the political-economic dimension of local learning. It examines the process by which entrepreneurs and workers progressively have come to form part of this manufacturing and trading group –the local rural middle class. I study how they have learned to insert themselves into the local and national political

processes, and how this advantageous insertion has enabled them to build economic alliances at the local and national level which have helped them to expand and diversify. Then it explains the particular organizational-managerial capabilities that medium size manufacturers have learned to target their core market niches, how this has required them to modify their production systems –i.e. outsourcing, and transferring machines to workers–, and how these changes have modified local labor relations.

Chapter Three addresses two questions: How did local garment sector jobs increase? What explains their improvement or deterioration? It explains the how by capitalization of home-based workers became able to increasing bargaining capacity in front of their subcontractors. The role that migration as well as financial institutions and programs played in workers' capitalization. And finalizes by quoting the voices of *home-based worker* explaining what are the dynamics of working conditions: why have do they consider them to be improved, when do they deteriorate.

Finally, in Chapter Four I stress several lessons that can be derived from San Francisco El Alto's case on the role played by long term family economic strategies – addressed as household economy–, the political-economic process that leads firms and labor market development, and the role played by domestic markets as safeguards during difficult times and as training grounds for the take off of small scales industries.

A few words on methodology

Most of the field information used in this thesis was gathered during two field visits I conducted in Guatemala, and San Francisco El Alto. The first one was a long visit during July and August 2000; six months later, I did a shorter one in January 2001. During the first visit I had both formal and informal interviews with the technical staff from Chuimekená Credit Union,³ BANRURAL,⁴ and a NGO called CDRO,⁵ –i.e. loan disbursement officials and managers. Through them, as well as through the contacts I progressively made with other local leaders, I was able to put together a list of eight relevant medium-size garment producers from different villages which I interviewed. I also interviewed several small-size manufacturers, garment traders, fabric wholesalers, and an interesting old man who used to be the owner –one of a handful who are still alive– of one of the first tailor-shops that were responsible for the shift into modern garment production of the local industry; these shops no longer exist.

During my second visit, in January 2001, I concentrated my attention on gathering information from public institution officials –i.e. the municipality’s staff as well as the local Health Center staff– and particularly on interviewing home-based workers. I approached home-based workers with the help of a resident of San Francisco El Alto. We did interviews in a mixture of K’iché and Spanish with fourteen randomly selected home-based workers

³ Chuimekená Credit Union, the biggest credit union in Totonicapán, has opened a local branch in San Francisco El Alto.

⁴ BANRURAL is the former national rural development bank that was transformed into a privately owned rural promotion bank after the Peace Accords of 1996.

from different villages (San Francisco El Alto-town, Chivarreto, Rancho de Teja, San Antonio Sija, Tacajalve, and Paxixil). We asked them open ended questions about major changes in the system of production and their working conditions, their positive or negative opinions about working at home, the process of job negotiations with contractors –manufacturing firm owners–, skills formation, and their paths to capitalization.

The gathering of document sources was done during both field stages; however, at this point I must comment that the lack of official and consistent statistical information concerning the size of the local garment sector –e.g. number of firms and volume of production– became a difficult problem to tackle, compelling me to count on interviewees approximations. Beyond this first field work, a couple of interviews/conversations with researchers who had worked in the same location in Guatemala, or with the garment sector in El Salvador have been important to triangulate my own findings.

⁵ CDRO provides several development programs –credit, health, and education– to indigenous populations in the department of Totonicapán. Its program in San Francisco El Alto provides small loans to home-based workers and small manufacturers.

Chapter One San Francisco El Alto's Garment Sector: Competitive Pressures and Local Industry

This chapter deals more with statics rather than dynamics, it primarily attempts to set the basis that will allow the reader to understand the dynamics that will be laid out with further detail in chapters two and three. The chapter starts by showing the business environment constraints that manufacturing firms located in San Francisco El Alto tend to face, in spite of these constraints the chapter also assesses that the garment sector has grown. Then it describes the local industry as it exists today, its workforce and firm composition, its markets and distribution channels. Finally, by analyzing the nature of the local firms in a historical perspective, and by stating their connections to markets –local, regional and abroad–, it lays out the basic elements and discussions that will lead us to the following chapters.

The constraints that manufacturing firms face

My findings in San Francisco El Alto show that some of the small and medium-size firms which have their origins in the artisan traditions of the Southwest in Guatemala have been able to develop creative strategies that enable them to cope with the competitive pressures coming from within the local industry, and from the national and global garment industry. The first constraint that many of the home-based workers and the smallest manufacturers I interviewed bemoaned was the increasing number of local firms producing for the municipal market (the local Plaza), which they say tend to undercut local prices. The second one I heard came from manufacturers that tended to sell most of their products

outside the local market; they usually complained about having to compete with imported clothes (e.g. used clothes from the US, cheap clothes from Asia), that are also sold at low prices in these manufacturers' core domestic markets, and in those of neighboring countries. The third one involved those firms that work on the basis of supply agreements with steady buyers from outside the locality, mostly the medium-size ones. In addition to the core pressures of sustaining low costs, these firms also felt pressures related to meeting tight delivery schedules and reliable quality standards.

The sources of competitive pressures that San Francisco El Alto's firms face are quite similar to the ones reported in other places of the world by scholars concerned about the role of small and medium-size firms in local development. Recent developments in the literature on industrial clusters, global value chains, strategic management, and labor standards, agree on a similar diagnosis about the business environment inherited from the 1990's. The ability to offer products at low prices remains important to be competitive; however as national economies become more open, enhancing quality, speed, and ultimately, flexibility of production⁶ have become increasingly important, not only to compete at the global level, but also to resist global competition threats at the domestic level. Additionally, the emergence of lower cost competitors with enormous reserves of cheap labor (e.g. China) has become a factor that needs to be taken into consideration (Schmitz, 2000; Gereffi, 1994; Palpacuer, 1998; Piore, 1996), not only in exporting but also because of its effect on firms' competitiveness within economies that are becoming more open. The risk for lower and

⁶ Flexibility in this context means the capacity that a production system has to change and adapt to shifts in market requirements regarding: product design, volumes of production, turn around time, and product final presentation (e.g. packaging).

middle-income countries –and poorer regions within countries– is that they tend to be “locked-in” into the role of low-wage producers, usually based on production platforms for Trans-National Corporations (TNCs); while at the same time they always have to fear the possibility that another country –or region–, in a ‘race to the bottom’, will offer even lower wages (Helmsing, 2000: 37) than them.

Overwhelmed by competitive pressures, many locally based firms in developing countries are not able to find other strategies to remain in the market but to cut costs, reduce employment levels, intensify the pace of work, or cut wages. Authors like Schmitz argue that the main implication of these trends is that, within this emerging context of openness to trade, small and medium-size producers’ ability to compete against imports or to become exporters will increasingly depend upon their capacity to meet global quality standards (Schmitz, 2000). Under these circumstances, *upgrading* and *catching up* with global standards is the main challenge these firms have to face. Similarly, upgrading also becomes a necessity in order to generate higher wage employment.

However, meeting this challenge is particularly difficult for small and medium-size firms in developing countries that work in traditional and/or labor-intensive sectors, like garments. Along the lines of the previous paragraph, Piore has extensively discussed how the North American Free Trade Agreement (NAFTA) has affected traditional industries in Mexico⁷ –furniture, clothing shoes, ceramics. His findings show how large amounts of traditional firms have been replaced by new ones which have organizational structures that are

⁷ For further discussion on this topic see: Piore et al 1996, and Piore 1996.

highly connected and dependent on foreign relationships for capital, raw materials, managerial support, design, product development and marketing.

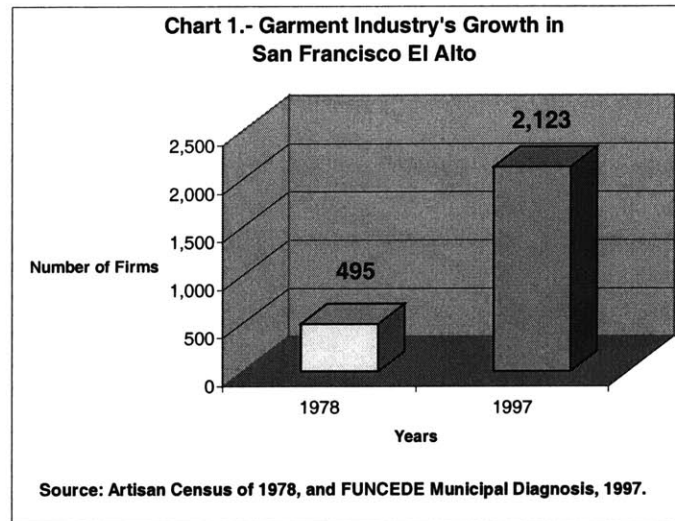
Contrasting with these facts, my findings in San Francisco El Alto show that some of the small and medium-size firms which have their origins in a similar traditional sector in Guatemala have been able to develop creative strategies that enable them to cope with competitive pressures in ways that let them overcome the negative effects that have been pointed out. In fact, San Francisco El Alto's garment sector has expanded during the second half of the last century, and though it is still far from being an idyllic industry, both in terms of firm development and the job quality that it offers, it is undoubtedly the economic sector that has brought widespread development to the municipality. For decades, development scholars have recognized that such sectors generate employment for men and women living in rural areas who, at some point, consider jobs in these local industries as better options for them compared to jobs in agriculture, government, or large-scale industries (McCormick, 1999).

Assessing the local garment industry's growth

That San Francisco El Alto's garment sector is a local industry that has grown, at least during the last couple of decades, is a point made clear in Chart 1. This chart compares the number of firms that comprised the local garment sector as reported by The First Artisan Census of 1978,⁸ with the numbers reported in an independent municipal diagnosis done by

⁸ The First National Artisan Census of 1978 –which was never again done in Guatemala– mainly counts manufacturing firms although it does not make a distinction of their size, or if they are also involved in commerce. Nevertheless, its useful side is that the data was disaggregated at the village level.

FUNCEDE⁹ in 1997. During nineteen years, the sector grew almost four and a half times from 495 firms in 1978 to 2,193 firms in 1997.

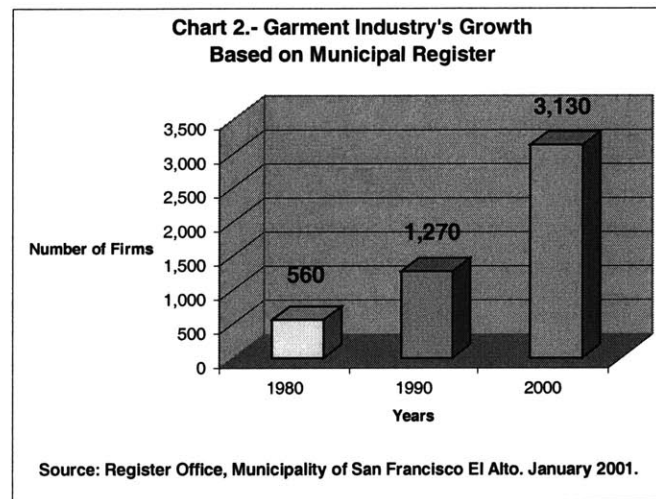


Small scale industries like San Francisco El Alto's are usually less visible in Guatemalan official statistics since national industry statistics are not disaggregated at the municipal level. However, the Municipal Register Office in San Francisco El Alto claims that –due to the fact that the majority of garment manufacturers count on directly selling at least part of their production at the Plaza Market–increases in the number of garment stores and stands at the Plaza, during market days, are a reliable approximation of number increases in local garment sector firms.

The alternative information source on the local industry's growth, a systematic reporting of local industry's figures by the Register Office of the municipality, is a task yet to

⁹ FUNCEDE is a development research foundation based in Guatemala. FUNCEDE's study, more concerned with commerce, makes a clearer distinction of firm types: fabric wholesalers, manufacturer-merchants, and services like machine repairs. Still, their study neither defines firms size nor disaggregates the number of firms per each village.

be done. Nevertheless, the person in charge of this office provided me with gross numbers about the evolution of the amount of firms and selling sites present in the municipal Plaza market¹⁰ during the last three decades. With those figure I was capable of constructing Chart 2 which shows a growth pattern of the local garment sector –from 560 firms in 1980 to 3,130 in year 2000– which is consistent with the pattern previously shown in Chart 1.



The municipality’s Register Official also explained to me that the increase in number of market days is also evidence of San Francisco El Alto’s garment sector growth. Until the mid 1980s, Friday was the only market day. Even to this date Friday remains the traditional market plaza day, with people from other towns and municipalities coming to San Francisco El Alto to do an ample variety of rural trades, from animals, seeds, vegetables, and traditional herbal medicines to quilts, shoes, furniture, and traditional textiles. Yet, market day patterns have changed. By the end of 1980s market days also included Thursdays. According to my informant, during the last three years, the market has officially started on Wednesdays for the

¹⁰ This municipal office is concerned about keeping track of these figures because in addition to the commerce taxes charged to stable stores in town, the municipality also charges *Plaza site fees* during market days.

local retailers. Garment traders that come from other rural regions of the country, as well as from neighboring countries, arrive during the afternoon and evening of that same day. The first morning hours of every Thursday are when the main wholesale transactions with incoming traders are carried out, while the other market days are still dominated by small retailing.

The core set of markets

The demand for garments produced in San Francisco El Alto has at least three geographical origins: First, there are regional rural domestic markets, such as those along the Southern Pacific Coast and the northern departments of Cobán, Quiché, and Petén, as well as towns close to the Mexican border, such as La Mesilla and Huehuetenango. Second, there are low income-market in Guatemala City –mostly comprised by street bazaars and vendors in “Sexta Avenida” –, but also by small urban stores in low-middle income neighborhoods, as well as several particular firms or institutions –e.g. for the manufacturing of schools of employees uniforms. Third, there are similar low-income and low-middle income markets from El Salvador, Honduras, Nicaragua, Belize and Panama, as well as the South of Mexico (states of Guajaca and Chiapas).¹¹

When they are just beginning their manufacturing business and their volume of production is relatively small, San Francisco El Alto’s entrepreneurs have traditionally tried to first take advantage of the local Plaza and of the rural regional markets that are closer to them.

¹¹ Information collected during summer/2000 by interviewing producers and technical staff from the local institutions already mentioned.

Therefore their strategy to develop market channels is to first support themselves in these markets before jumping ahead into other more difficult ones.¹² As time has passed, shifting from one market to another during different seasons of the year –perhaps “chasing markets” would be a more accurate way of saying it– has become the distinct characteristic of the most successful manufacturer-merchants of San Francisco El Alto.

They have shown this behavior not just over time, as a strategy to expand their businesses, but also during different periods of the year. They are capable of shifting their production and sales from rural to urban markets as well as from domestic markets to markets in neighboring countries. One of my informants, a *medium size manufacturer* of Formal and Casual Wear Shirts and Jeans from the village of Pachaj explained to me that he sells to the markets of Petén and Cobán¹³ during the period of lower demand (from July to September), but that he shifts back to higher quality and a wider variety of garment lines during peak season of demand (October to March). On the one hand consumers in Petén belong to a rural low-income segment of the domestic market, which is willing to buy garments of a more rough finish and lower quality; their demand has less emphasis on style and fashion, but they do care about low cost. Therefore when selling to this market segment profits depends more on the volumes sold rather than on the price. On the other hand the segment of urban low and low-middle income consumers that he targets domestically and abroad is more capable of

¹² Tewari (1999) shows how the best performing firms in Ludhiana’s woolen knitwear cluster had a strong and simultaneous presence in domestic markets together with exports. Their early presence in domestic markets required them to build managerial capacities and knowledge that was central in their ability to cope with the crisis that followed the collapse of their export market. Additionally, she detected that many exporters who did well, or were able to adjust quickly to new markets later on, had this domestic market previous experience.

¹³ Coban and specially Peten are relatively new rural migrant recipient territories (Elías, 1997).

paying higher prices, though it is more concerned with quality. The margins in these latter markets are higher, and the earnings are good if the volumes sold is large.

A similar observation was done by Peattie back in 1980 about the small and medium-size shoe manufacturers she was studying in Colombia. These firms showed more advantages than larger ones in targeting different segments of the domestic market: from the less sophisticated segment of the “barrios” to the segment comprised by fine stores located at wealthier neighborhoods which would subcontract them to manufacture high quality shoes to which they would just put their label, with other market niches in between these two extremes. Such shoe manufacturing firms were easily started up, and increased in number at different scales, with sharply differing strategies for mechanization and standardization. The lack of markets was not seen as a problem for the small shoe manufacturers. Their problems came from difficulty in obtaining capital and a limited capacity to acquire materials on more favorable terms in order to satisfy the existing demand. More than on a productive efficiency base *per se* Peattie saw that larger firms’ advantage laid on their capacity to control their economic environment –which in her case was their capacity to attract capital and to control an assured supply of raw materials which allowed them to sell their goods in such advantageous terms and in such quantities as to command assured markets (Peattie, 1981).

That vision contrasts with the more pessimistic one that the 1990s literature holds about today’s globalized business environment which usually tends to undermine the role that domestic markets can play in building competitiveness among small and medium size firms – we have already discussed this literature’s view at the beginning of this chapter’s section

about the constraints that firms face. My findings in San Francisco El Alto tend to confirm that, in spite of globalization, small and medium size firms have successfully entered, and used to their advantage, low-income and low-middle income market segments in Guatemala, as well as similar market segments in neighboring countries like those from Central American countries, and the South of Mexico. What has changed is that, in a macroeconomic context of trade liberalization and structural adjustment, the more advanced firms in San Francisco El Alto's have had to make additional efforts in developing their own distribution channels to those markets –in the next section I will explain how they accomplished this task.

Additionally, the more developed firms in San Francisco El Alto's have also acquired certain capacity to influence their business environment in the two senses that Peattie suggested were the weaknesses of Colombian shoemakers: they have been capable of raising sufficient investment capital when they needed to expand, and more importantly, they have been capable of ensuring a steady supply of raw materials at convenient prices, which have allowed them to sell their goods in advantageous terms and quantities as to ensure their presence in their core markets. These latter topics will be abundantly addressed in Chapter Two when we talk about how the local political-economic process has influenced the upgrading of San Francisco El Alto's small scale industry, as well as the managerial-organizational capacities that leading firms have acquired.

Distribution channels and product information feedback

Located in the Southwest region of Guatemala, the highlands, San Francisco El Alto is one of the municipalities that comprise the department of Totonicapán. San Francisco El Alto

is a 40 minute drive from Quetzaltenango, the country's second largest city, and a 3 hour ride from Guatemala City. San Francisco El Alto entrepreneurs have developed their distribution channels either by traveling with their own vehicles into different rural towns of Guatemala, where they have pre-arranged deliveries with local stores; or by establishing special sales to larger firms –e.g. special orders of shirts with the firm's logo as gifts to employees and customers, or uniforms for their administrative staff– and public institutions –e.g. school uniforms– that are located at large urban settlements like Guatemala City and Quetzaltenango. The whole range of their buyers also include garment traders from San Francisco El Alto as well as from other towns, and final consumers that come to buy during Plaza days on Thursdays, but mostly on Fridays.

In order to achieve this task all of the *medium-size manufacturers* have invested in buying their own vans, and have developed routes to offer their products to the domestic markets in different rural regions of the country; they did a similar thing to target *low-middle income urban consumers* in markets of Quetzaltenango –the second largest city of the country and Guatemala City. The side effect of this strategy has been that garments produced in San Francisco El Alto became better known to domestic retailers and to merchants from neighboring countries that purchased in those markets, some of which ended up preferring to buy directly at San Francisco El Alto, during Plaza Market days. The further development of these commercial relations eventually turned into supply agreements with small retailers at the biggest domestic markets and international traders coming from similar markets –mostly *urban low-middle income* ones– in almost all Central American countries (El Salvador,

Honduras, Nicaragua, Panama, Belize), and in the neighboring south region of Mexico (Oxaca and Chiapas).

Firms constantly learn through these market connections about consumers' changes in their tastes for fashion, moreover they have learned about the differences in types and quality of garments that each market segment demands. Accessing this information has become part of their competitive strategy because it has made it easier for them to customize the lines of garments they produce (design, fit, types of fabrics, finishing, and final prices) according to the characteristics of each market. An example of the garment consumption patterns of Salvadoran *low* and *low-middle income* urban consumers may help clarify the market opportunities that Guatemalan manufacturers find in markets abroad. First, in San Salvador City women's dresses and skirts of Asian origin are mostly bought by *low* and *low-middle income* moms for their girls and teenagers, but never for themselves. They seldom buy for themselves because of a problem of size –i.e. those dresses are made for thinner and shorter women– , as well as a problem of fashion: mom's dresses in El Salvador use a more conservative fashion than Asian. Second, students and blue collar workers in San Salvador will buy several jeans or pants of less quality to wear on an everyday basis, and save their money to purchase just a couple of pairs of jeans from “well known brands” that will be used only when they go out for special occasions.¹⁴ The dresses for the moms and the fashioned pants of lesser quality are the kind of demands that Guatemalan garments meet in Salvadoran urban markets.

Usually *medium-size manufacturers* have been able to give more stability to these supplying relations either with domestic buyers or with buyers from neighboring countries; the latter is usually the more profitable of the two. The garments sold outside Guatemala generally have better quality and higher prices. Sometimes wholesaling to neighboring countries takes the form of reaching an agreement with garment wholesale traders that will then assume the task –which supposes an additional cost and some risk– of transporting and supplying small and medium size shops located at urban populous neighborhoods in these countries. However, several *medium-size manufacturers* have managed to develop their own network of contacts to whom they supply in each of these countries. Only until they have such markets secured are they willing to undertake the distribution cost, usually by subcontracting trucks from reliable transportation enterprises that come from Guatemala City and Quetzaltenango.

Population and labor

Rather than being concentrated only in the town, garment manufacturing is spread across the nine villages and seven hamlets that comprise the whole municipality of San Francisco El Alto. During field interviews, informants explained that back in the late 1950s and early 1960s all the garment manufacturing workshops were concentrated in the town; these workshops originated from a small group of tailors-traders and their apprentices¹⁵.

¹⁴ The UCA of El Salvador did a study of garment consumption patterns in the capital city. I owe this information to this study and to my conversations with Estela Cañas, the faculty in charge of that study.

¹⁵ One of my interviewees was an elder man who formed part of this first group of tailors. This first group was comprised by five tailors that, as him, used to travel to the South Coast to sell the clothes they manufactured. He mentioned that this group was responsible for spreading the manufacturing skills to their apprentices in the town and to the ones that came from the villages.

However, Table 1 shows that an important amount of garment manufacturing was already being done at the villages by the end of the seventies. In 1978 the villages Paxixil, Rancho de Teja, Pabatoc and Chivarreto summed up 57% of the manufacturing firms and 55% of the garment sector labor force. With respect to the current situation, during my field research interviewees mentioned that –according to their production levels– the five most important villages in the municipality today stand in the following order: Rancho de Teja, Chivarreto, San Antonio Sijá, Chirrenox and Tacajalve.

**Table 1.- San Francisco el Alto's Garment Sector Firms and Workers
(Year 1978)**

	Firms	Share of total (%)	Workers	Share of total (%)
San Francisco El Alto (town)	101	20%	211	26%
Paxixil	110	22%	152	19%
Rancho de Teja	90	18%	140	17%
Pabatoc	53	11%	92	11%
Chivarreto	31	6%	59	7%
Sacmixit	43	9%	54	7%
San Antonio Sija	26	5%	39	5%
Tacajalve	22	4%	32	4%
Chirrenox	19	4%	29	4%
TOTAL	495	100%	808	100%

Source: Elaborated by García, M. (2000), based on First Artisan Census 1978.

This last remark is not surprising if we take a look at Table 2, which shows the population and labor distribution of San Francisco El Alto in year 2000. According to this table the municipality's total labor force was 23,776 that year, and Rancho de Teja, Chivarreto, San Antonio Sijá, Chirrenox and Tacajalve held among them 68% of that labor force, while the town only had 8% of it. Throughout the history of the local industry –as will be seen more clearly in Chapters Two and Three– this demographic strength of the villages has been translated into a growing economic strength of their leading entrepreneurs, and a source of political leverage of the villages upon traditional and contemporary political

authorities –which their leading entrepreneurs have used to fortify their economic performance.

Table 2.- Population and Labor Distribution in San Francisco El Alto (Year 2000)

	Category	Population	Labor Force 1/	Share of Total (%)
San Francisco El Alto	Town	3,925	1,902	8.0%
Chivarreto	Village	9,980	4,836	20.3%
Rancho de Teja	Village	9,531	4,619	19.4%
San Antonio Sija	Village	6,638	3,216	13.5%
Tacajalve	Village	3,780	1,832	7.7%
Paxixil	Village	3,427	1,660	7.0%
Chirrenox	Village	3,248	1,574	6.6%
Pabatoc	Village	2,809	1,361	5.7%
Pachaj	Village	1,978	958	4.0%
Sacmixit	Village	784	380	1.6%
Chuichaj	Hamlet	1,003	486	2.0%
Patzutzutz	Hamlet	767	371	1.6%
Chucalquies	Hamlet	694	336	1.4%
Paraxaj	Hamlet	258	125	0.5%
Chicoj	Hamlet	143	69	0.3%
Bella Vista	Hamlet	68	33	0.1%
Pacaman	Hamlet	34	17	0.1%
Total		49,068	23,776	100.0%

Source: Instituto Nacional de Estadísticas (INE). Projected data based on the National Census of 1994.

1/ Labor Force calculated as population >15 and < 65 years old.

Time series on local employment levels by sector are difficult figures to tease out in Guatemala due to limitations in national statistics. According to Perez-Sainz and Leal (1992), San Pedro Sacatepequez, another Guatemalan municipality highly specialized in garment manufacturing, reduced its rates of open unemployment from 17% in 1964 to 11% in 1981; this period coincided with the expansion of its garment industry. Though the strategy of San Pedro Sacatepequez is different from that of San Francisco since the former relies on subcontracts from bigger maquila firms from Guatemala and abroad. Interestingly enough, the

only information I received regarding unemployment reductions in San Francisco El Alto came from the Health Center staff in town. The staff has observed an employment change specially among the younger women –age 15 to 20– they serve. Back in the 1970s and most of the 1980s large amounts of women in this age group used to seek for employment outside San Francisco El Alto –usually as maids in Quetzaltenango and Guatemala City. That has stopped since late 1980s and during the 1990s since most of them are now locally working in garment manufacturing. The Health Center has also observed that, since the mid 1990s, a different thing seems to be happening in the smallest villages to their young male –age 18 to 25– population. In places such as the village of Pachaj, one of the relatively small villages, many young man have decided to travel to the United States, usually to Los Angeles, California in order work in garment shops there for a couple of years, as they know people from other villages in the municipality have done before.

My estimate is that today 70% of the municipality’s labor force –around 16,640 people– becomes involved in some way in the local garment sector as manufacturers, service providers or traders during the season when demand peaks. The other 30% is involved either in other commercial and service activities, or agriculture. This estimation is consistent with the proportions that FUNCEDE’s study assigns to the different sectors of the local economy (FUNCEDE, 1997). However, from April to September these percentages may be reduced around 10% to 15% in manufacturing and increased in other sectors –especially in agriculture and commerce–, particularly during the lowest period of demand that occurs from July to September. The segments of the labor force that are more likely to feel these shifts are the youngest and less skilled workers –the ones between 15 and 18 years old– and the elder ones.

The nature of the local firms

Table 3 shows the structure of the local garment industry of San Francisco El Alto and the type of firms that currently compose it. A relatively small number of firms are either *raw material local suppliers* (6.9%); or providers of garment *manufacturing related services* (1.4%) –e.g. embroidery, laundry, printing, and machines & parts sales or repairs. Though their size as well as their freedom to contract or subcontract their own needlework varies, most of the firms are *garment manufacturers* (77.6%); and finally, there is an important number of local firms that only dedicate themselves to *garment trading* (14.1%).

Also based on Table 3, I will now briefly discuss the importance of different firm types in terms of their influence on the behavior of the local industry and in terms of the local employment they generate. Economically because of the size of their operations, and politically because of their connections outside the locality, *local fabric wholesalers* –the “*teleros*” as they are called in San Francisco El Alto– are the most influential group of firms in the local industry. This is so in spite of the fact that *local fabric wholesalers* only represent 1.5% of the firms involved in the sector and generate only 4.7% of the local jobs. They are followed in size and influence by *medium-size firms*, some of them dedicated to manufacturing, while others are service providers. *Medium-size manufacturers* represent almost 6% of the total number of firms and are responsible for creating almost 28% of the industry’s jobs; there is also a small presence of *medium-size firms* among local suppliers of raw materials, but their importance in terms of employment generation is lower than the one

that manufacturers have. It is important to stress that some of the firms that I have classified within the group of medium-size ones –specially several of those involved in *embroidery services*, which also do garments manufacturing, and a small number of *garment manufacturers*– are quite large¹⁶ in local relative terms.

Table 3.- Number of Firms and Employment by Firm Type in San Francisco El Alto's Garment Sector (Year 2000)

Garment industry	Firms	Share of Total (%)	Firm Size (workers)	Total Number of workers	Share of Total (%)
Raw Material Local Suppliers	216	6.9%		786	4.7%
fabric wholesalers	46	1.5%	6	276	1.7%
medium & small-size suppliers	170	5.4%	3	510	3.1%
Services	44	1.4%		180	1.1%
embroidery	5	0.2%	3	15	0.1%
laundry, printing	7	0.2%	8	56	0.3%
machines & parts sales, repair	32	1.0%	3.4	109	0.7%
Manufacturers	2,430	77.6%		14,970	90.0%
medium-size	180	5.8%	25.5	4,590	27.6%
small	490	15.7%	14	6,860	41.2%
home-based workers	1,760	56.2%	2	3,520	21.2%
Small & Petty Garment Traders	440	14.1%	1.6	704	4.2%
TOTAL	3130	100.0%		16,640	100.0%

Source: Own elaboration based on Instituto Nacional de Estadísticas (INE, 2000); FUNCEDE (1997); as well as field work done in August 2000 and January 2001.

As employers, *small manufacturers* are the most important group of the local firms since they generate 41% of the sector's jobs. The large number of *home-based workers* is also important in terms of employment; 21% of the local industry's jobs are of this type. Economically, both *small manufacturers* and *home-based workers* form the buyer base of the *local fabric wholesalers* and the subcontractor base of *medium-size garment manufacturers*. In Chapter Two I will show how their location within the local industry has also given them political leverage. Finally, although they are not important employers, *small garment traders*

¹⁶ Interviewees talked of around 30 *medium-size manufacturers* spread in the municipality whose size reached 30-35 workers –between permanent and subcontracted. There is one exception among manufacturers, this is the

–as opposed to petty local garment traders– also play a relevant marketing role at the level of regional markets. They take San Francisco El Alto’s garments to local Plazas of other Guatemalan towns.

This is the picture of the local garment sector that one finds now. However, back in the 1960s the picture looked different. Today’s garment firms in San Francisco El Alto have their origins in small producers that, after an important breakthrough that occurred during the early 1970s, have been able to transform their inherited agricultural, artisanal and trade-based household economy into small and medium size family businesses that combine small industry, commerce, and to a lesser extent, agriculture.¹⁷ Historically, developing small family businesses has been the long-term economic strategy used by households in San Francisco El Alto to prevent their members from becoming –or to enable them to get out of– migrant labor on the sugar industry and coffee plantations of the South Coast region; or becoming permanent émigré workers in Guatemala City and other locations inside and outside the country.

Figure 1 describes the evolution of the firms in the local garment sector during the second half of the last century. The diagram should be read from left to right. Local firms started small because the prevailing land ownership structure in San Francisco El Alto is one

large producer located in village Rancho de Teja which has over 50 workers among permanent and subcontracted. This firm has a stable assembly plant that provides permanent jobs to 20 workers, all year around.¹⁷ Information collected during summer 2000 mainly by interviewing firm owners, but also by having discussions with the technical staff of the following local institutions: Municipality of San Francisco El Alto, BANRURAL (rural development bank), and Cooperativa Chuimekena (local credit union), CDRO (an NGO that has programs in that region).

of the least concentrated in Guatemala.¹⁸ It is not just that the majority of its rural producers are small landowners;¹⁹ in addition, communal property land (most of which is forest) represents 37% of the total land.²⁰ Under the stated land tenure conditions, the first group of manufacturers back in the 1930s-1950s, the ones that became the *medium-size workshops* owners of the 1960s, as they appear in Figure 1, did not have large amounts of capital from agriculture surplus at their disposal –the story could have been different had the been hacienda owners. Therefore, they could only invest in industry sectors that demanded low capital concentration, like garments, a type of manufacturing with which they were already familiar due to San Francisco El Alto’s traditional textile and garments artisan background. Traditionally, the acquisition of a few sewing machines and the use of the household’s labor supply have been the two basic investments used to start-up home-based garment workshops.

Interestingly enough, as is also shown in Figure 1, those first *medium-size workshops* no longer exist. *Medium-size workshops* represented the traditional power from the Chisiwan and Xolve neighborhoods, the two rival town neighborhoods where the local elite lived. However, during the transitional decade of the 1970s the economic and political leadership of the old *medium-size workshop* owners started to be seriously contested by an emerging rural middle class of garment manufacturers and traders that arose from the villages. We will come across this story with further detail in Chapter Two, now I just want to point out that , as a result of this economic and political pressure, some of the owners replaced their workshops

¹⁸ Totonicapán, the district to what the municipality of San Francisco El Alto belongs has the least concentrated land ownership of the whole country.

¹⁹ Seventy percent of landowners have micro-properties of less than one hectare and 24.4% of the properties are smaller than 7 hectares. The Agricultural Census of 1979 identified that contrasting to the rest of the country,

with service businesses like transportation –e.g. bus lines and trucks–, and the hotels that now exist in town. Others progressively became *local fabric wholesalers* through their engagement in economic and political alliances with emerging leaders from the villages, and with fabric wholesalers from Guatemala City.

Most of the family-owned firms that started as *small manufacturers* in the 1970s learned manufacturing skills and garment trading business with their former employers: those that in Figure 1 appear as the old *medium size workshops*. Through the following two decades *small manufacturers* also expanded and diversified into *medium-size manufacturers*. They have been capable of building a more complex operation that goes beyond home-based garment manufacturing. What this implied in terms of changes in their production system, their commercial relations with raw material suppliers, and their financial investment strategies is addressed in further detail when I analyze their organizational capabilities in Chapter Two. Here I just want to stress the relevance that the growth and diversification of the old breed of *medium-size workshops*, and particularly of the new breed of *medium-size manufacturers* that emerged in the villages, has had for spreading the gains of the local garment industry across the municipality.

only 4.7% of the land in the department of Totonicapan (to which San Francisco El Alto belongs) corresponds to medium-size multifamily farms bigger than 45 hectares.

²⁰ Authors like Elias (1997) claim that this percentage is even grater.

Figure 1. San Francisco El Alto's Local Garment Sector During the last 50 Years.

Decade	1930-1950s	1960-1973	1970s	1980s to early 1990s	Late 1990s to 2000	
Evolution of Firms and Workers		<ul style="list-style-type: none"> • First 5 entrepreneurs from 2 downtown neighborhoods (Chisiwan and Xolve) start manufacturing. • Shop centered systems of production start to be developed among these first group of custom made tailors. 	<ul style="list-style-type: none"> • Work done mainly at workshops in Downtown. Its a centralized system of production, workers come from the villages. • Main Markets: local, regional and South Coast. • Small amounts of outsourcing and home based work. • 1973 Attempt to unionize garment workshop workers. 	<ul style="list-style-type: none"> • Ex-workers of the Medium-Size Workshops become Small-Manufacturers at the villages. • <u>Economically</u> they compete with downtown Medium-Size Workshops at their core markets. <u>Politically</u> they also compete for the municipal power. • Some Medium-Size Workshop owners build alliances with fabric wholesalers at Guatemala City. • Domestic regional markets show a strong presence of San Francisco El Alto's garments. 	<ul style="list-style-type: none"> • Medium-Size Workshops are either abandoned for Non-Garment Businesses, or evolve into Local Fabric Wholesalers. • Medium-Size Manufacturers specialize in supplying low income and low middle class (indigenous and non indigenous) markets. Though markets in neighboring countries are starting to be targeted, domestic markets, urban and rural, are their main markets. • Local Fabric Wholesalers are politically defeated in mid-1980s by village leaders. • Outsourcing and subcontracted home based work is adopted by most manufacturers. Machines are transferred to workers. 	<ul style="list-style-type: none"> • Diversification of Medium-Size Manufacturers into Finishing Services (embroidery, laundry, machines sales & repair) and different product lines. Some also become Fabric Wholesalers. • Increasing sales to markets in neighboring countries: South of Mexico and Central America. • Some of the medium-size and small manufacturers develop steady distribution partners in other countries as well as in Guatemala City. • Increasing competition among small manufacturers at the local plaza and regional markets.
Key Points						

Source: Field Research Summer 2000.

Note: Dotted lines mean transformation, steady lines mean continuity.

As they grew during the 1980s, some *medium-size manufacturers* also took a similar path to the one taken by the old *medium-size workshops* and diversified into *fabric wholesalers*; but others became even larger *manufacturers* (in local relative terms), or became providers of important services that have been useful to smaller firms –i.e. *finishing services* like automated embroidery, printing and laundry; or *equipment sales* like sewing machines and parts; as well as *technical repair services*. Additionally, by outsourcing the assembly stage and subcontracting *small manufacturers* and *home-based workers* this new breed of *medium-size manufacturers* made their production system better equipped –compared to the one that *medium-size workshops* had in the 1960s-1970s, which centralized all production stages in their town workshops– to deal with constant shifts in market demands and with tensions raising from local labor relations.

While outsourcing garment assembly, the *medium size manufacturers’* production system centralizes in their own workshops all the stages related to the optimization of raw material use and product final quality: pattern and cloth cutting, garment finishing and packaging. This change in their production system has made them better able to control costs and quality, the former a key factor to guarantee their hold in low income markets, the latter a relevant factor to upgrade and aim at new market segments that pay better prices. Therefore, their economic strategy, rather than being a clear move away from lower paying markets and into high paying ones, is a combination of both.

More recently, during the 1980s and 1990s, the municipality’s strong growth of *small home-based manufacturing shops* and *home-based workers* is related to the relatively *low barrier to entry* into manufacturing for the local and regional markets. Compared to those in other towns, residents in San Francisco El Alto have an easier time

becoming garment *home-based workers* and then *small manufacturers* due to the presence of local industry externalities, an advantage of geographically clustered firms which is frequently described in the literature on industrial districts in more developed countries²¹, and more recently also in less developing countries.²²

However, in the case of less developed countries –and impoverished regions within them– it is less frequent to find studies that aim at understanding what are the initial conditions that trigger these externalities to occur, or what are the collective learning trajectories that allow locally clustered firms to take advantage of those conditions in order to specialize and upgrade²³, or in order to expand and differentiate, as Figure 1 has shown us happened in San Francisco El Alto. Undoubtedly, local economic and political history is an important element that can help to explain clustering because it helps us to identify the dynamic accumulation of local resources –e.g. capital, a skilled labor force, roads and convenient location– for competitive building, and more important, to identify the means by which specific leaderships within the cluster learn to overcome the political, institutional, market or technological constraints that prevented them from using those

²¹ For lessons about European industrial districts see Schmitz (1994), according to Schmitz the strength of the European experiences seem to raise from a mix of factors: the geographic proximity of small and medium-size firms, sartorial specialization, and a social-cultural identity which facilitates trust relations between firms. All of which enables firms to engage into cooperative competition based on innovation rather than lowering wages. This dynamics lead clustered firms to gain collective efficiencies that cannot be obtained individually.

²² Visser (1999), when comparing clustered and non clustered garment sector firms in Peru, even talks of a passive collective efficiency in clustering which does not require inter-firm cooperation. Producers operating near one another easily obtain the benefits of knowledge spillovers involving the diffusion of technological know-how, production ideas and information about markets.

²³ McCormick has attempted to fill in these gap by comparing six African industrial clusters involved in different products –clothing, metalworking and vehicle repair, fresh and processed fish. All of them where at different stages in their development. In the two groundworking clusters –the Eastlands garment producers and the Kamukunji metalwork cluster–, those where she found collective efficiency was just emerging, she claims that the most positive external economy was improved market access. In both cases clustering acted as a magnet that attracted traders who carry their products to smaller towns and rural areas.

local resources in order to upgrade²⁴. These are the kind of themes that will be tackled in the next chapter.

²⁴ Tewari has used this kind of historical perspective in several of her studies. See for example: Tewari, 1999, and Tewari, 1998.

Chapter Two Small and Medium Size Manufacturing Firms as Agents of Local Development

This chapter offers an analysis of the dynamics and channels by which *small* and *medium-size manufacturers* have played a developmental role in San Francisco El Alto. Since the 1970s, their evolution has helped to improve the collective efficiency of the local industry, making it capable of coping with competitive pressures and facilitating growth, while at the same time spreading the gains of this growth across the different layers (see Table 3) that comprise the local industry. Certain types of collective learning have been a requisite for this to happen. Through this chapter I explain the dynamics by which this knowledge has been accumulated and organized in San Francisco El Alto.

We have to place the issues discussed in this chapter in the context of change and adaptation that firms and workers have experienced in San Francisco El Alto. The explanations given to Figure 1 in the last section of Chapter One have already introduced us to the kind of firm changes we are about to address. The current chapter starts by laying out the facts about how firms' changes and adaptations have helped to expand local jobs. Some of the old *medium-size workshops* became *local fabric wholesaler* during the 1980s because previously, in the 1970s, some of their former workers had become *small manufacturers*. Then some of these *small manufacturers* became new breed of *medium-size manufacturers* during the 1980s, and *larger manufacturers* or providers of *garment industry related services* in the 1990s. Some sort of collective learning allowed this clustered industry to engage into this process of change and adaptation to new conditions.

A second step taken in this chapter is drawing the readers attention towards, who does the learning. My argument here unfolds at three different levels: At the local level I we find two local social groups which have been challenging each other both economically and politically. A middle class of manufacturing and trading entrepreneurs has emerged in San Francisco El Alto (former *workers* that became *small manufacturers-traders* and then a new breed of *medium-size manufacturers*), and this social group has challenged the political authority and the economic power of the traditional local elite (the old owners of *medium-size workshops* who then became *local fabric wholesalers*). As a result, both groups have had to transform themselves over time. The second level happens outside the locality and in the national sphere where members of these social groups behave jointly as an ethnic group, the k'iches from the Southwest region, who tries to protect their interests as a whole ethnic group. Third and final, there is a deeper learning process going on, and it happens at the level of families. Leading members within families have been motivated by this long term vision about where their household and kinship interests lay, and what are the economic –or political– means offered within or outside San Francisco El Alto in order to pursue them, and they act within and outside the locality accordingly.

It happens, within this context of group clashes, and ethnic ties though. This is what I refer as long term family economic strategies. This new rural middle class social horizon brought by the garment manufacturing and trading business operates in the minds and actions of many local families; meanwhile, in the case of the old local elite, they have tried to hold to their traditional power. Nevertheless, in either case –the traditional local elite or the emerging rural middle class– one can pinpoint specific families, and leaders

within them, which have driven this process of change and adaptation through the local history; either at the level of the town or the villages.

I spend the rest of the chapter focusing on what I consider are the two relevant domains where this collective learning has occurred in San Francisco El Alto's garment industry. First, I explore the political-economic dimension of collective learning. My focus is the process by which entrepreneurs and workers progressively became capable of forming part of this garment manufacturing and trading social group –the new rural middle class of the locality. I examine how they have learned to insert themselves into the local and national political processes, and how this advantageous insertion has enabled them to build economic alliances at the local and national level which have helped them to expand and diversify. Second, I once again turn back to the firm level in order to explain the managerial-organizational capabilities that *medium-size manufacturers* have learned regarding their garment business tasks. This will help us to understand why they found themselves in need of reorganizing their system of production differently from the way it used to be organized by the old breed of *medium-size workshops*, and how these changes affected the local labor market and working conditions.

The growth of medium-size businesses and the expansion of local jobs

The expansion of local jobs in San Francisco El Alto is closely connected to the particular way in which today's *local fabric wholesalers* and *medium-size manufacturers* originated throughout the 1970s and late 1980s. Though some fabric wholesalers and some manufacturers are larger than others as we saw in Table 3, *medium-size businesses* still

comprise the top tier of firms in the local garment sector; the large firm located in village Rancho de Teja seems to be the only exception among manufacturers. The changes undertaken by this type of firm is closely connected to the expansion of local jobs because of the cost reductions in garment manufacturing (i.e. the cost of raw materials and services) that happened when, at different stages of the local industry development, some of the old breed of *medium-size workshops* expanded and diversified into *local fabric wholesalers* –during late 1970s–, while in the meantime their *former garment workers* from the villages became *small manufacturers* which later on also expanded and diversified into either *medium-size manufacturers*, *providers of finishing services*, or also *local fabric wholesalers* –during late 1980s to early 1990s.

These structural changes within the local industry made even easier for late coming *small manufacturers*, and specially *home-based workers* to go beyond the subcontract relations they had with *medium-size manufacturers* and to enter into the business of manufacturing and trading garments on their own –particularly during peak seasons of demand. *Home-based workers* and *small manufacturers* who entered the industry during that same period –the late 1980s to early 1990s– became more able than firms of similar sizes from other towns to dominate with their products the local as well as the closest regional markets that are reachable by them.

With their limited resources, *small manufactures* usually aim to supply only the local plaza and the nearby regional markets. Due to the fierce competition that takes place in those markets, their success will importantly depend on their capacity to offer garments at competitive low prices. *Home-based workers* have even more limited resources, so entering the local Plaza and especially the regional markets becomes an even more

difficult task for them. As it was explained in the previous chapter *home-based workers*, are usually sub-contracted by *small* and *medium-size manufacturers*, especially between September and April. Now, in order to increase their capital and their earnings, *home-based workers* have a strategy of combining contract work with their own commerce to local and nearby regional markets. In the words of a 50-year-old man from village Chivarreto: "*I find job all year around, owners like the quality of my work. Although, if I had more capital I would prefer to work and sell only by myself.*" He is a *home-based worker* with a steady assembling agreement with his current employer, but together with his family he is already following a commerce strategy by selling part of their production to retailers in the town of Malacatán, in the neighboring department of San Marcos.

Before the existence of local *fabric wholesalers* a person who wanted to enter manufacturing on his own had to bare the transportation cost to Quezaltenango or Guatemala City in order to find adequate volumes of fabrics at competitive prices. The same was true for embroidery finishing in the case of shirts, jackets or pants. Similarly to how is currently done with stone wash and dying in the case of jeans, manufacturers had to travel to acquire embroidery services from the same firms that provided it to the maquilas in Guatemala City. By locally purchasing raw materials and finishing services *small manufacturers* and *home-based workers* experienced an important reduction in their production costs, while at the same time increasing their ability to compete by incorporating to their garments the annual changes in fashion and style that consumers demand. All of these elements acted together to strengthen their position compared to that of manufacturers of similar size from other towns that also sell at their local and nearby regional markets.

Most of the rest of this chapter is devoted to explaining the two domains –politics and organizational management– where the collective learning that triggered the industry changes stated above have happened. But before going into them I consider important to clarify in the reader’s mind who are the agents of this knowledge and what logic drives them to change and adapt their businesses.

The question of who does the learning: class clashes and ethnic ties, family long term economic strategies, and the blurry boundaries of civic, political and economic actions.

In this section I want to call the reader’s attention toward who does the collective learning within the local industry. My argument is divided in three parts. A first part of what we would call a collective learning happens at the local level and it concerns the two social group that have been competing with each other politically and economically during the last 30 years in San Francisco El Alto. A rural middle class of manufacturing and trading entrepreneurs has emerged, and this social group has challenged the political authority and the economic power of the traditional local elite. As a result, both groups have had to transform themselves over time, the process described in Figure 1, each group is represented by the emerging rural middle class is represented by the new breed of *medium size manufacturers* while the traditional elite is represented by the dominant group within today’s *local fabric wholesalers*.

A second part makes reference to how the leaders of both groups act, when the issues that they are dealing with –as entrepreneurs, as civil actors or as politicians in the National Congress– in the national and institutional arena. In those cases they act Mayan

k'iché²⁵ ethnic group that builds alliances with groups that have similar interest. What they have learned in benefit of their local industry and the alliances that they have build in the national arena have been different from those done locally.

A third part of my argumentation, though also within this context of group clashes, makes reference to a deeper learning process going on, which happens at the level of families. This is what I call long term family economic strategies. This new rural middle class social horizon brought by to San Francisco El Alto garment manufacturing and trading business operates in the minds and actions of many local families; a similar thing happens in the case of the old local elite, but in their case they by trying to hold to their traditional power. Nevertheless, in any of both cases –the traditional local elite or the emerging rural middle class– one can pinpoint specific families, and leaders within them, which have driven this process of change and adaptation through the local history; either at the level of the town or the villages. These families and their leaders have been motivated by this long term vision about where their household and kinship interests lay, and what are the economic –or political– means offered within, or outside, San Francisco El Alto in order to pursue them. Acting accordingly, they have tried to influence the local economic and political process in ways that eventually lead to the expansion and diversification of the local garment industry firms.

One feature about San Francisco El Alto that struck me as I deepened my field research was that often times in the stories that interviewees would tell me I found the same cast of characters –either groups or persons– acting as organizers of civic actions,

²⁵ Ethnically speaking, San Francisco El Alto is very homogenous, 97% of its population was Mayan *k'iché* according to National Census figures in 1994. All the merchants and manufacturers speak Spanish, however

involved in local politics, or doing business. At the base of this apparently disparate set of actions one could uncover a coherent pattern of ethnic ties –if one takes the whole local industry as a unit of analysis and compares San Francisco El Alto’s garment industry to that of other localities in Guatemala–, but also a coherent pattern of family ties –if one compares with each other firms within the local industry, the latter is the scope that prevails in this thesis. Moreover, one finds the emergence of a rural middle class of garment manufacturing entrepreneurs and traders of a new type, not known previously in the locality, though they have built their capacities in previous local experiences.

This social-economic group seems to have an ethnic as well as a family-based long term economic strategy. The logic of this strategy is what gives coherence to what superficially could be seen as actions that are unconnected with local industry development. In this light, civic actions –like the improvement of roads and electricity–, political actions –like supporting the political campaign of one leading village entrepreneur–, and economic actions –like household members’ temporary migration to Guatemala City or to Los Angeles, California to improve garment manufacturing skills and acquire capital– become clearer. The reader will find various examples of the logic of long term family economic strategies at work in this and the following chapter. However, before going to the following section which deals more, which with local politics, I consider convenient to show at this point a few examples of these long term family economic strategies that will clarify to the reader how household members are pushed to take advantages of opportunities for the diversification of firms and products that open up.

k'iché is broadly spoken in the villages, specially among women over 40 years old. Younger generations are more used to speak both languages.

Family long term economic strategies imply intra-family alliances that usually bring together parents with their grown-up children, or several sisters or brothers, or a group of cousins that are usually living in the same neighborhood, either in town or in the villages. This way of working as a group while diversifying their businesses has taken different forms through the local history. The expansion and diversifying of the original *small-manufacturers* of the 1970s (shown in Figure 1) makes this case clear. They usually expanded as different household members –e.g. their own children, a brother, a sister– entered to manufacture new lines of garments.²⁶ For example, some families moved from regular pants into jeans –which require a greater capital investment–, and then into casual pants –which require additional skills on pattern and cutting to guarantee a good finishing, as well as more expensive fabrics. Others started with *Polo Type Shirts* –which are relatively easy and less expensive to manufacture–, to then jump into *Regular Shirts*. Each product line is usually managed by a different member of the family while they share the same supplying and outsourcing mechanisms, and more important, they share start-up capital, market connections and means of transportation to deliver merchandise. The families who entered into finishing services also showed a similar pattern. For instance, five previously *medium-size manufacturer* entrepreneurs have invested in buying automated embroidery machinery while their children keep the manufacturing business. Currently, their services are bought by other *small* and *medium size manufacturers*, and even *home-based workers*. Now they are being subcontracted by local manufacturers for the finishing stages of jeans and shirts.

²⁶ All of these comments are base on my interviews with medium-size manufacturers who grew from small-manufacturing.

Other examples of the long term family economic logic of this emerging rural middle class of entrepreneurs will be found as we go along. The important fact to stress here is that this class is the group who has catalyzed the collective learning process of the geographically clustered firms in San Francisco El Alto, and that kindship ties have formed part of this logic. The political-economic contents and the organizational contents of this learning process, as well as how it is connected to local jobs creation, will be studied next.

Political-economic dimensions of collective learning: firm-worker interdependence and local industry upgrading

The owners of the old breed of *medium-size workshops* from the 1960s and 1970s not only represented an economic power but also the local political power, since all of them were residents of Xolvé and Chisiwan neighborhoods. Traditionally the municipal political power has been disputed by the two neighborhoods. In fact, Chisiwan was the old neighborhood of *principales*²⁷—name given in Mayan towns to the old traditional elites—, the richest families of the town used to live there—owners of garments workshops and small transportation firms (i.e. buses and trucks).

Nevertheless, these first workshops that belonged to members of the traditional elite, in practical terms became local skills training centers for many village workers. Along 1970s an increasing number of workers from the villages learned about *medium size workshops'* garments manufacturing and trading system. The important breakthrough

²⁷ Several of the issues in this section have been discussed with María V. García. Her paper on San Francisco El Alto's local politics has also been of great use.

happened in 1973 when a workers unionization effort was attempted, but failed.

According to García (2000), in 1973, a group of garment shop workers attempted to organize a trade union when they became aware that their employers –the old *medium-size workshop* owners that were selling their products at the South Coast– were making good profits. They demanded an increase in piece rates which at that time were 3 Quetzales per dozen for men’s pants, and 2.4 Quetzales per dozen for kids’ pants. Firm owners argued against that change saying that if wages were increased they wouldn’t be able to compete with garments manufactured in other towns. Eventually some of the workers were laid off, a handful of them were even sent to jail, and the union never consolidated.

Nevertheless the story didn’t end there; on the contrary it had a new twist. Several of the workers who had learned to manufacture (who were coming from the villages), decided to establish their own businesses. In these businesses, they sewed individually and also went to sell to the South Coast where there was a very profitable commerce going on during those years. Those were the years of the macroeconomic expansion of rural consumption that happened in Guatemala during the period 1950-1979²⁸. From that point in time and during the following decades village manufacturers competed with Chisiwan and Xolvé leaders, both economically and politically, for the municipal government and later on for the seats in the national congress. Table 5 shows a historical account of this fact by presenting the list of mayors who have occupied office during the last third of the

²⁸ The country had an average growth rate of 5.5 during that period. Those were the years of an extensive green revolution in the rural areas of Guatemala, and of good overall performance of the whole economy. Particularly of the domestic industry, due to import substitution policies. Industrial growth was 7.8 and 6.0 for years 1960 and 1970 respectively, also during those decades the Common Central American market was an ongoing initiative. Source: IDIES, Guatemala Política Económica y Bienestar (1998). Universidad Rafael Landívar.

20th Century. Some of their social and economic characteristics are pointed out, as well as the alliances that brought them to power.

During the period 1968 to 1980 Chisiwan leaders held the municipal government, through the coalition PID-MLN. Conversely, the municipal government from 1985 to 1993 was held by leaders from the villages that developed ties to the major political parties that dominated the national scene (DCG from 1985 to 1988, UCN in 1990 and MAS in 1993). During the years of the latter administration the municipality got involved in several simple but effective initiatives in order to make the Plaza Market more organized and attractive. First a decree was passed establishing that Plaza spaces could not be subrented and that the persons that wouldn't use the space would have to turn it in to the municipality. The second project that the municipality took was ordering the Plaza, which by those years 1985-87 started to occupy the streets during market days. The ordering of the plaza created separated spaces for selling vegetables or animals, traditional clothing, and manufactured garments so that the clients could find more easily what they were looking.

Another area of municipal action which has been of relevance for the decentralization of production to the villages were the water and road projects, but above all the electrification projects. Village inhabitants that wanted to increase their involvement in garment manufacturing were very interested in such projects. Many municipal election campaigns and alliances across villages were based on electrification and road projects. This has been a very sensitive issue which has meant majors not being voted again because of the lack of compliance with such promises.

**Table 5.-
San Francisco el Alto's Mayors from 1966 – 1999,
Political Party and Social Economic Characteristics**

Period	Political Party	Mayor	Social and Economic Characteristics
1966 – 1968	DCG	Julián García	Catechist from Xolve neighborhood. He gained support from the villages to get in power.
1968 – 1970	PID-MLN	Cruz Gómez	He made an alliance between the “principales” from Chisiwan neighborhood and three important villages: Chivarreto, Rancho de Teja and Tacajalbe.
1970 – 1972	PID-MLN	Justo López Vásquez	Resident from Chivarreto, but an allied with the “principales” from Chisiwan.
1972 – 1974	PID-MLN	Adrián Matul	Merchant, resident of Chisiwan neighborhood.
1974 – 1976	PID-MLN	Baltazar Alvarez Alvarez	Resident of Chisiwan. Transport business owner and merchant .
1976 – 1980	PID-MLN	Paulino Alvarez Alvarez	Brother of the previous mayor.
1980 – 1982	CAN	Obispo Hernández Puac	Resident from Xolve neighborhood.
1982 – 1985	Non – Elected government	Francisco Tebalán Chávez	Named by General Efraim Rios Montt
1985 – 1988	DCG	Antonio Pastor	Resident from village Pabatoc, re-known leader among the villages. Now is a fabric wholesaler in Quetzaltenango, the nearest city.
1988 – 1993 ^a	DCG	Juan Hernández Paxtor	Resident from village Chivarreto, re-known leader among the villages. Medium-size manufacturer of pants.
1993 – 1998 ^a	MAS	Próspero Cos Alvarez	Local fabric wholesaler, resident of Xolve neighborhood. He was previously also a candidate of UCN (1985) and PR (1988).
1998 – ^a	PAN en 1998 FRG en 1999	Juan Mercedes García Hernández	Resident of the town. He was a medium size manufacturer, and a migrant worker in the United States.

^aNo municipal elections were undertaken in years 1990, 1995, and 1999.

Source : Elaborated by García, M. (2000), based on her own field work notes, plus the Supreme Electoral Tribunal Minutes between 1984 and 1999 (Alvarado 1992). I have added several additions on Social-Economic Characteristics based on my own field work.

During the initial “takeoff” of the local industry back in the 1970s and early 1980s the two key elements that made some firms more competitive than others was their capacity to increase their market share while at the same time acquire the capital necessary to meet that increase of manufacturing operations. During the 1970s and 1980s, it was

very difficult for an entrepreneur to acquire this capital locally; banking institutions were not present in the locality at that time. The booming presence of banking institutions in San Francisco El Alto is relatively new (it increased during the 1990s); access to working capital and investment capital was difficult during the late 1970's and 1980's when the local garment industry started to grow.

A small group of manufacturers from the town, several of which have their origin in the *medium-size workshops* of the 1960s developed a good commercial relation with fabric wholesalers from Guatemala City. Some of these *medium-size workshops* reached “commercial credit”²⁹ agreements with fabric wholesalers from Guatemala City; firms were supplied with larger amounts of fabrics at wholesale prices but they were allowed to pay for them fifteen, thirty or forty-five days later. Commercial credit agreements not only allowed them to increase the scale of their production but also helped them to better manage their cost structure by negotiating further price discounts with wholesalers, according to the increasing volume of fabrics that manufacturing firms purchased.

The development of this relation with suppliers grew to a point where some family-owned firms became local fabrics wholesalers themselves while other firms deviated into other businesses. They first became their local fabric distributors, starting by selling to *small manufacturers* from the villages and to ex-employees that had become *home-based workers* or *small manufacturers* as well.

²⁹ This is the name given in Guatemala to this type of credit agreement.

This small group *local fabric wholesalers*³⁰ has become an important political and economic power locally. They have political connections with the main political parties. Five political leaders from San Francisco El Alto have occupied seats at the National Congress³¹ between 1984 and 1999, four of them have also played an economic leading role as fabric wholesalers. I will now comment on two important issues regarding these political and economic connections at the national which have been important for the local industry.

The first one has to do with fabric imports. It happens that around 70% of the fabric used in San Francisco El Alto has its origin in Guatemalan textile mills particularly fabrics used in jeans pants and rough finished shirts. However, garments such as girls and women dresses the manufacturers, better finishing shirts and pants, and certainly jackets require fabrics of better quality. But it seems that such fabrics are too costly to find produced by Guatemalan textile mills. Thus, local fabric wholesalers with their political connections in Guatemala City and with city wholesalers have managed to import fabrics from Korea and Taiwan that meet the kind of requirements (in terms of prices and quality that these garments require).

The second one has to do with the relation that small and home-based workers have with local fabric wholesalers. Frequently these distributors, which then became *local fabric wholesalers*, served as an intermediary link between *small manufacturers* and retail

³⁰ More recently there is another group of fabric wholesalers that is connected to the maquilas that nevertheless has become politically less active.

³¹ Fermín Gómez owner of Textiles Centroamericanos de Occidente (elected in 1984 by PNR party); Domingo Gómez, owner of Almacén Pacífico (elected in 1990 by the coalition PID-FUN-FRG, that then became MAS); Pedro Gómez Chavez, owner of Almacén La Perla (elected in 1990 by UCN); Leonardo Gómez (he already passed away) was the only one who did not own a fabric warehouse (elected in 1995 by

stores (boutiques) from the Capital City that require specific orders. *Medium-size manufacturers* are less likely to engage in this type of relation with *local fabric wholesalers*.. They also give advise to *home-based workers* about market and fashion trends. This reinforces the place that *home-based workers* and *small manufacturers* have as an economic and political constituency³² of *local fabric wholesalers*.

Regardless of the fact that even until today San Francisco El Alto's garment industry workers are not unionized, owing to the historical about management-worker clashes, *home base-workers* and *small-manufacturers* know that they are not passive and powerless agents in front of the local economic and political powers. They know that they can use other channels to influence local larger. One of these channels is their own social and cultural environment, since they participate in their cultural festivities, the local councils and assemblies.³³ A second channel that *home base-workers* and *small-manufacturers* use is the market, since they are their customers. The third one is the political channel because *home base-workers* and *small-manufacturers* are aware that they are a constituency for larger local firm owners with political aspirations and when elections come they know that their votes count. This is why a lot of discussions and alliance building happen at the village level.

PAN). In spite of having the same last name (Gómez) not all of them have family ties. All of them are k'iché, though.

³² Tandler points out that it is until recently that small and medium size firms and industrial clusters literature is becoming once again explicitly concerned about the political forces that initiate and move upgrading alone. Political connections and clout may not be only associated only with bad, but might be a mixed bag of good and bad results, that need to be assessed for each case.

³³ This element of social and cultural ties is commonly found in the cluster's literature.

Today, San Francisco El Alto's Plaza market is renowned beyond national frontiers. This is not just a macroeconomic outcome of the consumption expansion experienced in Guatemala –and spread also through the countryside– during the sixties. Certainly San Francisco El Alto benefited from the expansion of rural consumption in the sixties, but it is hard to imagine how this factor alone could have given the local Plaza the uniqueness it now holds without considering how its historical heritage has been improved by civic actions (e.g. the first town road improvements and the first electrification and water projects, a pattern that has also been followed by the villages) since the seventies; by public actions taken at the municipal government level (e.g. the territorial ordering of the plaza, the modest but efficient traffic ring “*periférico*” that surrounds the town), especially during the mixture of economic downturn and political changes of the eighties; and by the leading role played by local entrepreneurs –both manufacturers and merchants– at advertising the local plaza in other regions of the county and abroad.

Learning to build organizational and managerial capabilities

Learning to adapt key management tasks from more modern garment businesses to the local context has been one of the most valuable assets that successful manufacturing firms in San Francisco El Alto have acquired. We already studied in Chapter On how small and medium-size manufacturers have developed their own distribution channels to their core set of markets. Therefore this section will focus only in the managerial capabilities they have and organizational changes they have made in their business that are related to their production system. In the present chapter we will begin to see that these

changes have implied an important transformation on labor relations and working conditions, the details of this transformation will be addressed in the following one.

The old breed of *medium-size workshops* of the 1960s were started at the town, and as they scaled up their labor force mainly started coming from the villages. Those first workshops functioned as small scale garment factories. All the machines were located in the same plant and belonged to the workshop owner. Workers in those shops had to comply with a regulated schedule: enter sharply at 7 a.m., one hour of lunch break, and then go out at 5 p.m. Workers had to bear the costs of transporting themselves daily from the villages to the town, as well as with the expenses of purchasing their daily meal. Additionally, they recall working in those workshops as being stressful because owners, or their representatives, would constantly be looking over their shoulders, controlling their work pace, and the attention they were paying to the needlework.³⁴

Yet, that old breed of *medium-size workshops* were less efficient than the new breed of *medium-size manufacturers* that raised later on. In fact, we know that due to the competitive pressure they felt some firms from the old breed of *medium-size workshops* sought forward for new opportunities and became *local fabric wholesalers*, however many of them had to abandon the garment business. What have *medium-size manufacturers* have learned to do differently?

Through their contact with the apparel industrial districts of Guatemala City were they have gone to work for short periods, or to be trained by workers that work at the

³⁴ Taken from the interviews I did to small and medium-size manufacturers that used to be workers at that time, as well as several home-based workers.

maquilas, the leaders of these family-owned firms that became the new breed of *medium-size manufacturers* have been able to adapt to the local context what they have learned is a key management task in the garment business: centrally controlling the core production stages related to quality while outsourcing the others. In several cases these leaders have also spent periods of time working in the garment district in Los Angeles, United States.³⁵

We have seen that through their distribution channels *medium-size manufacturers* have access to understand the consumer taste and fashion variations. Leading manufacturers in San Francisco El Alto understood that in order to bring to low-income consumers standard produced clothes with presentations similar to those they would find in department stores, but customized to their purchase capacity, they had to adopt new ways of organizing the manufacturing process. These types of standardized garments require the capacity to manage different garment sizes with equally good fit as well as frequent design modifications in order to keep up with fashion shifts. Pants and shirts are the most common ones manufactured in the municipality, for example, in the case of jeans it happens that one season they are worn tight and the next one loose, one year stone-washed and the other dyed in black or green; similar shifts occur with shirts. Therefore, knowing the techniques for developing patterns and closely controlling cutting stages become very important for controlling quality. Spreading the good name of a firm through the garments it sells will depend on this. But closely controlling this stage is also vital from a cost perspective. Because fabric is generally the most expensive part of finished garments, controlling for good performance in the cutting stages is critical for achieving high cloth utilization and lower fabric cost (Abernathy, F. [et al], 1999).

³⁵ In addition to the contact with the domestic apparel industry, several of these leaders have either visited or worked for variables periods of time (2 to 5 years) in shops mainly located in Los Angeles.

Additionally, final quality of the product is also related to finishing and packaging. For instance, applying embroidery in the case of jeans, or sewing the buttons on straight and ironing, in the case of shirts, or labeling and packaging the correct sizes for both types of garments, are all important finishing tasks. Firms that have grown are centrally controlling core production stages like pattern design and cutting, as well as finishing and packaging of the final products, while outsourcing assembly stages.

The ability to supply different market niches that shift at different times of the year –both in Guatemala and neighboring countries–, and with garments of different qualities, has become the core competence of the top tier of firms that remained in the manufacturing business. However, as we have seen along this thesis, uncertainty and change is a constant in the garment business, even for *low* and *middle-income markets*. Manufacturers in San Francisco El Alto are constantly trying to keep their volume of production as high and predictable as possible, but markets have become very uncertain due to the competitive pressures that have been already explained in Chapter One. The most successful family-owned firms have learned not only to target many market niches in different seasons of the year but to adjust their production to the particularities of each market. As an example, let me remind the reader to take a look at the case of the manufacturer that sold to rural markets in Petén³⁶ in order to sustain his production between July and September, until the following peak season (October to March) would begin.

³⁶ Petén is the agricultural frontier of the country. It has been expanding with rural settlers during the last two decades.

Outsourcing has become the most important element that gives this adaptive quality to their production system, particularly their capacity to outsource garment assembly by subcontracting smaller manufacturers and *home-based workers*. Outsourcing has required *medium-size manufacturers* to introduce more modern production practices and equipment. The owner of a *medium-size manufacturing firm* will be usually overseeing the whole operation in its marketing and production sides. He will hire only core set of workers, relying usually on relatives to do quality related tasks. Technological improvements usually consist on having a Cutting Machine and table, a Track Button Snap Machine, an Eyelet Button Hole Sewing Machine, a Button Sewer, and several Flat Bed and Overlock Sewing Machines. These improvements also allow them to work with different lines (i.e. work with patterns of different sizes and make seasonal fashion changes) and product final presentation (packaging).

With respect to the relations between *medium-size manufacturers* with *home-based workers* this change has required the former to go back to some of the traditional artisan ways of organizing labor relations³⁷ that are traditional in the Southwest, a way of organizing labor relations that, as we will see in the following chapter has been better equipped to deal with conflicts. Medium-size manufacturers started this process by lending their workers sewing machines so that they would do the work at home. Afterwards, several of the bigger manufacturers have actually encouraged their workers to acquire their own sewing machines. It has been frequent that they've done it by passing

³⁷ In the case of the "tejedores" (weavers) in Totonacapan workers do their jobs at their houses and usually have their own weaving machines. The contractor supplies them with the basic raw materials (basically yarn which has been previously dyed), there is a steady relation with the weaver and its family (sharing of social-religious activities), there are verbal agreement regarding delivery time, quality and final amount of products to be turned in. .

along to these workers, in relatively low payments, the sewing machines that were previously owned by the employer. Afterwards, core workers would be guaranteed a minimum quota of subcontracting agreements, which was also a way of guaranteeing the repayment of the machines. In this way the new breed of *medium-size manufacturers* have become able to outsource garment assembly while centralizing the pattern, cutting and finishing stages where they can control the final quality of the garments they produce for specific markets, and they also make easier for them to quickly shift the type of production whenever they need to shift markets.

Chapter Three How Did Local Garment Sector Jobs Increase? What Explains Their Improvement or Deterioration?

This chapter explains what mechanisms were set in place in San Francisco El Alto's local labor market in order to make it work as the transmission chain that spread the garment industry's growth gains among the different population segments that comprise the municipality. In order to understand these mechanisms I start by presenting the facts about piece rates earnings in San Francisco El Alto and what are the possible flaws that performance based earnings may have. I then revisit the issue of long term family economic strategies but this time showing how these strategies strengthen *home-based workers* bargaining power, in fact I will show how home-based worker's capitalization is a changing circumstance that affects their bargaining power with contractors. Finally, I will address the bargaining process itself.

Home-based workers in San Francisco El Alto have improved their capacity to negotiate increases in piece rates, especially during the last half of the 1990s. *Formal Wear Shirt* rates paid by *small manufacturers* can serve us as a good example of how piece rates³⁸ have increased during the 1990s. The *small manufacturers* I interviewed explained to me that in 1996 the rate they paid per each dozen of *Formal Wear Shirts* was of 11.50 to 12 Quetzales; and how by the year 2000 their rate had increased up to 15.50 and 16 Quetzales per dozen. I was also told that during the last half of the 1990s rates per dozen have increased between 75 cents and 1 Quetzal each year. However, the year 1999

³⁸ Although we are talking about piece rates, in reality the unit of measurement used to negotiate job agreements between employers and a home based workers are dozens.

was not a good one, and rates only increased 50 cents. Interviewees associated this outcome with fierce competition happening in the local plaza as new entries into small-size manufacturing have occurred, having the effect of pulling down final prices at the local plaza.

It makes sense to use *Formal Wear Shirts*' rates as a good indicator of the local industry's piece rates. On the one hand they are one of the types of garments more broadly produced in the local garment sector by all the different layers of firms. On the other hand they are kind of a midpoint type of garments –between the more elaborate *Casual Wear Shirts* versus the fast-to-make *Polo Type Shirts*– in terms of the manufacturing skills and production investment they require; at the same time, both factors influence the piece rates that the local labor market is willing to pay for manufacturing them. A similar case can be made for *Casual Wear Pants* as midpoint type of pants between *Chino Type* and *Jeans*.

Authors like Palpacuer and Parisotto (1998) warn us that the outcomes of upgrading strategies may be mixed with respect to their effect on job creation and working conditions. The growing use of performance-based pay (i.e. piece rates, and tight delivery times) may introduce an element of precariousness to the work itself. Groups that become vulnerable to these types of standards might include 'guest workers' who come from other regions (or countries) in response to local labor shortages, as well as less skilled workers employed in smaller firms that perform lower value-added activities within the local networks. Additionally, local firms that embark in upgrading strategies are typically among the largest. They typically serve export markets and tend to offer better wages and working conditions. These larger firms are usually surrounded by smaller units characterized by low wages, low product quality and low innovation. These smaller firms

usually serve domestic markets, and by working as their subcontractors, indirectly subsidize the large ones who usually export to global markets (Palpacuer and Parisotto, 1998).

Though these problems are potential threats in San Francisco El Alto, I argue that they have not yet happened because *home-based workers* have reached a position in the local garment industry where they have the option to either produce for themselves and sell in the local and regional markets, or to do contract work for other local firms, which in any case are medium-size ones, and pretty dependant on the local workforce in order to be feasible as enterprises.

Job opportunities or threats: finding a match between local industrial growth and long term family economic strategies

In spite of the fact that San Francisco El Alto is a rural municipality, the argument in favor of needlework as residents' labor force priority compared to agriculture is straightforward. One need only to consider the local agricultural wage of 30 Quetzales per day, in year 2000, which makes for 180 Quetzales a week. Compare that to the average earnings between 350 to 400 Quetzales a week that a single *home-based worker* can make.³⁹ Earnings variation in garment manufacturing jobs depends mainly on piece rates paid for each garment type, although other factors such as the skills that a particular worker has to provide a consistent and fine finishing to the garments, or to manufacture more garments in less time, or to assembly a broader variety of garments, also enter into earning determinants.

A household whose main source of income comes from a single member working in agriculture can expect to receive 720 Quetzales a month only from this trade; while a household with one of its members doing *home-based work* can generate a monthly income in between 1,400 and 1,600 Quetzales. Nevertheless, it is important to have in mind that the levels to which *home-based workers* exclusively dedicate themselves to garment manufacture will also depend on what the alternatives are for them –commerce, agriculture or temporary migration to work elsewhere–, and the positive or negative assessment they make of those alternative income generating activities as ways to get ahead.

Many workers in San Francisco El Alto seem to find a fairly good possibility to get ahead, in local relative terms, through the local garment sector. A close look into Table 4 tells us that a *home-based worker* is likely to improve his/her earnings if he/she is able to go over time from manufacturing *Formal Wear Shirts* to manufacturing *Casual Wear Shirts*, or from working with a small manufacturer to working with a medium-size one, or if he/she successfully becomes a feasible small manufacturer on his/her own.

These jumps require *home-based workers* to increase their capital, and even more important: their skills. I will now turn to explain what these two things mean in concrete terms. First, the case for capitalization is straight forward. A worker's capacity to manufacture more garments in less time (while keeping the same quality), or to assemble a broader variety of garments –e.g. shirts, pants and jackets– improves his/her earnings.

³⁹ Estimations based on fieldwork information gathered in July-August 2000. To make these estimations I am using what both, workers and firm owners, told me about workers' earnings.

However, the path to deliver good quality at a faster speed requires that workers have access to better sewing machines, and to use them properly. Acquiring a Flat Bed Sewing Machine enables a *home-based worker* to have an easier time doing heavy duty work, while buying an Overlock Sewing Machine allows him/her to deliver garments with chainstitching finishings. This has been the minimum upgrading path that most *home-based workers* have taken in San Francisco El Alto. Today, unless they belong to very poor households, is less frequent to find pedal machines at workers' homes than what it used to be at the beginning of last decade.

**Table 4. Average Rates of Different Types of Garments. Year 2000
(Quetzales per dozen)**

Garment Type	Rates in Quetzales by Type of Manufacturer	
	Small	Medium-Size
Shirts:		
Formal Wear	15.5	18
Casual Wear	20	24
Polo Type	9	11.5
Pants:		
Chino Type	hardly found	48
Casual Wear	36	44
Jeans	30	36

Source: Field interviews with manufacturers. Summer 2000.

Second, the relations between skills and earnings is a bit more complex. As was explained earlier on this section, I am referring to those skills that improve garments final quality. For instance, each dozen pack of garments delivered by a *home-based worker* to a *small* or *medium-size manufacturer* should have consistent sizes and stitch finishing, which demands the worker to have a standardized sewing technique, and a good aesthetic sense, to follow the pattern cut of each piece, or to correct them when cutting flaws are found. Contrary to what one might tend to think, quality is rewarded even in a small scale industry like San Francisco El Alto's. The anecdote I was told by the owner of a medium-size manufacturing firm can help us to clarify why this is so. This owner told me how he made the mistake of assigning a newly hired worker a small order of 1,000 Polo Type

Shirts (customer gifts) that was made by an enterprise from Quetzaltenango. It turned out that the enterprise did not like the high number of poorly finished shirts in the lot, and turned it back. The owner told me about the hard time he had negotiating with its customer in order to have him accept the lot; and then told me that he could have prevented the problem if he would have done the usual: assigning the job to a better skilled worker, though it would have cost him more.

Up to this point, this anecdote would help to explain why workers that deliver better quality are more valued and better rewarded by firm owners. Nevertheless, the anecdote can tell us even more because it was interesting to listen to the way this owner framed what he called his costs. He was referring not just to monetary costs (paying a higher piece rate), but also to the time he would have to spend searching for a worker. In fact, he also expressed that the “problematic order” was placed during peak season of demand (October to March), when better skilled workers are more difficult to hire. We will come again across this last issue of labor shortage when we discuss in more depth the bargaining capacity that workers have acquired.

Table 4 also shows us that the rate per dozen varies depending on the types of garments, but more importantly on the type of manufacturer. In general terms *medium-size manufacturers* are capable of paying higher rates; as was explained in chapters One and Two, this happens because *medium-size manufacturers* are capable of: first, making the most out of the thin margins they earn in low-income domestic markets by increasing their volume of sales; and/or second they are capable of producing garment lines which are better paid in low-middle income markets and markets abroad. In any case, both features

are related to the fact that *medium-size manufacturers* have a broader market share which include buyers outside the local plaza and outside the Southwest region.

All what has been said so far tells us how workers can increase their earnings by improving their human capital (e.g. better manufacturing skills), their equipment, or by growing and becoming small manufacturers. Now lets look at how capitalization improves their relative position in the power structure of the local industry.

Capitalization of home-based workers and their increasing bargaining capacity

The literature on industrial clusters has called our attention on the fact that local labor market conditions might actually reduce firms' incentives to share the benefits derived from upgrading. This may happen because in some cases geographically clustered firms generate conditions of skilled labor surplus. In such situations, the larger firms appear to be able to implement an upgrading strategy on their own while maintaining low wages (Nadvi and Schmitz, 1994). This is particularly true when these firms' major economic interests are comparatively less tied to their labor force than what they are to their buyers, especially if the latter have a strong grip on their final markets. In some cases these external buyers may play the important role for clustered firms of allowing them to have short term access to raw materials, upgraded technology, or export markets.

Labor surplus and its subsequent problem described above does not appear to manifest in San Francisco El Alto. The relation established between *small manufacturers* and *home-based workers* with *local fabric wholesalers*, and the way in which the top tier of local manufacturers –the *medium-size manufacturers*– had to re-organize their

production system in order to sustain their constant shift of market niches outside San Francisco El Alto have prevented this from happening.

We already know from what has been discussed in Chapter Two that *home-based workers*, as it has also happened with *small-manufacturers*, have gained certain leverage in front of firms that are in the upper layers of the local industry. We saw that part of this influence comes from them being the constituency that *local fabric wholesaler* or *medium-size manufacturers* seek for when election time for the Municipal Office, or seats for National Congress come. The leaders of these two groups of firms will go to these people seeking for their votes. We also know that in the case of *local fabric wholesalers* and the local firms that provide *garment related services* –such as embroidery and laundry– *home-based workers* also have power as consumers of their products and services. However this two causes do not explain the bargaining capacity that *home-based workers* have on a daily basis in front of their main subcontractors –the *small* and *medium-size manufacturers*. What other cause can explain their bargaining capacity then?

In order to understand the increasing bargaining capacity of *home-based workers* that is addressed in the current chapter, let me remind the reader some of the topics discussed in Chapter Two that become relevant here –for more details refer to that chapter’s section on Growth of medium-size business and the expansion of local jobs. The availability of cheap raw materials supplied by *local fabric wholesalers*, together with the establishment of a new system of production by *medium-size manufacturers*, a production system that was more adapted to both local labor conditions and garments final markets, gave to *home-based workers* the option to either produce for themselves and sell in the

local and regional markets –i.e. competing with *small manufacturers*–, or to do contract work for the *small* and *medium-size manufacturers*.

Once they had developed such a connection to these markets workers experienced an opportunity cost for leaving their own production in order to do assembly work for somebody else. This opportunity cost is what has to be covered by the small and medium-size manufacturer who hire them if they want to count on having enough labor supply, particularly during peak season of garments' demand. This combination of opportunity cost on the home based worker side, and the experience of labor shortage during peak season of demand (October to March) on the side of the medium-size manufacturer has set the basis for an increased bargaining capacity regarding piece rates in favor of home base workers.

Up to this point we have seen how home-based workers benefited from the evolving settings of other firms within the local garment industry. Now I will turn very briefly my attention to two factors which have helped worker to increase their levels of capital, and therefore their relative power within the local industry. The first of them raises from resources that are under the control of *home-based workers* themselves: is the role played by migration in their household capitalization strategies. The second refers to the support given by local institutions. I will now explain both roles.

The role of migration in workers' capitalization

Along the history of the local garment sector, migration with working purposes has been a strategy that workers use in order to acquire capital through savings. More

importantly, migration has served them to improve their *know how* about garment manufacturing and trade: from specific learning about pattern design, product shifts, fashion styles and finishing quality and the use of different types of machines (cutter, buttoner, and embroidery machines) to broader learning about new ways of organizing production and distribution channels. A home-based worker from San Francisco El Alto's town told us how he initially learned to sew with his older brother, and then had to go to Guatemala City to better learn how to specialize in other garments; he had to pay Q 500 to the person who taught him. Another home-based worker from Rancho de Teja was more explicit: *"I knew how to sew. But when I became 30 years old I went to Guatemala City to learn more things, not in a maquila factory but with a maquila worker. I had to learn really quickly because I was paying Q 75 per class."* The explanations of another worker made clear why it would be preferable to pay for learning: *"you can't improve if you only stay in a maquila. They only give you enough time to do their work. And they give you only one kind of needlework, with no variation. If you ruin a garment they make you pay for it. You stay there just as long as you learn something new."*

The role of institutions in workers' capitalization

If indeed is true that, in the long-run, a durable and widespread improvement of jobs has been a fundamental part of San Francisco El Alto's story of growth and development. It is also important to inquire if the ways in which local economic institutions and organizations have been set in place, and interacted with each other, favored this outcome. We saw in Chapter Two that political institutions as the municipality and the local expressions of national political parties have been important,

and we also studied their connections with civic and ethnic local organizations. But what about other institutions that have a more specific economic character.

Interestingly enough the majority of the private and non-governmental institutions that now exist in San Francisco El Alto arrived during the 1990s, long time after the initial “takeoff” of the local garment sector. Several of the larger banks of the country were the first ones to arrive, that was the case of GIT (branch opened in 1995), Banco de Comercio (opened in 1998) and Bancafe (opened in 1999); these are banks who are typically working with the larger local firms: fabric wholesalers and larger manufacturers. The other source of capitalization for *home-based workers* came when developmental institutions entered the municipality. This is the case of the rural development bank (BANRURAL), Cooperativa Chuimekena (a Credit Union), and several NGO’s, all of which have offered loan programs to *home-based workers* and *small manufacturers*. For example, CDRO, an NGO, does this kind of work with a total of 18 groups comprised mainly of *home-based workers* in villages Pachaj, Chirrenox, Chivarreto and Tacajalve. These institutions have played an important role in providing investment and working capital; but very little in marketing connections or skill acquisition.

Both of these factors, migration of household members and finance institutions and programs, have combined together with the elements of industrial restructuring resulting in the capitalization of home-based workers with the consequent improvement of their bargaining capacity. In the following, and last section, I will turn to explain what kind of working conditions workers appreciate to have what kind of factors they take in consideration in the bargaining process.

How do home-based workers assess if their working conditions improve or deteriorate

The jobs that have been created in San Francisco El Alto's garment sector are not close to being ideal ones. During peak seasons of demand (October to March), many *home-based workers* sew from 8 up to 14 hours a day –often times with inadequate illumination– for at least 4 days a week, or more, depending on their levels of involvement in other income generating activities. Additionally, since home-based workers are less capable of controlling their business environment –i.e. they have fewer political and economic influential connections than firms in higher layers of the local industry– they find themselves more bond to local conditions. This has its positive side, since they find relatively cheap supplies of raw materials and handy services; but it also has the negative effect that they are more locked in the local fierce competition for the Plaza Market than other manufacturers, and less capable than *medium-size manufacturers* to escape form the seasonal downturn that regional rural markets experience yearly from July to September. Yet when we went and talked to workers from different villages⁴⁰; most of them gave similar positive answers about the changes that today's more flexible system of production has brought. “*The major change has been to work at home and with your own machine*” (a 17 year old woman from village Chivarreto). “*Before, the machines used to be lent by owners, now this machine is mine and I do all the work at my house*” (a 42 years old man from village Rancho de Teja).

⁴⁰ More on methodology: With the help of a resident of San Francisco El Alto we did 14 interviews in a mixture of K'iché and Spanish with a random sample of home-based workers from different villages (San Francisco El Alto-town, Chivarreto, Rancho de Teja, San Antonio Sija, Tacajalve, Paxixil). We asked them open ended questions about major changes in the system of production and their working conditions, their

Beyond the opportunities that were opened to sell at the local and regional markets, and beyond the increased bargaining capacity that *home-based workers* have experienced, home base workers also explained how these changes have improved several aspects of their *working conditions*, the most important of them being their increased capacity to decide about how to distribute their workload and the greater control they have gained over the use of their time. In other words, workers improved their capacity to decide how to distribute their home and income related tasks, how much energy to put into each of them, and when. A 50 year old man from San Francisco El Alto downtown explained that *“when we worked at workshops we worked under a lot of pressure from the owners, the pace used to be faster, and the work schedule was tighter. Today everyone has their own sewing machines and works at their own rhythm.”*

Other workers addressed more specific issues about their current working conditions which they appreciate. A 17 year old woman from village Chivarreto said *“It is better to work at home. You don’t have problems with daily schedules, nobody is telling you when you have to finish, or when you have to start your needlework. I can concentrate better at home, and if I have some free time I have many other things to do.”* A 31 year old woman from Chivarreto added that *“While working at home I can do other things as well. If I need to, I can get in the kitchen and cook for myself and my family.”* A 50 years old man from San Francisco El Alto downtown also appreciated that *“You have more time to do other things while working at home, you also eat much better at home a*

positive or negative opinions about working at home, the process of job negotiations with contractors (firm owners), skill formation, and their paths to capitalization.

nd you don't have to spend your money buying food." While a 35 year old man from village Paxixil said *"I prefer to work at home, so I can have more time to dedicate to my children, and to agriculture."*

A young man from village San Antonio Sija summarized all these changes by saying *"Now we have more time to deliver the needlework, since the machines are ours"*. But increased schedule flexibility is not quite the whole story. The reality is that, by owning the machine, *home-based workers* have also assumed two burdens: One is that they are assuming some of the production costs –e.g. electricity expenses, as well as machine depreciation and maintenance. The second one derives from the first: it is the pressure to make the most out of the sewing machine during the time of the year when there is less work available –i.e. during July to September, the lowest demand period. All of these additional expenses only make sense if workers can optimize as much as possible the use of their machines not only by selling at good prices but by maintaining the flow of garments to as many markets as possible. Several *home-based workers* turned out to be very conscious of the way they have to cope with this burdens: A 35 year old woman from San Francisco El Alto's town mentioned that *"The major change is that today we have many more plazas to sell to and that the delivery speed is faster."* Another woman, 26 year old, from village Tacajalve explained that *"Before [years ago] the manufacturers used to travel only on Sundays to the supply the South Coast. Now they supply many different plazas, therefore our delivery time has to be quicker now."*

Finally, *home-based workers* also acknowledged that the nature of the relationship they now have with firm owners has changed. A process of negotiation and an approach to long term thinking on paths for upward mobility has been set in place.

For many workers stability is good when they don't find it exploitative. Stability makes easier for them to understand and assess how well a particular firm owner is doing in his/her business. This learning can become crucial for the *home-based worker* in order to know when to ask for piece rate increases (and to assess how fair these increases are), or in order to decide when to enter certain markets on his/her own. Additionally, for some workers building a particularly close relationship with firm owners has become a route for upward mobility for their children as workers outside the locality, due to the fact that larger garment manufacturers-traders have better contacts outside in the Capital City and abroad.

The outcome on deterioration or improvement of working conditions will depend on how good do workers become in dealing with the process of negotiations with their contractors, and with setting in place a long term path to upward mobility. In their own words, the elements with which they have to contend are the following: A man from San Francisco El Alto town told us what could be described as the overall strategy used by workers, it is the kind of strategy that becomes spread by word of mouth: "*You can work either by 'steady verbal contract relation' or freelance. It depends on the conscience of the employer (the time that he gives you to deliver, and the payment). If he is too exploitative then you never want to get into a 'steady verbal contract relation' with him.*" A woman from Chivarreto was more specific: "*A deal is good if: [1] a steady volume of needlework is guaranteed to you; [2] they give you the raw material (fabrics, yarn, etc.); [3] you work by dozens and the job is steady.*"

Some workers have established very steady relations with owners, in some cases for as long as 25 years. A man from San Antonio Sija said “*When you work by dozens you have less of a time burden. You work by volume. I have a steady relation with an owner. He understands about my pace of work and gives me time as long as I am a reliable worker.*” Conversely another man, this time from Rancho de Teja, said that “*Payments by dozen and every 15 days favor the worker (...). Of course I would change employer if the piece rates are too low or never increase.*”

The alternative to payments by dozens and every 15 days is to work by delivering a full lot of garments to a contractor –a *medium-size manufacturer*. But such a working agreement can be tricky for workers that do not have enough experience managing large volumes at a time, which means to plan ahead on their needlework and to have enough cash in their hands as to be able to operate –and support household consumption– for several weeks. Less capitalized *home-based workers* will be less capable of reaching such kind of working agreements. Nevertheless, learning to progressively manage the delivery of larger volumes of garments becomes important in order to go from being a *home-based worker* to becoming a *small manufacturer*. But it seems that *home-based workers* prefer to learn and test themselves about this task first with smaller clients that buy their product at the Plaza Markets, rather than with harder to please *medium-size manufacturers* who subcontract them.

Chapter Four Lessons and Implications

This empirical research has been mainly interested in understanding how the growth gained by San Francisco El Alto's garment sector has spread across the local population. It has showed how the family-owned firms that comprise the local industry have learned to built strategies to remain competitive at their core set of markets, and how these strategies have influenced the patterns of jobs creation, and working conditions that today exist in the municipality. A moving picture of connections between firms and local labor market development has emerged through the historical account made of the local industry's evolution. What lessons can we take away from this complex picture?

The arguments exposed trough the different chapters have made clear that the capacity of firms in this small-scale industry to overcome competitive pressures and to stay in the market have been a necessary condition for the creation and retention of local jobs. However, we have also seen that, left alone, competitive forces do not necessarily produce widespread economic and social outcomes.

Three causes have been behind the evolution of competitiveness building strategies in San Francisco El Alto and have shaped local job creation and qualification: The first one refers to the interplay between local and national politics and the development of the local industry. The second belongs to the social domain and it refers to the role played by class, ethnicity and long term family economic strategies. The third one is the function played by domestic markets as labor market buffers and as training springboards to enter other markets.

Through the whole document I argue that the ways in which these three causes – politics, family economic strategies and markets– have interacted has created a locally embedded knowledge about competitiveness building and opportunities for local jobs. Certainly some firms in San Francisco El Alto’s garment industry have been more successful than others at up-scaling or diversifying; similarly, some workers have shown to be better equipped than others to take advantage of the opportunities that the local industry’s growth has offered. Nevertheless, the overall balance across the decades is that the local garment industry has improved the levels of employment in the municipality, and the income of many families in the villages.

The political-economic factor in the expansion of San Francisco El Alto’s garment industry

At the local level, ethnic politics, together with economic relations, have played an intermediary role between firms and workers. The clearest example of this were the labor-management clashes of 1973 and how they were afterwards dealt within the local political as well as the economic arena. Overwhelmed by the clashes with their former workers leaders among the old breed of *medium-size workshops* sought for new opportunities elsewhere, for some of them these new opportunities came from their relations with fabric wholesalers in Guatemala City, others simply got out of the garment business. Meanwhile, a new rural middle class of garment manufacturing and trading entrepreneurs emerged in the municipality among former workers coming from the villages; this emerging economic power of some villages has redefined the predominant influence that two downtown neighborhoods traditionally had.

The leaders of both social groups have played important roles in developing the garment industry, their rivalry in the political and economic arena has pointed to the directions that the local learning process has taken. Both social groups have changed considerably from the original point of departure they had back in the 1960s, some firms disappeared and new types of firms were created, with new organizational characteristics and new labor relations.

Also at the local level, this mixture of relations that the different layers of firms and workers have with each other as subcontractors, as traders of their products or as consumers of the fabrics they sell has made that each layer more accountable to the other. Because of this interdependence some balances of power within the industry has been reached. They have things to lose if the other loses. Leaving aside for the moment the issue of capitalization, this counterbalance of power is clearly seen in the political-economic base that home-based workers have for bargaining with local fabric wholesalers and with contractors –particularly medium-size manufacturers. Their bargaining capacity is based on the fact that workers are a political constituency that both rivaling groups will seek for during election times. But additionally in the case of local fabric wholesalers and providers of finishing services, home-based workers, especially if they are following a strategy to become small-manufacturers, are also clients that buy their products and services; it is in the interest of the latter that they do well, therefore fabric wholesalers and providers of finishing services tend to support them with information about final markets, new fashions and quality issues.

At the national level, this K'iché political leadership has engaged in a constant process of lobbying negotiation, and alliance building that have had important impacts on commercial connections, opportunities for raising investment capital, the supply of raw materials at favorable prices –like the connections they developed with large wholesalers from the Capital City–, and therefore, cost reductions of the final garments. This final outcome has been particularly advantageous to small-manufacturers and *home-based workers*.

Entrepreneurs from San Francisco El Alto who through their political careers have gone to the National Congress have gained more capacity to read what is going on in the garment business environment: opportunities that rise and the threats too. And therefore, learn and adapt. They have also learned to influence this business environment. Like the example given about the advantage of going to the global in order to import of fabrics that are used in San Francisco El Alto for manufacturing more fashioned shirts, dresses, jackets and more elaborated types of pants. In their case, controlling their business environment has been a matter of accessing political power.

Researchers and policy makers main focus on exports as the privileged means for taking advantage of globalized markets has prevented them from realizing that, paradoxically, in some cases business opportunities for clustered *small and medium size producers* to take advantage of globalization and trade liberalization may actually come from the connections they develop with national wholesale suppliers of raw materials. Wholesale suppliers are well connected to the national and international markets that supply the raw materials that *small and medium-size manufacturing firms* need. Commercial agreements with wholesalers may actually help small and medium size

producers to overcome their limited capacity to acquire materials on more favorable terms, enabling them to satisfy the demand of domestic market niches. Additionally, these agreements can eventually become capitalization strategies that allow small and medium size firms to expand and diversify.

Class, Ethnicity and long term family economic strategies: who gives direction to the local learning process? What interests drive collective actions?

Development practitioners usually recognize that their work becomes much easier when they find dynamic social agents already operating in the field before they have arrived with their new projects. Social groups which have this catalytic role. From what we have said in the previous section it is evident that San Francisco El Alto has counted with such “social capital”. As an ethnic group, the k’ichés have had this previous textile weaving and artisan garments manufacturing experiences which they know how to organize with family labor and family financial resources. Does this mean that we should support programs that foster ethnic and family values?

Though it is positive that societies become capable of nourishing their cultural resources and their historical heritages, what my findings in San Francisco El Alto’s point at is to our insufficient knowledge of how the household economies in less developed regions operate, and to the possibility that we might have to learn from their strategies to build human and financial capital, as well as productive assets.

The fact that we know very little about family economies does not mean that they are not an important institution to be considered for local economic development, specially when we are considering impoverished regions in less developed countries. During my

years as a development practitioner in Central America, the closest I witnessed that some development institutions would get to meeting this challenge was by undertaking yearly household cash flow studies with the purpose of designing credit programs for poor families. But these studies predominantly had an accounting type of approach which usually was connected only to credit programs. Studies that aimed at improving their marketing channels, or about the strategies they used to build skills were much less frequent. Furthermore, studies that would aim at understanding growth linkages when households shift from one sector to another –for example, from agriculture to small scale industry– were virtually absent. Conversely, cash flow studies usually would be narrowly interested only in knowing if the household would be capable of paying back the loan. This is not to say that those studies weren't a positive practice of responsible institutions that did not want to embark their clients in debts that would not be payable. However, in light of what San Francisco El Alto's case has showed us there is a need to address a more complex set of issues related to household economies.

Long term economic strategies adopted by local families have been an important factor in firms' ability to cope with competition. Among others, migration has been a relevant piece of these strategies, allowing household members to increase their human capital –i.e. acquiring new manufacturing skills or garment trading knowledge– as well as financial capital which has been re-invested in the household manufacturing business. From the economic perspective, individual household members actions such as migrating, sharing merchant distribution channels, diversifying into manufacturing different and complementary garment lines have formed part of a deliberated long term family agenda.

The importance of domestic and regional markets

Local and regional domestic markets as well as markets from neighboring countries can provide the initial niches that small and medium-size firms need to develop their organizational capacities –which include the organization of production and labor relations. This is particularly true when we are dealing with the “take off” of small scale industries located in impoverished, and therefore disadvantaged, regions at the sub-national level.

Certainly the firms who have led the improvements in organization of production and technology introduced in the municipality have been the medium-size ones. Nevertheless, rather than becoming connected to global export markets, medium-size firms have targeted the domestic regional markets (Quetzaltenango, Guatemala City) as well as similar markets in neighboring countries. Meanwhile, the existence of the local and regional “Plaza” markets has allowed *home-based workers* to have other sources of income. This has forced small and medium size manufactures who subcontract them to offer higher wages that compensate *home-based workers* the opportunity cost of making business for themselves in the local markets that are closer.

Even though they may be low income markets, which usually are also considered a “*low road*” towards competitiveness these markets may allow small and medium size producers to accumulate the capital they need in order to expand and diversify. Furthermore, in some cases domestic markets may also play an important role as buffers that prevent labor surplus from happening in geographically clustered manufacturing firms. In this way, domestic markets not only protect the wages of subcontracted *home-*

based workers from falling, but if they are dynamic enough they may actually pressure those wages to raise. When such conditions exist, they provide small and medium-size firms with resources that they can use not only to cope with the processes of globalization and trade liberalization that are so present in today's business world.

During the last fifty years, the strength of San Francisco El Alto's Plaza market has been used by the leading local entrepreneurs either as a safe retreat during difficult times, or as a springboard that has enabled them to jump into other regional domestic markets, and afterward, into markets of neighboring countries. Nowadays, this logic is still used similarly by subcontracted *home-based workers* and *small manufacturers* either to scale up, or to gain a bargaining capacity with their subcontractors.

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