Is ‘embeddedness’ always good for economic development?
The case of the South African wine industry

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DOI: 10.4422/ager.2012.07

ager
Revista de Estudios sobre Despoblación y Desarrollo Rural
Journal of Depopulation and Rural Development Studies
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Abstract: A great deal of the ‘embeddedness’ literature is based on the premise that increased ‘local’ embeddedness is inherently beneficial for a firm, industry or a whole region. Put differently, it is often assumed that the level of ‘embeddedness’ is proportional to how successful a commodity or value chain is.

A study of the South African wine industry shows that this is not always the case. In fact, even a cursory reading of the history of the industry before the early 1990s clearly demonstrates that the opposite can be the case, i.e. that ‘deep’ local embeddedness can result in ‘path dependency’, ‘lock-in’ and very little innovation.

Although the Cape wine industry expanded throughout the 20th century, and became increasingly embedded into the local political system, regulation had the effect that most of what the industry produced over the next seven decades was low quality wine, barely able to compete in international markets.

It was only when the industry was deregulated and exposed to the force of international markets, that the creative synergy embedded in the Cape cluster could come to the fore and play its beneficial part, resulting in improved quality and competitiveness.

Keywords: embeddedness, wine, regulation, South Africa

¿Es el "arraigo" siempre bueno para el desarrollo económico? El caso de la industria vinícola de Sudáfrica

Resumen: Una gran parte de la literatura del ‘arraigo-integración’ se basa en la premisa de que el aumento de arraigo ‘local’ es de por sí beneficioso para una empresa, industria o toda una región. En otras palabras, a menudo se asume que el nivel de ‘arraigo’ es proporcional al grado de éxito de una mercancía o una cadena de valor.

Un estudio de la industria sudafricana del vino muestra que no siempre es así. De hecho, incluso una lectura superficial de la historia de esa industria antes de la década de 1990 demuestra claramente que puede darse el caso contrario, es decir, que un ‘profundo’ arraigo local, puede dar lugar a una ‘dependencia del camino’, a encerrarse en sí misma, con muy poca innovación.

Aunque la industria del vino de El Cabo se expandió durante el siglo XX, y se integró cada vez más en el sistema político local, la regulación tuvo como efecto que la mayor parte de lo que la industria produjo durante las siguientes siete décadas fue vino de baja calidad, apenas capaz de competir en los mercados internacionales.

Solo cuando la industria se desreguló y quedó expuesta a la fuerza de los mercados internacionales, la sinergia creativa arraigada en el distrito de El Cabo pudo pasar a primer plano y desempeñar un papel beneficioso que dio como resultado una mejor calidad y competitividad.

Palabras clave: arraigo-integración, vino, regulación, Sudáfrica

Recibido: 8 de febrero de 2010
Devuelto para revisión: 7 de marzo de 2011
Aceptado: 7 de septiembre de 2011

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Introduction

When geographers, economists or sociologists evoke the concept of 'embeddedness' they try to make a point, i.e. geography matters. At the most elementary level this means that the economy is enmeshed in local culture, social networks and institutions (Granovetter, 1985).

However, some writers go further and argue that increasing local embeddedness is inherently beneficial (Floysand & Jacobsen, 2008: 9). Put differently, some would argue that the level of embeddedness is proportional to the success of a commodity or value chain.

Popular as it is, the concept is problematic and has been critiqued on a number of points (Floysand & Jacobsen, 2008: 9-10). For instance, critics have pointed out that firms have a multiplicity of links with other firms and institutions that stretch beyond the local territory. Or that some studies suffer from a static understanding of embeddedness, i.e. organizations are either embedded in a network, or they are outside it;

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1 An earlier version of the paper was delivered at the XXIII Congress of the European Society for Rural Sociology, Vaasa, Finland, 17-21 August 2009. I’d like to thank three anonymous reviewers for their comments and suggestions.
whereas in reality the embeddedness of an organization is temporary, and also more or less in a state of flux.

Within the literature on innovation in rural areas writers like Atterton (2007) have strongly challenged the ‘benevolent’ view of embeddedness by showing that the strength of local social networks can even hamper the development of local firms and the local economy. Likewise Uzzi (1996) and Grabher (1993) have demonstrated that local networks can seal firms off from wider sources of information, resources and opportunities and lead to ‘lock-in’.

That is the point this paper is trying to make. By adopting a historical perspective, we’ll try to show that, despite being deeply embedded in local culture, society and politics, the Cape wine industry produced very little in the form of innovation, mostly low quality wine and was poorly prepared for international markets when these opened in the early nineties. In fact, it is the dominant position and very embeddedness of the wine lobby in local culture, society and politics that put them in a position to fashion a regulatory system (incl. labour controls) that served their interests, but rendered the industry uncompetitive in global wine markets. By rewarding quantity over quality, the regulation regime inhibited innovation in the Cape wine cluster. It was only when the regime was dismantled and local wine firms were exposed to international markets and value chains that proximity, networks and interactive learning could play their innovative part.

Through an analysis of the South African wine industry before and after regulation, we hope to show that embeddedness is not an innovative force per se. For that to be the case, it seems, certain conditions have to be in place.

**Industries, ‘embeddedness’ and economic development**

The way it is normally used the concept ‘embeddedness’ refers to both material conditions (such as proximity, regions, districts, and clusters) and immaterial conditions (such as culture, knowledge, shared understandings, routines).

When writers emphasise the importance of embeddedness for firms and industries, they usually put forward one or more of the following arguments: firstly, the
question of proximity. Shorter physical distances between participants are said to make interactive collaboration cheaper, and assist firms to share knowledge and communicate face-to-face (Fløysand & Jacobsen, 2008) – even in the era of ‘globalisation’ (Fløysand and Lindkvist, 2001).

Secondly, firms, especially if they are part of a highly developed ‘cluster’ or ‘industrial district’, are not only interdependent amongst themselves, but also with their regional environment. In this environment social ties, a shared culture and facilitating institutions are important, and it is for these reasons that the embeddedness of interdependent firms may develop collective capabilities geared towards common goals (e.g. to produce better quality wine) (Brusco, 1982 and 1986; Piore & Sable, 1984; Pyke & Sengenberger, 1992). Studies have illustrated that growth is stronger and the diffusion of knowledge quicker in specialized agglomerations or clustering of firms due to knowledge spillovers. For many of the same reasons Michael Porter (1990) argues that ‘location’ still matters in the era of globalization, although strictly speaking, he does not belong to the embeddedness ‘school’.

Popular as it may be, the concept has been criticized for its fuzziness (Hess, 2004). Firstly, it has been accused of being too narrowly focused on the local and the economic. Critics have argued that firms have a multiplicity of linkages that transcend the local territory. Knowledge, as the prime source of innovation, is acquired not only in local relations, but also in external ones (Amin and Thrift, 2000). Instead critics like Coe and Bunnel (2003: 437, 454) have suggested that ‘innovation systems are a combination of intra-local, extra-local and transnational network connections’. In addition to the ‘corporate-institutional’ domain, ‘social network’ and ‘hegemonic-discursive’ domains may also be important components of transnational innovation networks, thereby echoing Hess’ criticism that the concept had been ‘overterritorialised’. In his view territorial embeddedness is not the only spatial logic of embeddedness.

He goes on to propose a threefold distinction of his own: societal, network and territorial embeddedness and suggests the metaphor of a ‘rhizome’ to advance our understanding of the dynamic nature of networks. However, neither he nor Coe and Bunnel tell us how these different kinds of networks and embeddedness may bring about rural innovation and development. In this regard Terluin (2003) has commented that the so-called ‘mixed exogenous/endogenous’ approach and the ‘community-led development theory, both to be found in rural studies, may still have more to offer in that regard.

Explanatory power is also to be found in Roberta Sonnino’s (2007) study of the emergence of the saffron food network in southern Tuscany. She shows in empirical
detail that embeddedness assumes simultaneously social, spatial, and temporal dimensions that are dynamically created by participants in the saffron economy as a response to specific market requirements [my italics]. The saffron network’s success seems to rest on strong social relationships, a ‘champion’, cooperation, a shared detachment from conventional agriculture, a ‘love for the land’ and the ‘natural’ and a ‘local’ network that is fluid – ‘large enough to include a sufficient number of producers who can create a market for the new product... and sufficiently circumscribed to be valorized, governed and protected through specific forms of political support’ (Sonnino, 2007: 70). Importantly she also shows that this process involves a tension between embedding and dis-embedding forces – something which raises practical ‘questions about the sustainability of local food networks and their contribution to local development’ (Sonnino, 2007: 61).

A second point of criticism has to do with a ‘static’ understanding of embeddedness. Critics like Amin & Thrift (2007) have argued that is is mistaken to think about firms as being either strongly embedded within a network, or to be outside such a network. Instead, goes the argument, in a world of constant flux, the spatiality of organizations is always changing, which implies that the embeddedness structure of an organization is temporary.

Thirdly, writers like Giddens (1991) have been criticized for using a ‘dichotomized’ understanding of embeddedness. Giddens describes the latter as a state where social relations are detached from their localized context of interaction through the process of globalization. However, somebody like Swyngouw (2004) emphasizes that globalization is not a process of disembedding, but rather a dialectical process of transnational embedding, creating and maintaining linkages at various interrelated geographical scales.

However, most important for our purpose is the criticism about local networks and the possibility of ‘lock-in’. Several studies have shown that overly strong local/regional embeddedness can hamper the growth of local firms and the local economy by, amongst others, sealing firms off from wider sources of information, resources and opportunities (Atterton, 2007; Uzzi, 1996).

In a similar vein, a study by Lindkvist and Sanchez (2008) shows that salted-fish production in Norway is too enclosed or embedded into local social environments, and usually reluctant to seek external knowledge from scientific institutions. An over-reliance on local embedded networks often makes firms insular, or prevent them from adapting to market and technological strategies that lie outside the local environment (Floysand et Jacobsen, 2008: 15).
This is precisely what the wine industry in the Spanish region of Castilla y León did not do. As Lindkvist and Sanchez (2008) also show, the wine industry in this part of Spain developed ‘a competitive regional innovation system which connects local producers to the demands of the quality markets; the adoption of the Protected Designation of Origin system (PDO) provides a path for the upgrading of the whole production chain, and is rendering very positive social, environmental and economic outcomes for the involved territories and communities. The study illustrates that an essential part of the value-creating activity in rural areas is related to local industrial milieus that are export-oriented, which means that actors in these areas are influenced by developments on international markets on a daily basis. Simultaneously, they are influenced by practices at the local and national levels’ (Floysand & Jacobsen, 2008: 15-16).

As we try to show below, the recent developments in Castilla y León closely mirror the post-regulation phase of the Cape wine industry since the early 1990s. However, we also demonstrate how regulation in the preceding decades resulted in a textbook case of ‘lock-in’ - despite embeddedness and a well developed wine cluster.

The two sides of ‘embeddedness’:
a case study of the Cape wine industry

The idea that ‘embeddedness’, in the sense of tightly woven social relationships between producers, a shared culture, political cohesion and close cooperation with the institutions, all focused on a certain product – in this case wine – necessarily results in innovation and dynamic rural development, is not borne out by the story of the Cape wine industry. Our paper challenges the premise held by some that increased ‘local’ embeddedness is inherently beneficial for a firm, industry or a whole region. It draws attention to aspects that may have been underemphasized so far, viz. the key roles of transnational connections and de-regulation in the process of innovation and development.

The South African wine industry (SAWI) is largely synonymous with the Western Cape wine region. More than 90% of all grapes are produced in a fairly small area, fanning out in a northerly, north-easterly and easterly direction, some 250 km from Cape Town – small enough to be called a ‘cluster’ or ‘industrial district’. Although
the sub-regions vary significantly in terms of climate, topography and soil, the cultural, social and political cohesion amongst wine farmers is fairly strong and the social and professional networks extensive. Although most aspects of production have been deregulated, producers maintain strong links with research institutions and bodies that continue to regulate quality, food safety or market South African wine overseas (Ponte & Ewert, 2007).

Over the past 350 years the Cape wine industry has become firmly embedded in the regional economy, and in Cape society and culture. Despite its fluctuating fortunes—especially in the 19th century—it has always been a backbone of the regional economy. Today it contributes some 8.2% to the Gross Geographic Product of the Western Cape and supports around 200,000 livelihoods (Ponte & Ewert, 2007). The rhythm of life in the rural Western Cape revolves largely around the seasonal cycles of the vineyard: the winter pruning, budding and rapid growth, ripening of the grapes and harvest. Local food culture and social life is deeply immersed in wine, and language reflects life on the land and the world of the farm.

In order to provide the evidence for our argument that strong local ties between firms in a local milieu can lead to ‘lock-in’ or entropy, we need to tell the history of the industry in some detail. The latter can be divided into roughly three periods: the pre-regulation era (1659-1918), regulation (1918-1995) and the current post-regulation phase (since the early 1990s).

**The pre-regulation era**

The industry was first started by descendants of people in the employ of the Dutch East India Company (VOC) who moved into the fertile hinterland of Cape Town in the late 17th century. On these quasi-feudal estates, the vineyards were first worked by slaves and after emancipation in 1838 increasingly by bonded and wage labour. Over time these wine farmers became the elite of rural Cape society—both God-fearing Calvinists and feudal masters at the same time. On these farms was forged a racially hierarchical and authoritarian kind of **paternalism** that lasted well into the 1980s (Ewert & Hamman, 1999; Ewert & du Toit, 2009).

The values of patriarchal white society became very much part of this elite’s cultural framework. In its simplest form this involved a close link between white identity, land ownership and a fierce insistence on the farmer’s independence and final authority over all who lived and worked on the land. Over generations these concepts were
deeply knitted into the identities of all those who made a living from the land – both white and black. For the next 300 years to be a white farmer meant to be a 'master', defined not only by the ownership of a farm, but also by the relationships of deference and authority that existed between farm-owner and farm-servant.

This relationship between farm-owner and worker was not simply exploitative, but was shaped by the discourses of paternalism. The notion of themselves as benevolent but firm protectors and disciplinarians of a grateful and appreciative population of on-farm servants has been an important part of the self-conception of farmers in the Western Cape since the eighteenth century. Ultimately, however, it was a relationship of domination, marginalizing and silencing the voices of those whose labour helped create the wealth of the sector (Ewert & Du Toit, 2005).

The industry first reached maturity as a slave economy during and after the Napoleonic wars. However, in the remainder of the century, its fortunes depended very much on the preferential trade agreement granted (or withdrawn) by Great Britain. Between 1810 and the 1820s wine was the most important export commodity from the Cape, responsible for some 90 per cent of the Colony's exports. Under imperial preference policies, the duties payable on Cape wines were a third of those levied on Iberian wines, their main competitor, and Britain became the largest market for the industry. However, by the end of the century exports had almost collapsed. In 1861, Britain and France signed a trade agreement that made French wines cheaper to import. The spread of phylloxera and other diseases in the late 19th century destroyed most of the vineyards at the Cape and dealt a further blow to the already struggling wine farmers (Vink, Williams & Kirsten, 2004).

Despite close social ties, the farmers had as yet no overarching organisation to defend their interests. There were several attempts to co-operate, but none of them survived more than a few years.

In the early 20th century several attempts to elicit help from government fell on deaf ears. Although the colonial government in Cape Town provided loans to finance the creation of a number of co-operative cellars in the early years of the 20th century, both the colonial and the first Union government (after 1910) pursued a policy of laissez faire economics and told the wine farmers to remedy their situation by limiting production voluntarily.

However, the 1910s saw further grape surpluses, forcing the farmers to sell their wine at near cost price. When the customary representations to the government failed to produce results, plans were put forward for a co-operative of wine and brandy farmers, which would regulate the prices at which vine products were sold to
the ‘trade’ (i.e. merchants and manufacturers) by controlling the supply of grapes and wine (Vink, Williams & Kirsten, 2004).

**Regulation**

These efforts resulted in the establishment of the Co-operative Wine Growers Association of South Africa or KWV\(^2\) in 1916. All but a few renegade growers in Stellenbosch and Constantia became members. The latter had to sell all their wine through KWV and contribute a levy of 10 per cent on their sales. KWV would declare an annual ‘surplus’, which it would ‘remove’ from the market. The merchants for their part agreed that they would buy only from KWV. The manufacturing-wholesalers would distil and store the surplus on behalf of KWV who, in return, would not compete with the trade in the ‘domestic’ market south of the equator. As a further quid pro quo, KWV would have a monopoly over exports (Vink, Williams & Kirsten, 2004).

In this way the growers translated their social capital into political clout vis-à-vis the manufacturing merchants. However, their power did not end there. Once registered under the law, KWV was granted statutory powers to regulate the industry in 1918. In effect it became ‘player’ and ‘referee’ at the same time.

Over the next seven decades more regulatory powers would be added to the already formidable arsenal of the KWV. Not unlike a central planning agency its organization embedded itself firmly into the Cape wine lands. Its bureaucratic control extended into every single farm that grew grapes, including the ‘estates’ that were single-owned and not members of a cooperative.

KWV controlled sales and stabilized prices, and later managed a quota system regulating new plantings, varietal choices and vine material imports. It prescribed to every grower what he could plant and how much.

This period was characterized by a focus on high yields and volume over quality, and an overall preference for the production of brandy and fortified wine. As a result of the guaranteed minimum price (per litre of wine), farmers were intent on producing as much as possible, regardless of quality. At the cooperative grapes were ‘pooled’ and farmers paid according to tons delivered. The ‘pool’ or a tank would usu-

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\(^{2}\) The acronym for the original Dutch name ‘Koöperatieve Wijnbouwers Vereniging’.
ally be sold in bulk to the producing wholesaler. Hardly any self-marketing took place (Ewert, 2003; Ponte & Ewert, 2007).

After the National Party (i.e. the architects of *apartheid*) came to power in 1948, the marriage between wine, church and party became complete. Exchanging votes for patronage, cooperatives proliferated in the warmer, high-yield regions beyond the coastal belt. After 1948 the number of cooperatives increased from 23 to a total of 69\(^3\).

In the early 1970s a further piece was added to the regulatory regime in the form of the 'Wine of Origin' scheme. However, whilst it was an attempt at valorizing *terroir*, some units of demarcation were so broad (e.g. 'Coastal Region') as to be almost meaningless. As a result, Cape wine never acquired the reputation of a 'quality' product based on 'origin'. In any event, only a small percentage (less than 7%) of total production was ever exported, and most of that consisted of fortified wine and brandy (Ponte & Ewert, 2007).

Although the more entrepreneurial, single-owner estate cellars tried to do things differently, produce better quality wines and delivered some breakthrough innovations\(^4\), the vast majority of cooperative growers were content to maintain the status quo. Closely connected and united in their values and political allegiance, they remained firmly locked into the system. Secure in their knowledge that even a poor quality product would deliver a guaranteed income, they had a vested interest in maintaining the regulatory system.

Shielded from international competition and not pressurized by non-discerning, beer and brandy drinking consumers, for a long time the South African wine industry was a 'vast distillery, draining a partly-subsidized annual wine lake' (Robinson, 1999: 648), whilst producing few top quality table wines.

Although the 20\(^{th}\) century saw a proliferation of cellars, research institutions and regulatory bodies, i.e. increased levels of embeddedness, it made little difference to the average quality of the product. Not that embeddedness played no part. On the

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3• This was the figure until the mid-1990s. The number has subsequently declined through conversion to company status, mergers and a few bankruptcies.

4• For instance, the process of cold fermentation of white wines was first introduced by an estate in the Tulbagh region. Its diffusion made a huge contribution to the improvement of South African white wines.
contrary. But it became geared to the ‘wrong’ ends, i.e. quantity and mass production, with predictable consequences for quality and competitiveness.

**Post-regulation**

This all started to change quite radically in the early 1990s. In the years leading up to the first democratic election, two things happened that proved crucial for change and innovation in the industry: firstly, the process of de-regulation and secondly, the lifting of sanctions and the opening of international markets. Together these forces have transformed the industry to the extent that it is virtually unrecognizable today (Ewert & du Toit, 2006).

Soon after sanctions were lifted, investment flowed in – both from local investors and from overseas. In the wake of these investments vineyards expanded and cellars proliferated. For instance, plantings increased from 89,000 ha in 1992 to over 110,000 ha in 2005. The number of cellars increases from 242 in 1993 to 582 in 2008. The plantings of so-called ‘noble’ grape varieties have increased dramatically from 14% of total plantings in 1991 to 54% in 2005. In 1992 only 11% of all wine pressed was red; in 2005 this had increased to 39%. ‘Wine of Origin’ has increased from 25 per cent of total production in 1999 to over 50 per cent in 2006 (SAWIS, 2007). Exports have increased from some 11 mill litres in the early 1990s to over 400 mill litres in 2008. This represents almost 50% of total production.

Mirroring developments in the South African citrus (Mather, 2007) and deciduous fruit sector (Barrientos et al., 2003), the wine industry was deregulated step by step between 1989 and 1997. For most growers de-regulation meant the loss of their ‘safety net’, i.e. the guaranteed minimum price and subsidized bank loans. In the new market driven environment, all that mattered was ‘quality’ - both of grapes and wine. Whether one would survive or not, would depend entirely on the quality of one's product, nothing else.

Consequently cooperatives now started to differentiate their production, and make separate wine from different blocks. So-called ‘planting guidelines’ and vineyard assessment criteria were introduced. Premiums on quality started to be paid to individual growers – unlike the previous era when a fixed price per volume was paid from the overall pool. Coops also started to employ full-time viticulturists as a liaison between members and cellar management. Estates and cooperative wineries alike
have embraced environmentally-friendly viticulture in the form of certification standards like the ‘Integrated Production of Wine’ (IPW) and the ‘Biodiversity Initiative’.

All these steps have resulted in much better quality management, both in the vineyards and in the cellars (Ponte & Ewert, 2009). At the cellar level producers embarked on a process of technological upgrading. New technologies, such as new crushers and filters, programmable fermentation tanks, micro-oxygenation, and reductive handling were introduced. The number of tanks have increased dramatically in order to vinify in different batches and increase the product range. Due to retailer pressures food safety standards like HCAPP and BRC were introduced and have now become routine.

At the organizational level, a process of functional specialization has taken place. Formerly the roles of winemaker and coop manager had been combined into one. Not only have they become separated, but new specialist tasks like viticulturist, marketing and quality control manager have been added. At the board level, different directors have been tasked with different ‘portfolios’ (e.g. liaison with retailers). A number of cooperatives have gone a step further and converted themselves into companies, primarily to escape the classic constraints of a cooperative (i.e. multiple ownership).

All the innovation on the upstream side has had its desired effect: better intrinsic quality, better styles, a larger number of top quality wines, exponential growth of exports and increasing market share in almost all wine drinking countries

Further downstream, a growing wine industry has spawned all kinds of new firms - from cork suppliers, to designers, bottling plants, marketers, exporters and logistic companies. The Cape now has a wine cluster that is bigger, more differentiated and more dynamic than ever before. Freed from the constraints of the regulation regime and closely connected to international markets and clients, new ideas, information and knowledge now circulate freely in the professional and informal networks of the Cape wine cluster. Driven by a strong market orientation, embeddedness is now a positive force, playing its innovative part.

Although not all growers or workers have benefited equally from de-regulation and internationalisation (Ewert & du Toit, 2009), and although major challenges remain (Ponte & Ewert, 2009), the history of the South African wine industry over the

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5: There are at least 10 South African brands amongst the top-50 brands in the UK off-trade market (Ponte & Ewert, 2008).
last 15 years or so is one of remarkable modernisation, creativity and growth and serves as proof that the embeddedness can best unleash its beneficial potential under conditions of market competition and exposure to international value chains.

**Conclusion**

What does the story of the Cape wine industry tell us about embeddedness?

Firstly, there is no question that the industry became embedded into the region in ‘organic’ fashion over centuries – into the landscape, the local economy, society and culture. The interests of the colonial powers, first the Netherlands, then Britain, left their birthmark on the industry. Colonial ideas about class, hierarchy and domination decisively shaped social structure and the labour regime. Although significant volumes were exported from time to time, the focus was primarily on the domestic market, and the production of brandy and low quality wine.

But did this deep embeddedness, the high level of mutual trust and loyalty amongst wine farmers become a fountainhead of innovation and dynamic growth? Hardly, because after the establishment of the KWV, the close social, cultural and political ties amongst Cape wine farmers became geared to one overriding purpose, viz. the maintenance and elaboration of the statutory regulation regime that had been conceded by government and generally served their economic interests. In return, the Cape wine lobby backed the government. Breaking the trust by speaking out against the KWV or by paying workers higher than the normal wages, risked social disapproval and ostracism.

Designed and administered by the KWV, the regulation regime rewarded quantity above quality. With little connection to international value chains, and almost completely focused on a domestic, non-discerning market, there was little incentive for the production of ‘fine’ wines. Sporadic, isolated instances of innovation aside, and spawned by the small estate sector anyway, the ‘embedded’ Cape wine industry became primarily geared to mass production and ‘surplus removal’ in the form of distilling wine.

Secondly, it was only when de-regulation took away farmers’ protection, and exposed everybody to the market, that they started to draw on their creative resources, by sharing information, ideas and new know-how. Networks and the knowl-
edge circulating within, were now harnessed to a completely new purpose: new prac-
tices, new techniques, new processes, new ways of organization and ultimately, qual-
ity wine.

Thirdly, while de-regulation gave everybody the freedom to decide, experiment
d and explore, the ‘external linkages’ to international markets injected new knowledge,
ideas and standards into the Cape wine cluster. Contacts with overseas retailers,
agents, national distribution systems, wine expos, and wine makers exposed South
African producers to the peculiarities of different markets, different business practices,
and a whole range of ‘quality’ standards.

Looking back at the history of the South African wine industry over the last 90
years or so, it is clear that ‘embeddedness’ can be both detrimental and beneficial for
economic development. When a whole industry unites against markets and external
influences and is financially rewarded on top of it, it is likely to render it uncompetitive
in today’s world. However, when an industry is open to external influences and focused
on export markets, it can harness its ‘embeddedness’ to develop an innovative culture
that will add value to the product and deliver positive economic outcomes for most
stakeholders. Markets, it would appear, are crucial for embeddedness to bear fruit.

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