

THE STUDY
ON
GARMENT INDUSTRY DEVELOPMENT PROGRAM
IN
THE ORIENTAL REPUBLIC OF URUGUAY

SUMMARY

NOVEMBER 1992

JAPAN INTERNATIONAL COOPERATION AGENCY

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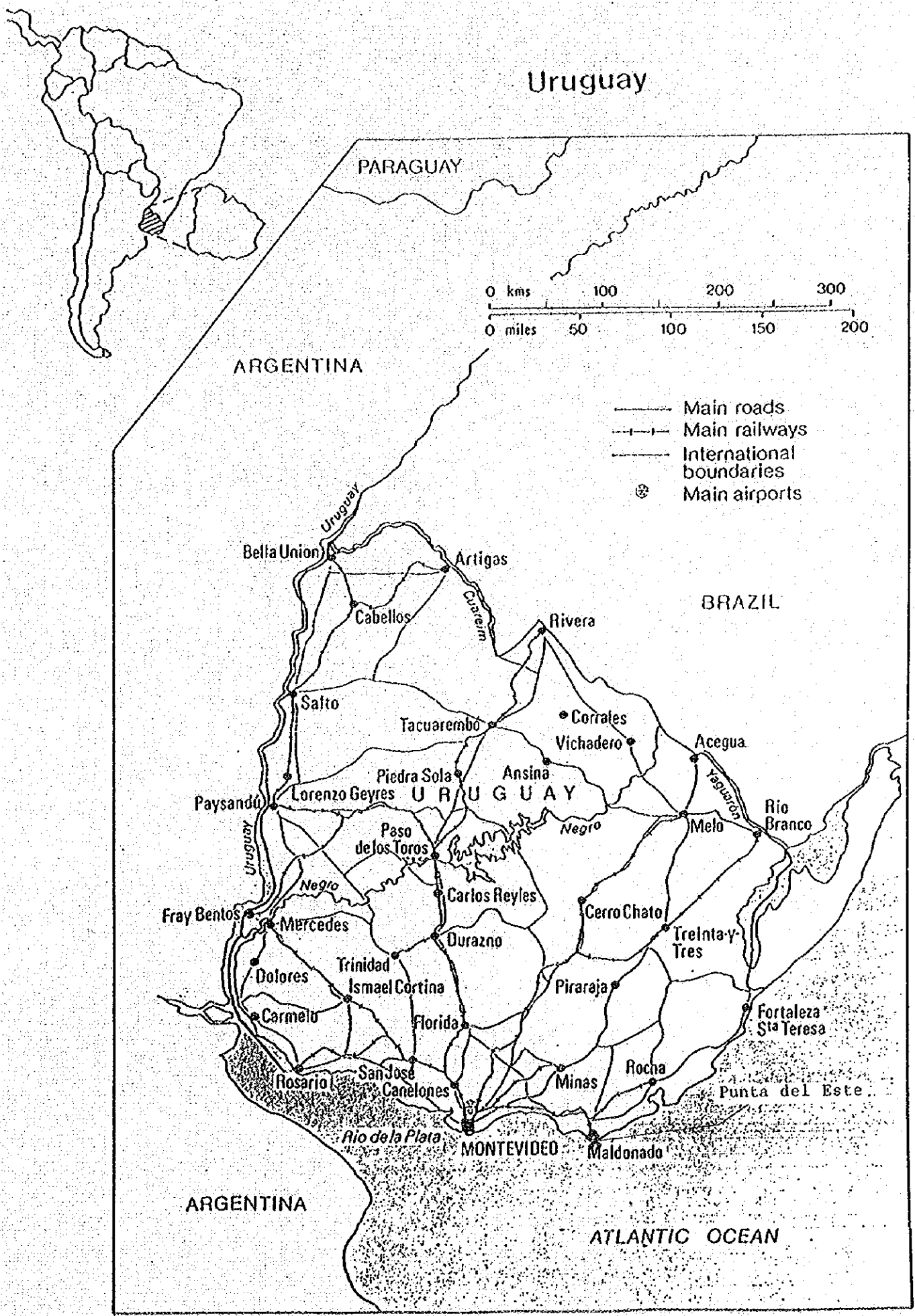
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INTRODUCTION

1. BACKGROUND OF THE STUDY

The rate of economic growth of the Oriental Republic of Uruguay (hereinafter referred to as "Uruguay"), which had been quite high during the mid 1980s, fell significantly during the later 1980s. The economic decline was blamed primarily on stagnation in the manufacturing sector. Among others, the garment industry, which held a 20% share and had been very prosperous during the mid 1970s based on export strength, became stagnant thereafter due to increased competitiveness in the international market place. Immediate actions are needed to rectify the situation.

Under these circumstances, the Uruguayan government solicited the Japanese government for its cooperation in drafting a garment industry promotion plan with emphasis on export promotion.

In response to the said solicitation, the Japan International Cooperation Agency (JICA) dispatched a delegation in November 1989 to confirm conditions in the mining and manufacturing industry and screen projects. In December 1990, official solicitation was filed by the Uruguayan government for the implementation of a study of the Uruguayan garment industry. Accordingly, a preliminary study was carried out in March 1991. The project described herein was implemented on the basis of that preliminary study.

2. OBJECTIVES OF THE STUDY

The objectives of the study were to comprehend the current status of the three representative categories of the Uruguayan garment industry (wool, knits and denim) from multilateral points of view including distribution market, management and organization of enterprises, production technology, trading

policy and so on, and to draft a master plan for export oriented promotion of the industry. Model enterprises in the said three categories of industry were selected for detailed study as needed to form a detailed promotion action plan. Realistic and detailed propositions were also to be made with respect to actions to be taken by the Uruguayan government as well as marketing activities by the industry.

3. TYPES OF INDUSTRY SUBJECT TO STUDY

The types of industry and items subject to study this time are all related to men's, women's and children's garments.

Woolen garments : overcoats, suits, jackets, trousers, skirts

Knitwear : sweaters (hand knit, machine knit)

Denim wear : pants, jackets, skirts

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PART IV CONCLUSIONS AND RECOMMENDATIONS

PART I AN OVERVIEW OF THE ORIENTAL REPUBLIC OF URUGUAY

Chapter 1 Present Situation

1-1 General Features

The total population in 1990 was 3.09 million. The average rate of population growth has been 0.6% per annum since 1980, which is quite low. Uruguay has historically been a country with a high quality welfare system, so the birthrate has stayed at a low level. Furthermore, there has recently been a great deal of emigration to countries such as Argentina and Brazil. These factors are responsible for the low population growth rate.

The territory of Uruguay covers an area of approximately 176,000 square kilometers; that is, about half the area of Japan.

Its terrain consists throughout of fertile, gently-sloping hills whose elevation is less than 600 meters above sea level. Uruguay is situated between the pampa of Argentina and the plateau of southern Brazil.

Uruguay lies in the southern temperate zone ranging from latitudes 30 degrees to 35 degrees south. The climate is mild: the average temperature during the winter season (June - September) is more than 10 degrees centigrade, while summer season (December - March) temperature average about 23 degrees centigrade. (It is very rare for the mercury to break 40 degrees centigrade.)

1-2 Economy

The Lacalle administration which came into power on March 1, 1990 has identified suppression of inflation as the most urgent economic priority, while otherwise continuing to maintain the

free and open economic policy previously followed. Furthermore, the administration is vigorously promoting structural reform of the Uruguayan economy including privatization of the remaining state owned enterprises, encouragement of early retirement of public servants, and cut-backs in the expenditures of public institutions.

A free and open economy is being maintained including a unified free exchange rate system and free movement of capital, which are the basis of the Uruguayan economy.

Foreign capital is treated the same as local capital and no governmental permission is needed for the establishment of corporations, export and import, financing, remittance of profit or repayment of foreign capital investment. No import quotas exist in principle, while the tariff rate is progressively being reduced to 30% from September 1, 1990.

With respect to the money market system, interest rates can be set freely and capital can move freely into and out of Uruguay. Detailed regulations applicable to offshore banking were promulgated in August 1989.

The policies of the Uruguayan government are focused on establishing Uruguay as "The International Service Center of Latin America" through a free and open economic system as well as by inviting multi-national corporations, including but not limited to banking organizations, to establish headquarters and parts supply centers in the country.

The Lacalle administration has placed emphasis on reducing the deficit by implementing tax increases and making a uniform 15% cut in expenditure in April 1990. As a result, the financial deficit of the central government has been reduced drastically and the deficit of the public sector as a whole has been reduced to 2.5% of GDP.

(1) Economic growth rate

The Uruguayan economic growth rate was negative during the three consecutive years beginning with 1982, but recovered in 1985 to mark a positive 1.48%, as the economy escaped from a serious depression. In 1986 and 1987, governmental economic policies focused on stimulating economic activity such as expansion of exports, a reduction of financial deficits, and anti-inflation measures helped to achieved high economic growth rates of 8.86% and 7.93% respectively.

However, the market was sluggish because of slow consumption caused by a decline in real wages and the rate of economic growth slowed to minus 0.01% in 1988, plus 0.49% in 1989, and 0.91% in 1990. The economic growth rate in the first quarter of 1991 indicated an annual rate of plus 1.6%, a slight increase due to aggressive activity in commercial fields like increased tourism.

(2) Inflation rate

The inflation rate rose by 83.03% in 1985, 70.65% in 1986, and 57.29% in 1987. This trend suggested an decreasing of inflation, but it rose again by 69.01% in 1988 due to the influence of price increases for food and entertainment.

In 1989 the inflation rate continued its upward trend to 89.18% because of an increase in the government deficit and a drought. This trend could not be halted in 1990. The present government's policy to reduce its deficit failed to restrain the money supply even with the expansion of exports and an increase in visiting tourists, because of the steep rise in oil prices caused by the Gulf War. The resulting 1990 inflation rate was 128.96%, the second highest in history following the rate of 135.9% recorded in 1967. The budget deficit reduction policy finally began to show results in 1991.

The inflation rate from January to June in 1991 dropped to 37.20% from 51.51% in the same period of the previous year.

(3) Income level

The GNP of Uruguay in 1989 was 8,069 million dollars, equivalent to approximately one forty-sixth that of Brazil, one twenty-first that of Mexico, or one-ninth that of Argentina.

The GNP per capita of Uruguay, however, was 2,620 dollars, an amount exceeding those of Brazil (2,550 dollars), Mexico (1,990 dollars) and Argentina (2,160 dollars), indicating a relatively high position among Central and South American countries.

Note : In this report, dollar refers to U.S. dollar.

(4) Balance of international accounts

Uruguay's balance of international accounts from the later part of the 1970s to the early part of the 1980s took such a form that a surplus in capital account compensated for a deficit in ordinary revenue and expenditure. In 1982 both ordinary income and outflow and balance of account showed a large deficit, so that a great deal of red ink -- 799.5 million dollars -- was recorded in the overall balance of payments. This passive amount corresponded to 16.1% of the GDP in that year.

Thereafter reduction of imports was carried out under the demand control policy of the government, while an exchange policy was also implemented with a view to strengthening the competitiveness of exports. As a result of the above policies, the balance of ordinary revenue and expenditure was much improved. A sharp decline in oil prices and expansion of exports to Brazil and Argentina brought about a positive

result in 1986.

Balance of capital account also went into the black within narrow limits beginning in 1983, and the overall balance from 1983 to 1985 showed no deficit greater than 1% of the GDP. A substantial surplus of 274.4 million dollars corresponding to 4.9% of the GDP was achieved in 1986.

In 1987 traditional exports (beef, wool) fell, but non-traditional exports (all goods except beef and wool) rose, which helped to keep the balance in the black to the tune of 40.0 million dollars. 1988 was a record export year largely because of the diversification of both products and markets. A positive trade balance of 288.0 million dollars was recorded, although imports increased by 35.0 million dollars over the previous year.

Export of both traditional (particularly beef) and non-traditional products went well, and the balance in 1989 showed the greatest surplus in history (396.0 million dollars). In 1990 the balance dropped to a still favorable 350.0 million dollars because, although exports progressed satisfactorily, imports also increased significantly.

1-3 The Current Condition of Principal Industries

The main industry in Uruguay is the agricultural industry which, including the raising of livestock, accounts for 10% of the GDP. In the manufacturing industry that generates 26% of the GDP, both the food and the wool-product industries which are closely connected to agriculture are a central force.

Agricultural products and industrial goods derived from them also account for approximately 80% of total exports.

(1) Agriculture

Agriculture including livestock raising accounted for 10.2% of the GDP in 1990, but because products like beef, wool, hides and products processed from agricultural materials are traditional export items, agriculture is the direct or indirect source of most exported goods.

The main crops in Uruguay are wheat, sorghum, corn and rice. There are large year-to-year fluctuations in the harvest of these crops. Aside from these grain crops, beets, sugar cane and fruit including grapes are grown for domestic consumption. Traditional export products derived from beef and wool are the nucleus of the livestock industry.

Through actual yields of beef and wool are stable, the quantities exported and their value are affected by market conditions every year.

(2) Manufacturing industry

The manufacturing industry in Uruguay is more-or-less dominated by producers of consumer goods, although some intermediate goods such as chemicals and refined petroleum products are also produced. The most important manufacturing industries are food processing, textiles, garments, shoes and hides.

The manufacturing sector that accounted for about one quarter of the GDP went into a slump in the 1980's and this fact was a primary cause of the decline in the real GDP.

From 1973 to 1980 the construction industry grew rapidly. An increase in Argentine investment in Punta del Este and Montevideo in 1988 stimulated the growth of the construction industry. However, a decrease in Argentine investment in recent years has led the construction industry to shrink and its share of the GDP was only 3.3% in 1990.

(3) Service industry

Service industries like commerce, transportation and warehousing became prosperous again in 1986, although they had been depressed since 1982. Residential services like electric power, gas, water and communications have also been expanding.

Finance, insurance, and government services had been in a slump since 1982 due to the influence of the reduced budget, but from 1986 onwards the field has been recovering owing to the effect of policies adopted by the Sanguinetti government.

Earnings due to tourism contribute much to the balance of international accounts. The income deriving from sightseeing by foreign tourists in 1990 amounted to about 240 million dollars, roughly equivalent to annual earnings from export of beef, which is second to wool as an export commodity.

1-4 Foreign Trade

(1) Trade balance

The trade balance measured on a customs clearance basis had been showing a consistent deficit, however, a drastic devaluation of the peso at the end of 1982 and a sharp decrease in imports in 1983 due to the domestic recession resulted in the balance returning of the black after ten years. A trade surplus was maintained from 1983 all the way up to 1990. The trade balance from January to May 1991 has been in the red again because export of wool, the single largest export product, has dropped off sharply owing to an excess of stock.

Due to the influence of increases in primary export products such as beef, wool and grains, the value of exports (FOB price) in 1990 rose to 1,692.93 million dollars, an

increase of 5.9% over the preceding year having shown 1,598.78 million dollars, which set the highest record in history.

The total value of imports (CIF price) in 1990, on the other hand, was 1,342.93 million dollars, an 11.6% increase from the previous year, due to the sharp increase in the price paid to import crude oil at the time of the Gulf War.

The trade surplus shrank to 350 million dollars in 1990, compared with 395.96 million dollars the year before, the largest surplus ever recorded, because the growth of imports exceeded that of exports.

(2) Exports

The principal export products have traditionally been beef, wool, hides and wheat, which have now been joined by rice, dairy products, fishery products, leather goods, and garments. These products are mainly exported to Brazil, the U.S.A., the former West Germany, the former U.S.S.R., and Argentina.

Uruguay's export products are classified into traditional items and others. The two main traditional export goods are beef and wool that together account for just under 50% of the total value of exports.

Brazil and Argentina, countries that neighbor Uruguay, are such important trade partners that Uruguay depends on them to take 37% of its exported goods.

(3) Imports

The principal categories of imported goods are crude oil, machinery, chemicals and transport equipment. These products are largely imported from Brazil, Argentina the U.S.A., the former West Germany, Iran and Mexico.

(4) Structure of foreign trade

According to Uruguayan trade statistics (CENCI), the total value of exports in 1990 was 1,702.39 million dollars, within which the value of exported textile products including fibers and garments made up 486.8 million dollars. The total value of all exports grew 6.6% from the previous year, while that of textile product exports showed only a slight increase of 0.3%. As the result, the share of textile products within total exports fell to 28.4% from 30.4% the preceding year. The reason why the export of textile products lost share was the sharp 34% decrease in textile exports to the U.S., the leading market for Uruguayan textiles up to 1989.

The contribution, however, of textile products to Uruguay's total exports is still high. The category of "Important export items" in the same statistics report lists 5 fiber and garment products among the top ten: worsted tops (first place), raw wool (fifth place), 100% worsted cloth (seventh place), washed wool (ninth place), and leather garments (tenth place).

The value of exported garments fell from 107.5 million dollars in 1989 to 89.8 million dollars, a 16% drop. This decline in garment exports was sharp when it is taken into account that overall textile product exports showed no marked fluctuation. This fact is clearly shown in "Important export items." Garments other than leather garments had been included as one of the ten items in "Important export items, 1989", but disappeared from the list in 1990. Thus, due to sagging export trade, the share of garments among total textile products dropped from 22% in 1989 to 18%.

Looking at the countries importing Uruguayan textile products in 1990, the year in which exports to the U.S. decreased remarkably, the U.S. dropped to third place from its first place ranking in the previous year. The People's Republic of China (hereinafter referred to as "China")

replaced the U.S. in first place even though it too took less than the year before. Overall, exports to the former U.S.S.R., Italy and Holland showed great improvement, but Uruguay was unable to increase exports as a whole. The increase in exports to the former U.S.S.R., Italy, and Holland was 20%, over 80%, and 70% respectively.

The total value of imports in 1990 was around 1,400 million dollars, while exports totaled approximately 1,700 million dollars, leading the trade balance to tip about 300 million dollars into the black. Looking just at textile products, the value of imports was 65 million dollars while that of exports was 486.8 million dollars. There was a difference of seven times between exports and imports. The main imported textile items were raw cotton and cotton fabrics valued at 11.3 million dollars. Jute fabrics worth 2.5 million dollars were also imported. The biggest exporter of textile products to Uruguay is Argentina. It exports goods worth 18.1 million dollars to Uruguay, accounting for 27% of that country's total textile imports. Brazil ranks next to Argentina with 12.8 million dollars in value and a 20% share. The U.S.A. occupies third place, exporting 6 million dollars worth of textile products to Uruguay. Paraguay takes fourth place with 3.67 million dollars and Italy stands in fifth place with 3.66 million dollars.

The share of imported textile products coming from the neighboring three countries is quite high, making up 53% of the total, but imports from Asian countries are still noteworthy. China, who stands in sixth place by value of goods, has come up so rapidly that its imports rose from 0.19 million dollars in 1989 to 2.7 million dollars in 1990, in a single breath. Korea's textile products delivered to Uruguay have increased from 0.72 to 1.40 million dollars. The top ten exporters of textile products to Uruguay include four Asian countries: China, Bangladesh, Korea, and Japan. The total value of imports from these four countries reached 7.8 million dollars in 1990 (4.2 million dollars in 1989),

accounting for 12% (6.8% in 1989) of total textile product imports.

The export of Uruguayan garments takes place mostly under merchandising carried out by parties in the importing countries; it is rare for Uruguayan garment manufacturers to export their goods under the support of their own merchandising. However some hide and leather companies, knitwear makers, and swimming suit makers merchandise their own products abroad.

It is noticeable that garments imported under the pretext of being secondhand goods have recently been increasing in South America. These products are actually new garments that have been treated by intentional wetting and drying in order to appear used. Garments imported under the category of secondhand goods are subject to lower import duties, which permits them to sell at a low retail price. Such secondhand clothing is rising in popularity among people in lower income brackets, resulting in increasing imports.

1-5 Mercado Común Del Sur (MERCOSUR)

Negotiations that had been taking place between four Latin American nations, namely Brazil, Argentina, Paraguay and Uruguay, with respect to the creation of a common market came to a final agreement which was signed by the nations concerned in Asuncion, the capital of Paraguay, on March 26, 1991. The agreement so signed is called the Tratado de Asuncion, an outline of which follows.

1) Name

The common market is called Mercado del Sur, abbreviated as MERCOSUR.

2) Implementation of MERCOSUR

MERCOSUR is scheduled for implementation by Brazil and Argentina in January 1995, and by Uruguay and Paraguay in January 1996.

3) Creation of a common market

Creation of a common market means free movement of commodities and services by virtue of abolition of tariffs and removal of non-tariff barriers (Maximum offshore tariff rate of 35% is being negotiated with GATT as of July, 1992.). In addition it also means establishment of a common offshore tariff, adoption of a common trade policy towards third countries, coordination of macro-economic policy, segment-by-segment economic policies and legislation.

4) Schedule to reduce internal trade tariff rates

The number of items protected by each country is 394 for Argentina, 960 for Uruguay, 324 for Brazil and 439 for Paraguay (as of March 1991).

Uruguay and Paraguay agreed to reduce the number of protected items by 10% immediately after the validation of the treaty, by another 20% at the end of December 1991, and by an additional 10% at the end of each December of every year from 1992 through 1995 so that no items will be protected after the end of December 1995. Argentina and Brazil agreed to reduce the number of protected items at the end of each December of every year beginning retroactively in 1990 and ending in 1994 so that no items will be left protected after the end of December 1994.

5) Organization

The Consejo de Mercado Comun (Council of the Common Market) is the administrative organization of MERCOSUR.

The Consejo de Mercado Comun is the highest organizational body within the MERCOSUR structure. It is in charge of implementing policies defined under the treaty, and is also the final decision making body. The Consejo de Mercado Comun is made up of foreign ministers and economic ministers from the member nations and convenes at least once every year with the presidents of member nations in attendance.

The Common Market Group is the standing organization in charge of implementing provisions of the Asuncion treaty. It consists of representatives from the ministries of foreign affairs and economics, and central banks of each member nation. The administrative secretariat of this organization is located in Montevideo.

In addition, 10 sub-committees are organized within the Common Market Group in order to study coordination of macro-economic policies and segment-to-segment industrial policies.

1-6 Education

The level of education in Uruguay is reasonably high with a literacy rate of 97.4% (estimate as of 1987). The system of education in Uruguay comprises primary education (six years in primary school), secondary education (six years in middle and high school) and university or other higher education. Nine years, i.e. the six years of primary education and the first three years of secondary education, are obligatory.

1-7 Labor

The rate of unemployment in Uruguay has been around 8 - 10% during recent years but has been higher for female workers than for male workers. The average from February to April 1991 was 7.58% for men and 13.84% for women. The overall average for male

and female workers was 10.27%.

Net wages showed substantial increase immediately after the transition to civilian government in March 1985. The rate of increase in net wages has been progressively slower thereafter, amounting to only 1.50% in 1988 (comparison of yearly averages). Net wage increase was negative during 1989 and 1990 due to the rate of inflation being higher than the rate of nominal wage increase. The negative trend in net wages has continued during 1991 under inflationary pressure. The minimum wage as of July 1991 was about US\$ 90 per month.

1-8 Infrastructure

(1) Road transportation

The total length of roads in Uruguay is about 50,000 km out of which 9,600 km is national road and the rest is prefectural road.

The national road systems radiating from the city of Montevideo to principal regional cities and to Brazil and Argentina total about 3,800 km in length and road among main regional cities, is about 3,800 km in length. The remaining 2,000 km belongs to supplementary road systems that are mostly unpaved or of very simple paving. Because connection to Brazil and Argentina, which are the principal trading partners, is by road, freight transportation to Brazil and Argentina as well as to Paraguay and Chile is carried primarily by road. Ninety percent of export freight transportation to those four countries is carried by road, thus seriously eroding the rate of railway transport.

(2) Railway transportation

All railway systems are under the control of the Administracion de Ferrocarriles del Estado. As of 1986, the total length of railway track was 3,005 km with only 11 km of

double track section. The Uruguayan railway system had originally been managed by a British enterprise unit it was nationalized in 1948. Because maintenance and repair made since has been very poor and no capital investment has been made, the system is superannuated and operates with very poor efficiency. Consequently, freight transportation is primarily dependent upon trucking and passengers prefer to take busses except for long distance travel.

(3) Marine and river transportation

The principal harbors are Salto, Paysandú, Fray Bentos, Nueva Palmira, Carmelo, Colonia and Puerto Sauce in addition to Montevideo, all located along the Uruguay River. Fray Bentos is known as a grain shipping port while Colonia is considered important as a base for the ferry that connects to Buenos Aires on the opposite side of the river. All harbors have a depth of around 5 m and are suited as river ports for small boats.

Accordingly, Montevideo is virtually the only point capable of handling foreign trade shipments.

(4) Air transportation

Because Uruguay is a small country whose population is concentrated in the Montevideo capital district, and which had a railway system during its early stages of growth, development of an air transportation system was delayed. The Carasco airport in Montevideo was the sole international airport for a long period of time. Carlos A. Curbelo International Airport opened recently in Punta del Este to deal with the increase in tourism.

(5) Communications

In Uruguay, telecommunications services, including telephone, cablegram and facsimile services, are the

exclusive domain of the National Telecommunication Corporation which is under the jurisdiction of the Ministry of Defense.

There are 32 radio broadcasting stations in the city of Montevideo and 98 stations in regional cities, the total number of radio broadcasting stations being 130. There are 4 TV broadcasting stations in the city of Montevideo and 19 TV stations in regional cities, the total being 23 (as of 1992).

PART II CURRENT STATE OF THE URUGUAYAN GARMENT INDUSTRY

Chapter 1 Environment Surrounding the Garment Industry

1-1 Introduction of Textile Industry

The Uruguayan textile industry comprises the sheep raising, spinning and weaving, and garment industries (including knit wear), each of which is represented by its own business organization. The spinning and weaving industry is generally considered to encompass the whole train of production beginning with spinning through weaving, dying, and sorting. Many production facilities are rather antiquated, while state-of-the-art plant and equipment have been introduced into some enterprises.

Garment industry which joined textile related industry belatedly is classified into either of export oriented enterprises or domestic market oriented enterprises, each of which is controlled by the respective industrial association of enterprises. Institutions in charge of the control of the garment industry are Camara Industrial de la Vestimenta (CIV) and Punto Industrial Uruguayo (PIU). Most of the export oriented garment manufacturing enterprises are engaged in the subcontracted production in compliance with the specifications designated by overseas buyers. As the result, very few enterprises are capable of independent merchandising for export.

In general, production facilities in the garment industry are likewise antiquated, the proportion of juvenile workers is rather high, and productivity is low. Many members of CIV are engaged primarily in the production of men's and women's outer garments such as suits and coats. Some members however are engaged in the production of leather goods, lady's underwear or swimming suits. In addition, there are household industries scattered over the country which specialize in order made garments and are favored

primarily for order made, high-grade evening gowns. There are also specialists engaged in the production of designer brand haute couture and pret-a-porter items. Exchange between those designers and the garment industry in general, however, is rather limited.

Because there exists no industrial organization, such as the Textile Industry Association, capable of exercising general control over the industry as a whole, communication between the spinning and weaving industry and the garment industry is sporadic and not well organized, partly due to the fact that the wool and spinning and weaving industries are export oriented.

(1) Wool industry

According to information available from the International Wool Secretary (IWS), Uruguay stood seventh, producing 93 thousand tons (2.7%).

As an export item, wool is still as important to Uruguay as meat. As mentioned earlier, total exports of textile products were US\$ 486.8 million in 1990, among which worsted top was the largest single item accounting for annual export earnings of US\$ 190 million. When other wool products are included, total annual wool exports amount to US\$ 300 million, equal to 17% of the country's total exports.

Out of the 30 million head of sheep currently being raised in Uruguay, the majority are of the Corriedale species which produces thick wool (fiber diameter larger than 27 microns). Consequently, local textile manufacturers are obliged to import thin raw wool. This is largely due to Uruguay's mild climate and natural sheep breeding practices.

(2) Spinning and weaving industry

The Uruguayan spinning and weaving industry comprises production of wool, cotton and synthetic fiber products, the

largest proportion consisting of wool goods. Under national policy to encourage modernization of local industries, implemented since 1973 by the government, state-of-the-art plant and equipment have been imported by the spinning and weaving industry from Germany. Efforts have also been made to increase exports, from 1% of total exports in 1975 to more than 10% in 1984 and almost 30% nowadays.

The Asociacion de Industrias Textiles del Uruguay currently has 78 enterprises as members, 27 of whom are involved in wool spinning and weaving, while 23 perform cotton spinning and weaving. Many enterprises are engaged concurrently in both spinning and weaving, using mostly locally produced top and a small quantity of materials imported from Argentina.

Eighty percent of wool fabric is exported directly, 10% is for local consumption and 10% is exported after having been made into garments. Accordingly, 90% of total production is exported. Uruguayan exports are primarily of patterned fabric because plain and fixed count fabrics are not sufficiently competitive in the export market.

On the other hand, the Uruguayan cotton spinning and weaving industry, which is wholly dependent on raw cotton imported from countries like Brazil and Paraguay, is not as strongly structured as the Uruguayan wool spinning and weaving industry. The industry has been threatened by increased imports due to foreign exchange rate fluctuations in recent years, resulting in the bankruptcy of more than 40 enterprises over the last 10 years. Annual current production of cotton fabric in Uruguay is no greater than about 8,000 tons, out of which roughly 3,000 tons are for export while another 4,500 tons are for local consumption.

The synthetic fiber textile industry currently produces about 1,000 tons annually, but is almost wholly dependent on imported material chips. The general textile industry in

Uruguay, with exception of the wool segment, is confronted with severe competition from their Argentinian and Brazilian counterparts, with rather grim prospects in spite of the establishment of the Mercado Comun del Sur (MERCOSUR).

(3) Accessories and subsidiary materials industry

As the factors indicate, much depends on the diversity of design variations of accessories and subsidiary materials, as well as their quality, in elevating the added value of garments.

In order to strengthen its own independent merchandising, it is necessary that the Uruguayan garment industry develops local design and production of accessories and subsidiary materials and builds a diverse inventory of imports (for example, by joint purchase and stocking).

1-2 Garment Industry

(1) Introduction

The history of the Uruguayan garment industry is relatively short when viewed historically, in comparison with the wool industry which developed along with the foundation of the state of Uruguay. One-hundred forty-two enterprises are registered in CIV, which was founded in 1964, while 64 enterprises are registered in PIU, which was spun off in 1973 from the association of wool spinning and weaving enterprises. According to those two associations, the total value of shipments during the year 1989 was 208 million dollars while about 12,000 workers were employed by the industry. The value of garment exports according to 1990 trade statistics is 140 million dollars, a 16% increase from the previous year. If leather goods are excluded from this amount, garment exports totaled 89.9 million dollars, a 16% decrease from the 107.5 million dollars recorded the previous

year.

Most exports are destined for the United States of America, though orders from the U.S.A. have been decreasing since 1990 while exports to Europe, Brazil and Argentina are increasing.

Uruguayan garment products for export are provided with quality labelling to display country of origin, quality and handling instructions in compliance with the request of overseas buyers, while none of the products for domestic consumption is provide with such a labelling.

Each exporting enterprise has its own export channels and no joint trade fair for the industry has been organized. There exist certain trading firms which carry out sales on behalf of manufacturers and place orders with several manufacturers.

Most garment production utilizes antiquated facilities with the exception of a few large scale manufacturers who have introduced CAD/CAM or state-of-the-art computer controlled knitting machines. Most imported sewing and knitting equipment is of German make because better maintenance services are available than for Japanese made equipment.

(2) Overview of woolen garment manufacturing enterprises

It should be noted as the distinguishing feature of the Uruguayan garment manufacturing industry that a majority of its enterprises are engaged in processing for a fee in compliance with the specifications of their clients.

The principal export targets are countries within the MERCOSUR sphere and the United States of America, while some target European countries. A very few have their own brand, but no will to aggressively market those brands on the world

market was identified.

Every wool weaving enterprise is export oriented and appears to be less concerned with the local garment industry.

(3) Outline of the denim garment industry

Most existing Uruguayan garment manufacturing enterprises were initially founded around the time of World War II (in the 1940s). Their plant, equipment and technology have not been renovated since their foundation. No high performance, high productivity sewing machinery and technology, such as is often found nowadays in Southeast Asian or Caribbean coast countries and which takes advantage of high-tech energy saving techniques, has been introduced. Because US and European enterprises have shifted emphasis to low cost, high quality production in Mexico, the Caribbean Coast and Southeast Asia, the Uruguayan denim garment industry has lost its market. As far as costs go, most of those other countries can produce classic five pocket denim jeans for 6 - 6.5 US\$/pair, while the cost in Uruguay is no less than 8 - 8.5 US\$/pair.

Only those enterprises which are capable of small quantity/large variety production of high added value items have a good chance to survive and develop further in the face of competition.

(4) Overview of the knit wear industry

In Uruguayan knit wear enterprises, knit sweaters emphasizing Uruguayan characteristics remain the mainstay of production. These enterprises can be further categorized into those that specialize in hand knits and those that specialize in machine knits. Hand knit manufacturers are being obliged to enter into machine knit production due to labor scarcity and to reduce production costs.

Manufacturers of relatively large scale are export oriented and put less emphasis on local sales.

The raw materials used are predominantly Uruguayan wool, spun into thick texture yarn to make sweaters for protection against the cold. Alpaca and angola are also used for hand knits and machine knits respectively to make finer garments. Many enterprises also manufacture cotton knit summer wear.

1-3 Personnel Development

In Uruguay the institutions existing for developing personnel with skills in garment related areas are the Universidad del Trabajo del Uruguay (UTU) and the Centro de Diseño Industrial (CDI).

(1) Universidad del Trabajo del Uruguay (UTU)

This is a national educational institution founded in 1879 whose curriculum covers the fields of industry, agriculture and services. The clothing and ornament related department is included in the field of industry. Tuition is gratis.

School course and standard ages are as follows;

- Primary course : 3 years after graduation from primary school (Standard age : 12 - 15 years old)
- Middle course : 2 years after graduation from primary course (Standard age : 16 - 17 years old) (Design class and sewing class)
- Upper course : 3 or 4 years after graduation from middle course (Standard age : 18 - 21 years old) (Those graduated from the 3 year course are awarded the title of sub-technologist, and those graduated from the 4 year course

are awarded the title of technologist.)

The primary course is given in 97 locations throughout Uruguay. The middle and upper courses are given in two locations each, located in Montevideo and Paysandú. Table II-1-1 shows the number of students and target of education as of July, 1991.

Table II-1-1 Number of students and target of education

	Primary course	Middle course	Upper course
No. of students	1,386	144	46
Target of education	Acquisition of basic education	Acquisition of skill	Middle management of enterprises

Source : UTU information

One unique feature of UTU is that it enlists the close cooperation of pertinent industries. For example, a shortage of competent teachers has become a serious problem for UTU as a whole. The knitting industry bore part of the cost to dispatch teachers to Germany for study and training in 1990. In addition, teachers have also been dispatched to [SENAI] which is a garment related educational institution in Brazil. There is also a system by which students can study while working half days in commercial enterprises. The system is effective in preventing school dropouts. Nineteen students out of 28 are benefiting from this system.

As no student has so far been graduated, there are no actual employment histories of graduates to study. However, the title of technologist will be awarded to graduates of the 4 year course and the sub-technologist title will be awarded to graduates of the 3 year course.

In addition, the privilege of entering university will be extended to graduates of the 4 year course, if they so desire. However, since job opportunities for graduates with the technologist title may be insufficient due to the limited number of enterprises in the industry, the establishment of another course to educate candidates to become managers is being examined.

Problems:

- The number of teachers who are fully knowledgeable in the latest information and techniques is extremely limited, thus making it impossible to provide education in the modern sense.

Efforts are being made to dispatch teachers to enterprises equipped with modern facilities, but so far not in large enough numbers.

Training of teachers by a school called LICEO FRANCE, which was established and supported with the cooperation of the French Embassy, commenced in 1992 but is not yet quite satisfactory.

- No funds have been appropriated in the national budget to procure the facilities badly needed for the education and training of students.

Students are being sent to factories equipped with special purpose sewing machines for exercise and practice.

(2) Centro de Desego Industrial (CDI)

CDI was founded and is now being operated with funds provided under the ODA program of the Italian government. The building (which used to be a penal institution) was provided by the Uruguayan government while the Italian government provided teaching materials and equipment

(including electrical equipment) under the grant aid. The total cost of the institution was 2,5 million dollars including the cost of all equipment (weaving machine, woodwork, sheet metal work, design, CAD) procured in principle in Italy with the exception of personal computers and cameras which were procured from Japan and Macintosh computer graphics. The institution was founded in 1988 and the Italian government committed to a five year period of technical cooperation, during which two Italian experts were to be dispatched to Uruguay for long term stays while some graduates were to be dispatched to Italy as short term trainees.

Those who have graduated from middle school (equivalent to junior high school and senior high school in Japan), are normally at least 18 years of age and not exceeding 25 years of age, and have passed the examination are qualified for admission.

Those applied for admission in 1992 were 200 out of which 37 were admitted.

The 37 students admitted in 1992 will select their specialized 3 year courses (industrial design course, textile/garment course) one year later. Those who select the textile/garment course normally number 3 - 5 every year.

The first group of 18 students (13 from the industrial course and 5 from the garment course) finished their courses in November 1991.

Eleven candidate graduates (two from the garment course) out of 18 stayed in Italy as trainees during a three month period beginning in February and ending in April 1992. Seven candidate graduates who did not stay in Italy made up the training by a correspondence course.

(3) Development of human resources for the garment industry

Although no systematic effort is being made by CIV or PIU to develop human resources for the industry, both institutions are fully aware of the need for human resource development. A program to reform the awareness of executives and managers is scheduled to be launched through the cooperation of REFA of Germany.

Both institutions are waiting for the graduation of students from the advanced course of Universidad de Trabajo del Uruguay (UTU) and are providing cooperation and certain needed equipment for on-site practice.

The fact that the number of students who are expected to graduate is limited, and that they will not immediately be qualified to take places in middle management, where skilled personnel are in very short supply, is considered frustrating.

1-4 Product Quality Measures and Activities

(1) Product quality activities sponsored by the Uruguayan government

LATU is providing quality assurance services for export products. Its service for meat products has been identified as meeting international standards. Although textile related products are included in the scope of its services, so far its services have actually been applied only to yarn and not to garments. Although the textile division of LATU is staffed by 3 engineers who run it, outside specialists are hired and dispatched to businesses in order to provide technical guidance. The cost of dispatching these specialists is shared equally by LATU and the businesses. Relatively large scale businesses are taking advantage of the program, the content of which is as follows.

- Carrying out the quality control program
- Assistance in handling claims
- Use of facilities whose cost is beyond the reach of private sector enterprises

Although there are textile related departments at National university, none of them is doing any basic research or study relative to a quality certification program.

(2) Standards, product markings

In preparation for the inauguration of MERCOSUR, a committee in charge of quality assurance marking was formed. LATU represents Uruguay on this committee.

The Institute Uruguay de Normas Tecnicas (UNIT) is a private sector institution that is also involved in standards and product marking.

UNIT was founded in 1939 as a non-profit private sector institution. It has about 130 enterprises registered as members. UNIT had been an associate member of ISO when it became a full ISO member in 1991. UNIT is also closely associated with COPANT in which 18 countries participate and with IRAM of Argentina through business contacts. Thirty sectional meetings are regularly held within UNIT.

UNIT's principal areas of activity are as follows:

- Standards related work
- Collection and dissemination of standard related information
- Disseminating information of quality control programs (seminars, technical guidance)

- Quality certification (product certification only, not including factory certification)

UNIT is currently providing quality certification for propane gas, fire extinguishers and electric water heaters, but not for garments.

Though labeling with handling cautions was established in 1982 as a UNIT standard in compliance with ISO standards, it is not enforced nor are products accredited as yet.

Quality control seminars so far sponsored by UNIT until today July, 1991 have been attended by about 4,500 participants in total. Although many from the textile industry have attended quality control seminars, only a few from the garment industry have ever attended a quality control seminar.

The operation of UNIT is financed by membership fees paid by about 130 members, by seminar participation fees, and by consulting fees which together are not quite sufficient. The factors hampering UNIT in its activities include insufficient funding, lack of financial support from the government and a limited ability to compel private sector enterprises to strictly observe the applicable standards.

Product marking of garments originating in Uruguay

Among garments manufactured in Uruguay, those intended for export are marked, at the request of the importing buyers, with certification of the country of origin, a description of the materials of composition, and care instructions. No such markings are provided on garments for local consumption.

Both CIV and PIU recognize a need to provide markings on products for local consumption. Camara Industrial de la Vestimenta has begun to take actions in cooperation with LATU

to enforce the marking of products for local consumption. It is considered very important to provide markings that lead to upgrading, the promotion of exports and to the protection of local consumers.

Chapter 2 Present Status of Garment Industry

2-1 State of Activities of Industrial Associations

(1) Textile industry related industrial associations belonging to Camara Industrial Uruguayo

As shown below, there exist 7 industrial associations in Uruguay, and within the Asociacion de Industrias Textiles del Uruguay there exist 7 sections.

- 1) Asociacion de Fabricantes de Botones, Herrajes y Accesorios para Cueros y Confecciones
- 2) Asociacion de Fabricantes de Fibras Sinteticas y Artificiales
- 3) Asociacion de Fabricantes de Prendas de Tejido de Punto
- 4) Asociacion de Fabricantes de Prendas para la Industria
- 5) Asociacion de Industrias Textiles del Uruguay
 - * Sector Fabricantes de Filamentos y Fibras Sinteticas Artificiales
 - * Sector Fabricantes de Medias, Calcetines y Zocuetes
 - * Sector Hilanderias y Tejedurias de Lana
 - * Sector Hilanderias, Tejedurias y Terminacion de Algodon, Seda y Fibras Sinteticas y Artificiales
 - * Sector Peinadurias de Lana
 - * Sector Varios (Cintas, Elasticos, Hilos, Cordones, etc.)
 - * Sector Tejidos de Punto Y Malleria en General
- 6) Asociacion de Lavadeeros de Lanas
- 7) Camara Industrial de la Vestimenta

(2) Relations between Camara Industrial and each Asociacion de Industrias

Although there is no formal relation between Camara Industrial and the Asociaciones de Industrias in terms of their articles of incorporation, close business relations do exist. If Camara Industrial receives messages from the government or is consulted by the government, Camara Industrial will often summon presidents or general secretaries of the Asociaciones de Industrias in order to convey the message to member enterprises, or vice versa. CIV and PIU are very active and dedicated. They respond without fail to any proposal. All meetings are well attended by member enterprises.

1) Camara Industrial de la Vestimenta (CIV)

The chamber was founded in August, 1964.

The current number of member enterprises is 142, which includes 47 manufacturers of women's clothing, 36 manufacturers of men's clothing, 23 manufacturers of leather and fur goods, 15 manufacturers of jeans, 14 manufacturers of shirts, 10 manufacturers of sportswear and 10 manufacturers of underwear.

In 1990 member enterprises exported goods worth about 115 million dollars, including about 60 million dollars in garments and about 55 million dollars in leather goods.

The chamber is engaged primarily in "protection of the industry" and "negotiation with the government." More concrete, it pursues the following activities.

Negotiation with countries with whom bilateral agreements are in effect (Argentina, Brazil, Chile and Mexico) on garment quotas, and allocation of quotas to member enterprises

Participation in the Uruguayan delegation that attends conferences to discuss textile agreements with foreign countries

Relaying notices of overseas fashion shows and fairs sent by the Ministry of Economy, Department of Trade and Commerce to member enterprises

Assistance to members enterprises in settling labor disputes

2) Punto Industrial Uruguayo (PIU)

PIU was founded in 1973. At the time of foundation, 17 companies, equal to 50% of the existing knitwear manufacturers, joined. As of now, 65 enterprises out of the existing 95 companies participate. These 65 members cover almost 100% of exports and 80% of the total production of knitwear.

Main activities are;

- Coordinating export quotas under bilateral trade agreements (with Argentina, Brazil, Chile and Mexico)
- Collecting and summarizing statistical information
- Assisting in the settling of labor disputes

The association determines minimum wages, although it has no enforcement powers.

Providing information pertinent to technological innovation and personnel development

Participating in relations with the administration on a case by case basis. For example, it participates in discussions of subsidy issues and communicates with member

companies.

2-2 Management Organization

(1) Model companies

14 model companies (5 wool textile garment manufacturers, 4 denim garment manufacturers, 5 knitwear manufacturers) were selected through screening for detailed study. The method of the screening, particulars, and results of study shall be covered in the next section and summarized in the summary of materials.

1) Overview of model companies

On the whole, Uruguayan industries consist primarily of small scale companies with fewer than 100 employees. The proportion of companies with more than 100 employees is no greater than 0.6% of all companies. Because the garment industry is typically labor intensive, by Uruguayan standards the industry encompasses many large scale companies. For example, 35 of the 142 member companies of CIV (24.6%) are categorized as large scale enterprises. The total number of employees of the 26 large scale companies in Punto Industrial Uruguayo is about 6,000 (including 4,000 who work at home), equivalent to an average of 261 employees per enterprise.

The average number of employees of the 14 model companies surveyed this time is 330 (maximum 900, minimum 58), representing the top ranking companies in the industry (Table II-2-1).

Table II-2-1 Number of employees of model companies

Companies	Average	Max.	Min.	Remarks
Wool 5	483	750	227	Including outside knitters
Denim 4	183	281	117	
Knit 5	293	900	58	
Total 14	330	900	58	

Source : Field study (1991)

An outline of the model companies is shown in Table II-2-2.

Table II-2-2 Outline of model companies

	Year of foundation	Sales [10 ³ US\$]	Export [%]	Products
A	1965	6,360	72	Men's suits, blazers, pants
B	---	---	98	Men's suits, blazers, pants
C	1964	4,000	80	Jumpers, coats, sportswear
D	1970	9,000	90	Coats, jackets
E	---	---	--	Pure wool women's coats
F	---	---	--	Jeans
G	1948	4,628 (9 months)	75	Denim jackets, denim pants, wool
H	1964	2,700	32	Denim pants, jumpers
I	1979	5,000	5	Pants in general, jeans
J	1939	1,500	98	Knit sweaters, blazers skirts
K	1981	793	93	Sweaters, others
L	1973	1,400	80	Wool sweaters, synthetic fiber sweaters
M	1968	3,500	40	Sweaters, others
N	---	---	--	Sweaters, others

Source : Field study (1991)

(2) Management strategy

1) Forecasting future market trends and early steering

The industry failed to have sufficient comprehension of the state of international affairs and future market trends, as a consequence was taken by surprise by the loss of the US market, resulting in stagnation of the industry as a whole.

Even now, Uruguayan companies are still positioning themselves as mere processing subcontractors dependent upon inquiries from overseas buyers. Some managers were found to believe that "voluntary market survey and market development are not necessary."

Companies engaged in systematic market research are limited to only a very few; many forecast market trends merely on the basis of past records. Few instances of establishing a system or taking active measures to incorporate market information into management decisions could be seen.

2) Sales strategy

As described in section 1) above, each company is responsible for developing its own sales strategy. In reality however, little activity is noticeable in the following areas.

- Development of new markets for an existing line of products
- Activation of an existing market for a new line of products
- Exploration of new markets by introducing a new line of products

MERCOSUR could mean the enlargement of the market from Uruguay's population of 3 million to a combined population of

almost 200 million. Competing industries in Argentina and Brazil are believed to be significantly more developed and better prepared. Uruguayan industries will be confronted with enormous competition when MERCOSUR is implemented. In the current state of affairs, the Uruguayan industry still lacks a firm sales strategy.

3) Improvement of internal efficiency

No serious plans to improve the internal efficiency of a company can possibly be made when the company has no firm sales strategy. Measures for improvement of quality and productivity, and personnel development will have to be planned independently from capital investment and immediate implementation.

There exist many problems to be solved such as improvement of existing process layout, the attitude of management towards production, improvement of equipment operation systems and so on. Efforts in these areas could be very rewarding in terms not only of quality but also of production costs. Again, management does not seem to be paying much attention. Even when these problems are recognized, no technical resources are available for the implementation of improvements.

Scarcely any program exists for personnel development, which is so badly needed. Management seems to reject the idea of developing middle management internally, the reasons being not only that the enterprise would have to bear the cost of education and training, but also because movement of personnel between enterprises within the industry is traditionally very liquid.

(3) Labor relations

With the exception of several companies, general labor relations at Uruguayan companies located in urban areas are

not quite stable, the primary reason being inappropriate labor management. The essence of labor management is to manage laborers as human beings, not to manage human beings as manpower. In this regard, the general management of ordinary laborers at many Uruguayan textile companies is not fully mature. Employees are usually divided into a very small number of managers and a large number of ordinary employees; this second group is further divided into a few middle managers and mostly operators (laborers). Hardly ever does anyone outside of the small management circle play a central role in management strategy. Strategic decisions are taken by role in management strategy. Strategic decisions are taken by managers in consultation with one another, then promulgated throughout the organization by middle managers. There exist no mechanisms to absorb the knowledge, experience and wisdom of employees as a whole. Labor unions are organized by company (not by trade) and in many cases incorporated into larger associations of labor unions (SUA for the garment industry, COT for the spinning and weaving industry).

Employees in general have very little desire to participate in management, thus resulting in high resignation rates, high rates of absenteeism, and high product rejection rates. One enterprise located in a rural region is enthusiastic in its efforts to educate employees and has been rewarded for its efforts with the smooth conduct of employment and retirement affairs.

(4) Personnel development

People potentially capable of becoming middle managers, or even proficient sewing laborers, are definitely in acutely short supply in Uruguay as a whole.

The following points may be suggested regarding curriculum and direction of an employee development program.

- 1) Learning techniques, skills and knowledge particular to the garment industry.
- 2) Learning quality control procedures including appropriate management perceptions and implementation approaches. The perception of quality must encompass not only whether a product is good or bad, but also is quantity, delivery and cost, as well as the quality of efforts made by employees.

The perception of control must be based on the "plan-do-check-action" cycle, in order to upgrade the level of control.

- 3) Understanding methods of controlling productivity and what to look for in order to improve the work place. As is often said, work places hold many potential problems which may bring rewards if dealt with properly. Developing eyes capable of identifying such problems is important. Once identified, having the wisdom and tenacity needed to solve the problem is just as important, but in any case, the "eyes" to identify must come first.

(5) Quality control and inspection

The following requirements would have to be met to make inspection meaningful.

- 1) Judgment of acceptance or rejection based on reasonable inspection standards
- 2) Process improvement achieved through timely feedback of inspection information
- 3) Prevention of difficulties in processes, as a routine part of overall quality assurance program

Actual inspection activities are very much dependent upon the skill of individual inspectors, partly due to the

esthetic and sensuous factors involved. Nevertheless, no program of education and training of inspectors was seen. No inspection standards, limit samples nor inspection jigs were identified as readily available to inspectors.

In many cases, veterans who are considered the most competent within the enterprise are assigned to inspection. This is due to the fact that the deficiencies in the inspection system have to be compensated for by the personal skill of inspectors, at the sacrifice of resources allocated to the production line.

(6) Production control and productivity

Because current quality control programs in the garment industry do not encompass a broad concept of quality, manufacturers are concerned only with the "quality of goods" and do not foster a quality concept encompassing "quantity, delivery and cost" as well as "quality of work procedures and environment." The contribution to business management of quality control programs is therefore proportionally less, and tends to make various control programs to support management equally sloppy.

Several manufacturers are using computers for the control of day to day production scheduling and delivery scheduling. In most instances the computers are being used simply to replace ledger systems; very few are used to track the speed or progress of production.

Attention must be drawn to standardization and effective utilization of applicable standards. The objectives of standardization in the plant are the following:

- 1) To clarify the actual state of processes and production
- 2) To assist in stabilizing processes and production

- 3) To assist in process improvement and facilitation of production
- 4) To assist in education (conveyance of will) and understanding

The current state of the garment industry in Uruguay is too far away from the establishment and utilization of "work standards." Certain companies are noted for their efforts to post client specifications at the work bench and mark the applicable portions thereof. In most companies, coaching operators at the discretion of supervisors on what is acceptable and what is not is as far as management goes. The actual level of quality of products delivered is never made clear. Production proceeds without clearly defining the standard work time for each operation or productivity evaluation based thereupon.

2-3 Product Planning Power

(1) Merchandising

At most of the 14 companies surveyed, the president or a director is in charge of merchandising. Their consciousness of the need to collect information and perform market analysis is not quite as high as that of their counterparts in Europe, the USA or Japan. Their weakness is a lower level of consciousness of the most important subjects of marketing: the need to comprehend both domestic and overseas market trends, and to survey consumers' life styles.

In the case of most Uruguayan garment companies, marketing, including sales and sales promotions and merchandising, is not functioning hand in hand with planning and manufacture. In other words, most of these enterprises indulge themselves with the view that they are merely subcontractors who faithfully manufacture in compliance with the planning of their buyers, and believe that they may hide

passively behind the distinction and reputation of famous overseas brands.

(2) Creators

There are 4 or 5 renowned Uruguayan designers who are patronized only by an extremely exclusive class of domestic and foreign clientele. They have very little in the way of business relations with the general Uruguayan garment industry. In other words, their products are not targeted to the Uruguayan general public.

Although there exist designers, albeit very few, who are at the same time very competent creators, there seems to exist no vertical development starting from planning and continuing through manufacture and sales under their own design brand.

(3) Information collecting

The Uruguayan garment industry seems not to have a concept of up-to-date modern marketing and merchandising and not to put enough emphasis on segmenting market information by age groups. The cause is thought to be the immaturity of the domestic market.

The efforts expended by the Uruguayan garment industry to collect information on technical matters, market trends, brands and products are not considered sufficient.

More attention should be given to the four Ps, i.e. Product, Place, Promotion and Price, those factors in the marketing mix which are important in marketing planning.

Generally speaking, the president or a senior manager at each company is in charge of information collecting, which consists of taking 1 - 4 trips abroad to Europe, the USA, Brazil or Argentina every year, in conjunction with sales

promotion activities. Companies that are willing to send design staff overseas are very rare.

Other than the previously described information collecting trips, industry members also purchase samples of foreign goods and subscribe to overseas fashion magazines for reference in product planning. Information is also collected through sales agents, licensors, domestic and overseas material wholesalers, and domestic shops under direct control and other retailers.

Even so, companies that collect information systematically are rather rare. Perhaps this is only natural for an industry largely made up of subcontracted processors, but in any case a will to aggressively collect information was not seen. It is to be hoped that Uruguayan garment manufacturers will place more corporate emphasis on information collecting and quality improvement in their manufacturing.

(4) Brands

Only a very few companies have their own brands while most are subcontractors. Among those having their own brands, emphasis is placed on the domestic market. Those which have brands targeting overseas markets have second brand lines targeting the domestic market.

Exporters of their own brands are rare in the wool and denim garment industries, but more common in knitwear, particularly hand knit items. This is a unique aspect of the Uruguayan garment industry.

The wool garment industry is highly subcontracted by buyer's brands with only a few companies operating under licensed brands. Knitwear manufacturers who are equipped with industrial automatic knitting machines are highly subcontracted by buyer's brands, similar to the situation in the

wool garment industry.

On the other hand, many denim garment manufacturers are licensed by well known overseas brands and are granted the right to sell in Uruguay in exchange for payment of royalties.

(5) System of distribution

The system of distribution within and without Uruguay is as follows.

1) Within Uruguay

Directly controlled shops (including antenna shops), direct sales to retailers

2) Outside Uruguay

Sales agents (overseas), wholesalers, retailers, order acceptance agents (local), trading houses, import agents (overseas)

(6) Prototype sample ratio

The ratio of prototype samples produced to designs actually commercially manufactured over 1 or 2 seasons is rather high, exceeding 50% for wool garments, denim garments and knitwear. This means that garment manufacture in Uruguay is highly subcontracted for export. In the case of OEM manufacture where manufacture must meet the design, materials and colors designated by the licensor, the prototype sample ratio may be close to 100%. In contrast, the ratio is much lower for manufacturers who engage in independent product planning.

The ratio in Japan is generally 30 - 35%, and very rarely goes beyond 50%.

2-4 Product Manufacturing Potential

(1) Product manufacturing potential of wool garment industry

1) Quality, technology, delivery of materials

The quality of wool garment products manufactured in Uruguay, on an international level, falls into the middle and lower segments generally targeted towards the middle class. Although most companies would like to target the upper segment of the middle class, the quality of sewing requires improvement in many respects. Problems common to all manufacturers are stiff necks, untidy lapel hem finish, misalignment of the front vertical line and untidy pocket finish.

It is considered necessary to improve material quality and sewing technique if higher added value is to be achieved. The lining is found to lack a high class feeling. It is important to pay more attention to the quality of surface materials, accessories and subsidiary materials without being overly concerned with production cost.

It is not fair and rational that garment manufacturers should bear the risk of delay in the delivery of materials manufactured by weaving companies. This may be due to garment companies being in a weak position, or that the position of weaving companies is too strong. The problem should be dealt with by CIV representing the industry as a whole, rather than by individual companies.

2) Facilities

The facilities of garment manufacturers are generally very antiquated. Very few finish sewing machines are provided with automatic thread cutters. Improvements should be made along the lines of installing automatic armhole, pocket and pocket flap sewing machines. Pressing machines

are very inadequate. Intermediate pressing after front bonding is not done with a body pattern press. Arm presses are not available. All in all, substantial capital investment would be needed to renovate a typical plant to manufacture high added value items.

The current state of existing facilities is very much behind the standards of contemporary Asiatic countries; the Uruguayan garment industry is seriously handicapped already and will be even more handicapped in the future in terms of quality, cost and productivity of production.

3) Labor

Every enterprise is plagued by poor labor relations. Management openly manifests a mistrust of labor, accusing laborers of lacking the will to work and saying that they are concerned only with the money paid to them, as if to insinuate that labor alone is to blame for low productivity. Both management and labor are responsible. At the least, management should try to set aside consciousness of its privileged position and establish harmonious relations with labor. It is not possible to motivate laborers simply through a top down chain of command. Management should be encouraged to establish channels of communication with labor.

Management ought to establish education and training programs geared towards developing the trade related skills of laborers, while public institutions are encouraged to provide them with basic knowledge.

Although there is a mandatory minimum wage system, no system exists to assure periodic raises. The only raises are linked to inflation. Bonuses are not linked to incentives. The absence of any influence of performance on the wage system results in a loss of the will to work.

4) Management:

The management of Uruguayan companies is generally not positive about the converter system as practiced in Hong Kong or in Singapore. Management prefers to manufacture in their plants for sale. Discontinuation of manufacture would create a problem of increased unemployment. Management is inclined to respect the tradition of their plants. Many managers expressed the opinion that they are not ready to think of manufacture not by their own plants. Certain enterprises intend to be converters.

Management is not positive about mergers or take-overs of companies within the same industry, though they may be prepared to cooperate with each other to a certain extent. Management is positive about joint ventures with garment companies in countries other than MERCOSUR member countries, particularly in joint ventures in free zones.

Management is generally aware of the need to sell one's own brands. However, it is felt that the risk involved is such that it cannot be absorbed by individual companies. While Uruguayan wool textiles are world renowned, Uruguayan garments are not yet known internationally. Many managers feel that government and industry should cooperate with each other to promote Uruguayan brands.

Many managers strongly recommend governmental action as necessary to stabilize the national economy. They feel that tax increases cannot control inflation, and request drastic policies. They also request continuation of the export incentive system and financing at low interest rates for rationalization and renovation of facilities.

(2) Product manufacturing potential of denim garment industry

The facilities of the Uruguayan denim garment industry are generally antiquated. Production is slow and

productivity is not high enough. However, product quality is reasonably acceptable and maintain an average level.

The so called "five pocket classic jeans," which is the most standard design, require only ten cut pattern pieces. A study in Japan found that each pair of pants requires less than 15 minutes to sew.

The pockets are mostly patch pockets. The complicated techniques needed for cut pockets or flap sewing are not required. Sewing of the front part may require a certain degree of proficiency and experience.

1) Denim and subsidiary materials

Two large scale companies manufacture cotton denim material at the rate of about 330,000m/month. Production has been flat during the last 5 years while local consumption has decreased to as low as less than 100,000m/month, so the balance is all for export.

No cotton is grown in Uruguay, so all raw cotton is imported at a rate of 8,000 to 8,500 tons/year, resulting in higher production costs than in Brazil where cotton is grown.

Production of denim cloth in Uruguay is characterized by vertical organization beginning with the import of raw cotton and ending with finished denim cloth. The continuous batch to batch yarn indigo dyeing system, among others, is very effective in stabilizing quality, though productivity is not very high.

In contrast to the product of stable quality manufactured by local companies, imported denim cloth may include so called "dumped" denim cloth of poor quality and uneven lot sizes which is likely to suffer from unevenness, neps, uneven weaving and weaving faults. That imported through known channels is free of problems.

The same applies to accessories including pocket cloth, buttons, rivets and zippers. Sewing thread is also free of flaws. Locally manufactured denim cloth and accessories are comparable with imports in terms of quality, but are slightly costlier.

2) Mechanical facilities

The denim garment manufacturing process has been well analyzed to enable limited variety, large lot, mass production (linear production by the so called "bundle system"). The system is designed so that operators repeat simple operations taking no longer than 1 minute. Existing mechanical production facilities, process design and plant layout are all in compliance with the above-mentioned production system which now, however, requires renovation to allow small lot, large variety production to meet market requirements. While certain machinery will become unnecessary, other new equipment will have to be installed. The garment manufacturing process may become more complex.

In contrast, garment manufacturing plants in Southeast Asia and the Caribbean coast have now been identified as key to industrial development and are given various forms of governmental support in the way of tax breaks and financing for capital investment. Most of those plants are now equipped with state-of-the-art labor and energy saving machines incorporating the latest computer technology. As a result, their productivity is much higher than that currently found in Uruguay.

3) Technology and skill of operators

Insofar as tailoring of men's and women's clothing is concerned, current production technique in Uruguay including design is as good as is available in Europe.

On the other hand, technology and skill are not

satisfactory in the field of ready made garments. The fault commonly lies in production technology and production skill.

There also exists an absolute shortage of middle managers and technicians. The same situation prevailed in Japan some ten years ago. Only after lengthy and concentrated efforts involving enormous costs to incorporate CAD/CAM systems, was it possible to satisfy the labor demand of all techniques except for some demanding particular sensuous skills.

The technique with which machines are actually operated, as far as we could observe, is generally clumsy, very slow and unproductive. Problems related to the will to work and the readiness to contribute to the enterprise were clearly seen. The sounds generated by sewing machines seemed to indicate operation at very low rates of revolution. Again low productivity was suspected.

The rate of performance of the individual steps included in one standard sewing cycle -- holding the parts, inserting them in the sewing machine, operating the sewing machine, removing the sewn parts, inspecting the work, sending it on to the next process - was very slow. The rate of production is no greater or even less than 1/3 of that in Japan.

The operation involved are simple and technically easy ones. Unless special processes or complex operations are needed, a minimum of 3 - 7 days experience should suffice for proper production.

In conclusion, it may be said that the denim garment industry in Uruguay is confronted with many problems to solve during its transition from conventional large lot, single item production, as forced by the loss of its markets, to small lot, large variety production as the current market dictates.

(3) Product manufacturing potential of knitwear industry

Uruguayan knitting companies traditionally produce machine knit and hand knit (further subcategorized into truly hand knit and machine knit at home) sweaters from wool that is locally produced in abundance, uruguayan knitwear has gained reasonable recognition in the international marketplace in spite of certain problems pertinent to commercial aspects. It is considered reasonably competitive among Uruguayan garments and is expected to survive even after the implementation of MERCOSUR, particularly the hand knit items.

The time has come when garments must have not only functionality and practicality, but also a sense of fashion, higher quality and a higher degree of sensibility (appeal to the senses). From this point of view, a prerequisite for the successful manufacture of garments should be how well the country of origin or place of production meets the following needs, and how well it balances these needs.

- Multifarious raw materials
- Multifarious accessories
- Excellent production facilities
- Excellent human resources

Unfortunately, the current state of affairs in the Uruguayan knitwear industry does not quite satisfy any of these needs, thus making the industry vulnerable to competition in the coming international market. Immediate, systematic action should be taken to reinforce its weaknesses.

Chapter 3 The Market for Garment Products

3-1 Trends in the Global Garment Market

Total global exports of garment products are said to be on the order of 80 billion dollars, shared equally between Europe and Asia. The largest importer is the U.S.A. with 26 billion dollars worth of imports, according to UN statistics. Germany follows the U.S.A. with 15 billion dollars worth of imports by the former West German area alone. Other large importers are Japan (9 billion dollars), France (6.5 billion dollars) and the U.K. (5.5 billion dollars).

Examining the garment market, one feature worthy of notice is the existence of "manufacture and retail" chain stores, the so called "factory boutiques."

The common factor in these chain stores is that they control all aspects of their own merchandising and production. Their key to success has been reasonable prices made possible by efforts to rationalize distribution.

Looking towards new areas in the global market, Eastern Europe is surfacing as a new market. Following the unification of Germany, demand is so strong that supply cannot catch up. This situation is demonstrated by the exceptionally sluggish sales pitch delivered by European exporters to Japanese consumers in 1992.

New consumer markets are also emerging in Asia. Hong Kong, Singapore and Taiwan, where per capita GNP has exceeded the 10,000 dollars level, are rising in prominence with increasing local demand. Foreign capital is flowing into the retail segment of those countries' economies.

Taking a look at production, the center of garment production is shifting towards the east on one hand, and towards the south

on the other. In the case of Europe, Eastern Europe is expected to emerge as a production center, though this trend is not quite yet apparent. But even in the European market, taken as a whole, the amount of production carried out in Asia continues to increase year after year. This is representative of the shift towards the east.

In addition, a shift toward the south is also taking place in Europe in that production in southern Europe and the Mideast is increasing. Among other countries, garment products are now ranked as the top export category in Portugal and Turkey. The same trend can also be seen in Asia. Exports from northeastern Asia, i.e. Korea and Taiwan, have lost momentum while weight has been shifting to the ASEAN countries. The U.S.A. is increasing imports from Central and South American countries while decreasing the amount of imports from Asia, which used to supply as much as 50% of its total garment imports.

3-2 Brazil

The following two consumption trends can be recognized in Brazil.

The Brazilian market is subject to business fluctuation cycles with a 2 - 3 year period. The income of most (70 - 80%) of the population lies below the level of twice the minimum wage (about 70 US\$/month). Life in Brazil in general is not easy. Low price items such as T-shirts and polo shirts are being purchased by installment payment.

By contrast, the richest 3 - 4% of the population spends extravagantly to purchase surprisingly luxurious items which can not be supplied from Uruguay. The lifestyle of the rich is replete with such accouterments as villas, yachts, and plantations. They spend far more than the minimum monthly wage for a weekend dinner out in a restaurant. Brazilian retailers visit fashion fairs in Europe or Japan to purchase

small lot--sometimes even hand carried--items to meet the demand of their wealthy clients. European fashion is very familiar to them. The rich are Europhiles and they can never be fashion leaders for the general public.

- 1) The Brazilian garment industry shares the problems of its Uruguayan counterpart. Even in the field of cotton garments where the Brazilian garment industry is believed to have relative strength due to local production of raw cotton, exports are declining in the face of competition from NIEs countries and Caribbean countries; local production has been forced into a decline. Production of jeans in Brazil is expected to fall from 140 million pieces in 1989 to 80 million pieces in 1991.

On the other hand, the denim garment industry in Uruguay is plagued by rising material costs and wages, and as the industry admits, has no competitive edge against Brazilian products. Implementation of MERCOSUR will have an unfavorable and formidable impact on the Uruguayan denim garment industry. Its only chance for survival will be to create a unique line of new products which can differentiate Uruguayan products from those of Brazil.

- 2) The tariff rates applicable to trade within MERCOSUR will be nil after its inauguration while a common tariff system will apply to offshore trade. Uruguayan wool garments exported to Brazil may benefit. It should be remembered however that wealthy consumers in Brazil are Europhiles who favor the excellent quality and fashion of European garments. The market for wool garments targeted to the general public is exposed to the aggressive export pitch of Asian countries where productivity has been enhanced by introduction of high-technology machines. Under the circumstances, the Uruguayan wool garment industry may fail to take advantage of the available opportunities if it fails to take immediate action as appropriate. Serious efforts are needed to restructure itself in order to manufacture better quality products at a

lower price.

- 3) Uruguayan knitwear has been favorably accepted by the Brazilian market and is better positioned than denim and wool garments. It may have to compete eventually with knitwear from Argentina, although the current volume of exports from Argentina to Brazil is minimal. Should high count thin Argentine wool prove to be superior to Uruguayan wool, Uruguayan industry will be compelled to take rapid action to upgrade its products, including improvement of quality, and to reinforce its systems for timely response to demand.

It is clear that competition between enterprises will be fierce, allowing only those capable of winning the competition to survive, as consumers within the MERCOSUR sphere demand less expensive products of better quality.

3-3 Argentina

- (1) Specialty stores and department stores located in the city of Buenos Aires (on Florida Avenue)

The level of display and commodity lines is almost up to European standards, and is considerably higher in Buenos Aires than in Montevideo. It is easy to understand how Montevideo can be influenced so significantly by the example of Argentina with respect to the visual and so on. This district targets primarily foreign and high income clientele. General price levels are higher than in Uruguay. Both men's and women's heavy garments are excessively heavy-weight, similar to in Uruguay, while selections of inners such as shirts, blouses and knits are quite diverse, representing a wide range from light to medium gauges. Among other differences from Uruguay, there are many items of knitwear made from high gauge worsted, in particular blended worsted made of lamb and angola. The predominant colors are yellow and orange for women, while men's colors are mostly basic

black, navy blue, and gray.

Department stores carry a multitude of brands. Specialty stores adjacent to department stores fall into the categories of famous European brands only, boutiques, foundations only and arcades with clearly defined segmentation. The general public normally enjoys window shopping in this district while they actually purchase in another district several blocks away which specializes in mass sale items (1/2 - 1/3 the price of specialty stores).

Argentine garments comprise a wide variety of light gauge, high count items of bright color and high class design. They are positioned as domestic garments in contrast with imports. There are many items of angora, silk, mohair and cashmere of good quality which should be able to find their way onto world markets.

(2) Shopping malls

Shopping malls exist in suburban and urban varieties, an overview of which follows.

1) Suburban malls

Suburban shopping malls of enormous scale are present in Buenos Aires. Famous European and North American brand shops, primarily of in-shop mode, are noticeable. Open spaces including restaurants and fast food shops are present together with amusement areas. Most visitors are not really there to shop but to enjoy being in contact with new culture by spending time in the amusement areas drinking coca-cola and eating fast food. This practice is very popular among the young and families with children. Some local residents (particularly those older than middle age) are said to have never visited such a shopping mall.

There are also many high class boutiques, but they are primarily popular for window shopping. Shoppers often appear hesitant to make up their mind to buy. Jeans shops have unique display areas and specialty segments covering Levi's, Lee, Wrangler and other brands.

2) Urban malls

The small shopping mall located in the city center is very unified, catering to a high income bracket clientele. The building is a dignified antique three storied cattle exhibition hall which has been redecorated in contemporary fashion and fitted with corridors. The commodity selection of a typical famous European brand shop is made up primarily of imports, and prices are beyond the reach of general consumers. Customers are mainly rich plantation owners including their family members who spend a lot to shop here on weekends. This marketplace is beyond the reach of general Argentine consumers who see it as just a place to look. There are some shops targeted to younger generations, but they are out of harmony with the concept of this shopping mall. The modern shopping arcade located in Montevideo has taken the concept of this shopping mall as its basis.

3) Quality of products

Garments manufactured in Argentina from wool, cotton and synthetic fiber, as well as knitwear including sweaters, are considered to be of acceptable quality to be sold on the international market. In terms of price however, Argentine products, much like Uruguayan products, are now exposed to instability under inflationary pressure and to fierce competition posed by low priced imports from Asian countries, in particular the NIES countries, which are progressively breaking into the Argentine market. Whether Argentine originals can gain fashion recognition in Europe or the U.S.A. in terms of color, pattern and design is still questionable. Argentina is very likely to continue to be an

OEM production base and is not capable of price competition with imports from Caribbean, Southeast Asian and NIES countries. Like other South American countries, Argentina is not immune to the general sluggishness of the garment industry.

Insofar as products generally available on the market are concerned, Uruguayan and Argentine products exhibit some differences in terms of design sense. Actually, considerable differences seem to exist in the approaches taken towards garment design in these two countries, even when discrepancies of their population sizes and national influence are taken into account. Buenos Aires is regarded as the supply source for items desired by the wealthy segment of consumers in Uruguay.

3-4 American/European Markets

The markets for garments (woolen textile, denim and knit garments) in the U.S.A., Germany and Spain were surveyed as follows.

Objectives of the study were: (1) to collect data and information for analysis of market trends, restrictions and market potential in order to increase export of Uruguayan garments, and (2) to identify an overall strategy for promoting sales of Uruguayan garments.

(1) The American market

1) The apparel market

The United States is the largest market for apparel (in terms of value), and demand for clothing will remain strong for the remainder of the decade, particularly after the current economic recession is overcome. In view of the enormous size of the U.S. apparel market -- about \$175

billion in apparel sales annually -- no country with competitive products faces a market - size constraint to significant exports to the United States. The greatest challenge for Uruguay, therefore, is to expand its currently small market share in the United States.

2) Imports of apparel products

Imports account for about 40 percent of the volume of total U.S. apparel market. Northern Asian countries (plus the Philippines) dominate the market, holding a collective share of about one half of total U.S. imports. The greatest growth has been sales from China and the Philippines. U.S. imports from Mexico and the Caribbean Basin region (primarily the Dominican Republic) have also grown dramatically in recent years. Mexican exports are likely to continue to expand.

3) Apparel distribution and sourcing structure

In view of the magnitude and breadth of the U.S. market, numerous distribution mechanisms are used. Discount, department and speciality stores mechanisms are used. Discount, department and speciality stores represent the major retail outlets, accounting for about three quarters of total apparel sales. These are followed by national chain stores, mail order houses and other retail outlets. Market share growth has been most pronounced in the discount and mail order segments, due to changes in economic conditions and in lifestyles.

Most large retailers maintain central buying offices at their headquarters, supported by overseas, company-owned regional buying offices. In countries with low volumes of purchases, the retailers typically establish an ongoing relationship with a local agent. The U.S. distribution network also includes a unique Associated Merchandising Corporation, a buying consortium of over 50 department store

and national chain retailers.

4) Constraints to growth of Uruguay's apparel exports to the United States

Uruguay's apparel exports are subject to tariffs ranging between 5 - 21 percent, depending on the product. Uruguay can take advantage of a tariff reduction incentive if final goods include U.S.-produced components. Uruguay also faces U.S. import quotas in seven product categories.

Notwithstanding these trade policy barriers, the main constraints to increased Uruguayan exports to the United States are a function of competitiveness relative to other overseas suppliers. These include a lack of business connections with major buyers, relatively higher wages than many competitors, and some problems with quality and delivery.

5) A strategy for promoting increases sales of Uruguayan apparel to the United States

The study team recommends that Uruguay producers focus on expanding their market share of upper-priced wool apparel for men and women. The strategy will concentrate on building upon Uruguay's currently limited but positive reputation as a source of high quality wool apparel.

Uruguay's apparel exporters should target those distribution channels that will offer maximum exposure to their products. This includes approaching major associated buying organizations and multi-functional apparel firms. In addition, efforts should be made to explore subcontracting arrangements with firms from Asian nations whose quotas have been filled.

Uruguay's manufacturers should begin to attend major apparel trade shows, initially to collect competitiveness

information (quality, cost, delivery, etc.) and establish contacts with major buyers. After about one year, Uruguayan representatives should set up booths to display a range of goods from large producers. These activities should be preceded by a judicious amount of advertising in one or more leading apparel publications.

(2) The German market

1) The apparel market

Sales of clothing in Germany are expected to remain strong throughout the decade of the 1990s due to the nation's strong economy and affluent consumers. The strongest growth potential is for denim jeans, women's trousers (both cotton and wool), and men's suits and jackets of light weight fabrics.

2) Imports of apparel products

About one-third of the German apparel market is served by imports, primarily from Italy, Turkey, Greece, France and Hong Kong. Import growth will remain strong at about 6 - 9 percent due largely to increasing subcontracting for moderately priced products. German purchases of Uruguayan apparel, mostly fur and leather items, have declined in both volume and value since 1986.

3) Apparel distribution and sourcing structure

The distributional channels are dominated by specialized retail outlets, particularly large chain stores, which collectively account for nearly two-thirds of total clothing sales in Germany. These are supplemented by department stores, mail order houses, hypermarkets and superstores.

Over 60 percent of the clothing supply is sourced domestically, but this figure understates a considerable

amount of overseas subcontracting arrangements which are expanding to take advantage of lower wages. Each of the retail segments organizes separate sourcing structures, which vary by segment and involve overseas buyers, agents, importers and purchasing syndicates.

4) Constraints to growth of Uruguay's apparel exports to Germany

Uruguay faces very few policy-induced constraints. Uruguay faces a common tariff of 14 percent ad valorem for the three product categories examined, and currently has no quota imposed on it by Germany in any of the categories. However, quotas could be imposed in the future. Germany's legal and regulatory environment poses no major problems for Uruguayan exports.

The main impediments are related to business factors rather than policy problems. These include a lack of existing business connections, distance from the German market, and problems related to price, quality and delivery.

5) A strategy for promoting increases sales of Uruguayan apparel in Germany

The study team identifies denim jeans with designer labels, men's wool suits and jackets in the medium to low price range, and wool and cotton sweaters in the medium to high price range as offering the greatest potential for Uruguay's manufacturers.

The study team proposes a phased promotional strategy involving participation at trade shows, direct mail campaigns, company visits and selective advertising. During the first phase, considerable attention should be given to educating manufacturers on the demands of the German apparel market in terms of quality, price and delivery. Active promotional activities will seek to expand marketing relationships and product lines and developing a reputation

as a reliable supplier among German wholesalers and retailers.

(3) Spanish market

1) Apparel market

Sales of clothing in Spain are expected to remain strong throughout the decade of the 1990s, stimulated by a buoyant economy as Spain becomes integrated into the EC. Faced with rising competitive pressure, the Spanish clothing industry is likely to shift further to the design aspect of the industry, leaving the market for low to moderately priced clothing to the low-cost imports.

2) Imports of apparel products

Although imports of clothing have risen rapidly in recent years, imports accounted for less than 8 percent of Spain total clothing sales in 1989. Two-thirds of Spain's imported clothing is currently sourced from EC suppliers. Clothing imports is projected to grow around 18 - 25 percent annually over the next few years. Competitive pressure will force Spanish retailers to increasingly source from low cost suppliers in Morocco, India, and the Far East.

3) Apparel distribution and sourcing structure

Apparel distribution in Spain is dominated by two large department stores and specialized retail outlets. The specialized retail chains have increased their market share at the expense of small, single-store retail outlets in recent years. Mail order houses and hypermarkets are also rapidly expanding their sales volumes.

The apparel sourcing pattern in Spain is dominated by vertical integration, i.e. retail groups manufacturing clothes in their own factories or buying exclusively from

affiliated producers. Clothing imports are concentrated among a few large retailers, and is mainly arranged through importers, trading houses, and franchised companies.

4) Constraints to growth of Uruguay's apparel exports to Spain

The common tariff of 14 - 17 percent ad valorem for the three product categories examined puts Uruguay at a disadvantage compared to Portugal and the Mediterranean countries, which enjoy duty-free status or preferential duty rates. Currently, there is no quota imposed on Uruguay by Spain in any of the categories.

Notwithstanding the tariff barriers, the major impediments are related to business factors. These include the inflexibility of retailers in their sourcing patterns, the lack of existing business connections, distance from the Spanish market, and problems related to price, quality and delivery.

In view of the barriers examined, the prospects for expanding Uruguay's exports of apparel to Spain are severely limited. While Uruguayan exporters should be realistic about their opportunities in Spain, they could gradually penetrate the market in certain niche product categories.

5) A strategy for promoting Uruguayan apparel in Spain

The study team identifies wool and cotton sweaters in the medium to high price range, denim jeans with designer labels, and men's wool apparel in the moderate price range, as offering the greatest potential for Uruguay's manufacturers.

The study team proposes a promotional strategy involving participation at trade shows and company visits. Promotion should be targeted towards the few large retailers which are currently importing. Considerable attention should be given to making initial contacts and follow-up calls on prospective buyers, and educating manufacturers on the demands of the

Spanish apparel market in terms of quality, price and delivery. Considering the relatively poor attitude towards South American producers, it would be useful for Uruguayan producers to differentiate themselves from the generic category of "South American producers" in marketing and promotion.

3-5 The Japanese Market

(1) Market trends

1) Market size

According to projections by the Textile Information Center, the size of the Japanese market was about 60 trillion Yen in 1985 for the textile industry as a whole, inclusive of garments. The figure represents the aggregate total of sales by all segments of the textile industry including materials, dyeing, manufacture, wholesale, retail and import, out of which 20.4 trillion Yen (1989) was accounted for by retail sales.

In other words, 20.4 trillion Yen represents the annual consumption of textile products as a whole.

Under normal circumstances, the term "domestic garment industry" is understood to include manufacturers and wholesalers of garment products, but to exclude retailers.

The market size of garment manufacturers and wholesalers (including import) was as much as 29 trillion Yen in 1989. It may appear inconsistent that the size of the retail market is only 20 trillion Yen while the market size of the garment industry that supplies products is 29 trillion Yen. Nonetheless, those figures are correct. The apparent reversal of those figures reflects distinguishing characteristics of the Japanese garment industry which is

supported by a complex system of distribution among wholesalers.

The size of the consumer market (estimated) by garment products is summarized in the chapter on information materials.

(2) Distribution

The system of distribution of the Japanese garment industry is more complex and diversified than those of other countries. The garment industry includes enterprises that manufacture garments, and wholesalers who simply wholesale garment products. It includes enterprises vertically structured to include product planning and manufacture, and those called intermediate wholesalers who wholesale to wholesalers. Specialization is extremely diversified. High and middle grade items are sold by speciality boutiques and department stores while low grade items are mostly sold by mass sale stores.

When the current high prices of Uruguayan products are taken into consideration, good candidates for their distribution would be specialty boutiques and department stores rather than mass sale stores. The current status of department stores is as follows.

1) Current status of department stores

The downstream portion of the distribution system is now experiencing a significant transition in response to sluggish sales of high grade, high priced items, increased imports and labor shortages. A response that takes foresight into consideration is urgently needed. Because of a recent tendency to focus on wealthier clientele, setting their regular clientele aside, department stores are now obliged to rethink their approach and try to bring back their regular customers through a revised price setting policy.

Every branch of large domestic department stores is refocusing its efforts in the direction of pricing policy. Pitching an entire strategically selected line of products is one approach. For example, a department store in Tokyo is promoting 650 items of women's clothing, representing 12 - 13% of total purchases, under the name "Best Price." At the same time, the corresponding line of men's clothing comprises only 20 items centered around the "Private Brand" (PB) label, with total sales in the 4 - 5 billion Yen range.

2) Rate of digestion and vertical integration

The trend towards reinforced sales promotion is evident among department stores in general. Planning concepts are made as consistent as possible and examined by review committees established within every company. Promotional tags to be attached to goods are unified to those approved by the review committee.

Certain items are purchased by department stores in full for resale at a suppressed margin, the rate of digestion of which is an important indicator of resale performance.

A low rate of digestion is thoroughly reviewed and analyzed in order to identify its causes in preparation for subsequent actions. If the timing of introduction of season sensitive items such as knitwear is not appropriate, sluggish sales might adversely affect peripheral commodities as well. Timing, line-up and volume must be thoroughly examined in advance. Accordingly, the basics of merchandising play an extremely important role, including the system by which additional commodities are injected.

It is also expected that the trend towards vertical integration, including joint product development with material and yarn manufacturers, direct dealing with factories and strengthening of import channels, will become even stronger.

(2) Imports

1) Past import records

The aggregate total of textile imports during 1989 was 2.28 trillion Yen, a 7% increase over the previous year. Garment imports measured 1 trillion Yen, a 39% increase over the previous year. Most worthy of notice was that garment imports from Italy increased 71% over the previous year, to rank third behind Korea and China by passing Taiwan which had ranked third the previous year with a total of 100 billion Yen.

Contributing to the success of import items was consumer buying power and a trend to select higher grade items. Famous European brands that had been exporting through agents in Japan incorporated themselves in Japan one after another for direct export. Apparently, there must have been a new strategy to more aggressively pursue the Japanese market with sales promotion instead of mere licensing for royalty payments.

2) Imports from Uruguay

There are no restrictions applicable to the import of garments except those made from silk. Import of wool, knit, and denim products is subject to contracts to be agreed upon with Japanese importing corporations. Price, quality and delivery are three important aspects for import.

The level of standards that apply in Japan to garments is generally much higher than those in Europe or North America, owing to the background of different histories of garment industry development, and different specific national characteristics. In the case of Japan where ready made items have developed more quickly than order made items, consumers are generally accustomed to the notion of "fitting one's body to clothing." By contrast, European countries have a long

history of order made clothing out of which the modern garment industry has developed. Consumers in general are more accustomed to the notion of "fitting clothing to one's body." One indicative example is that both socks in every pair sold in Japan must be of identical size, and no free size socks are available. But in Europe or the U.S.A. the two members of a pair of socks may be slightly different, and free size socks are regularly sold.

The country of Uruguay and Uruguayan products are totally unknown in Japan. In certain specific cases, the name "Uruguay" was used as a spot attraction for events, but it has been very rarely used for any seriously committed promotional purpose. In contrast, the identities of products from countries such as Great Britain, Scotland, Scandinavia and Canada are well established to the extent that they are not replaceable by those of other countries. They enjoy a very high degree of recognition.

PART III THE PROBLEMS AND THE REFORM MEASURES OF GARMENT INDUSTRY

In Part III, the current problems facing the Uruguayan garment industry shall first be identified, then targets to be achieved by the Uruguayan garment industry shall be set forth, along with the recommendations on how to meet them.

Chapter I Problems by Which the Uruguayan Garment Industry is Confronted and Future Targets to be Achieved

The quality of products ranks no better than the middle or lower part of the mediocre spectrum on a global scale, with the exception of certain hand-knit garments, while the price of garments is somewhat higher, relatively, than other consuming products in Uruguay. Export of garment products is lagging.

1-1 Internal Problems in the Uruguayan Garment Industry

The problems by which the Uruguayan garment industry is confronted are identified below.

(1) Raw materials

- 1) Locally produced wool is of low-count fiber diameter which does not fit the global trend of demand for lighter, finer and softer texture textiles.
- 2) The price of woolen textiles in Uruguay is high in spite of the fact that Uruguay is a wool producing country.
- 3) The price of cotton fabric for the manufacture of cotton garments is relatively high.

(2) Mechanical Production Facilities and Technology

- 1) Most mechanical production facilities currently owned by wool wear, denim wear and knitwear manufacturers are outdated. The number of CAD/CAM and other automated high technology machines is much less than those owned by businesses in NIES countries, Southeast Asian countries and Caribbean countries.
- 2) The technological level is not high enough for small quantity, large variety manufacture of high value added products on short delivery notice, although, it is sufficient for the manufacture of conventional woollen wear, denim wear and knitwear.

(3) Quality

- 1) While Uruguayan garments for export are provided with quality markings in accordance with the instructions of buyers, no quality marking labels such as fiber composition information, illustrated handling instructions or country of origin, which are standardized in advanced countries, is attached to products destined for local consumption.
- 2) An overseas market survey conducted in the United States of America, Germany, Spain and Japan (hereinafter referred to as the "overseas market survey") has confirmed that Uruguayan garments rank no better than the middle or lower portion of the mediocre in quality spectrum, with the exception of certain items of hand knitwear.

(4) Productivity

The high production costs of Uruguayan garments are partly due to high material costs, but more to the fact that productivity is lower in Uruguay than in competing countries.

(5) Will to work

Labor costs are relatively higher in Uruguay than in neighboring countries and newly developed garment

manufacturing countries (Asiatic countries, Caribbean countries, etc.). Yet laborers are not satisfied with their wages.

And laborers lack company loyalty.

(6) Subcontracted export

The Uruguayan garment industry in general has been dependent upon the subcontracted export and is not structured to successfully deal with requests from overseas buyers for high value added products at lower prices and with short delivery times due to their higher labor costs and lack of high technology production machines.

(7) Association with Other Industries, Coordination within the Industry

1) Association with the spinning and weaving industries is not strong enough.

2) The garment industry in Uruguay as a whole is not of such a mentality as to encourage coordination within the industry.

1-2 External Environments Surrounding the Garment Industry

External environments facing the Uruguayan garment industry are as follows.

(1) Uruguayan garments on overseas markets

1) The United States of America

The United States of America is still the largest export market for Uruguayan garments, though exports fell by 34% in 1990 when compared to the previous year. According to the overseas market survey, the total value of woolen garments

imported by the United States of America amounted to US\$ 2.4 billion out of which imports from Uruguay accounted for US\$ 41 million, only 1.7% of the total. Similarly, total U.S. cotton garment imports were worth US\$ 1.2 billion out of which Uruguayan imports represented US\$ 11.4 million, less than 1%. However small its share may be, a decline in exports to the United States of America has a serious impact on the Uruguayan garment industry. The United States of America imposes import quotas on 7 categories of Uruguayan garments, none of which has been fully reached. In other words, the Uruguayan garment industry is not capable of fully utilizing its export quota.

2) Germany

Germany ranks second to the United States as an export market in terms of the amount spent for garments, which increased by 13% annually from 1986 till 1989. Expenditure for garments is expected to increase by 6 - 9% annually from now on.

In spite of the growth of the German garment market described above, imports from Uruguay have been declining since 1986 in terms of both quantity and value. Germany does not impose an import quota on Uruguayan garments because of their small volume of import.

3) Spain

The Spanish garment industry is design oriented and targets high class products while the low priced segment is likely to be covered by imports.

Expenditure for garments has been increasing in Spain at an annual rate of 18% since 1986 and is expected to continue to increase at an annual rate of 12% over the next few years.

While the value of garments imported during 1986 was no

more than 8% of the total expenditure for garments in that year, it is expected to increase at an annual rate of 18 - 25% over the next few years.

Two-thirds of imports come from EC countries while imports from Latin America make up no more than 1%. Imports from Uruguay in 1989 were valued at about US\$ 50,000.

No import quota is imposed on Uruguayan garments, just as in Germany.

4) Japan

Total textile imports during 1989 were valued at ¥2.2 trillion (about US\$ 17.54 billion) out of which garment imports represented about ¥1 trillion (about US\$ 7.69 billion).

As for Uruguayan garments, only a small quantity of knitwear is being imported.

(2) Formation of regional blocs

The world is being restructured into several regional blocs such as the EC, NAFTA, MERCOSUR and so on, within each of which industries are protected from outside, but subjected to a more intense level of internal competition. The Uruguayan garment industry will be likewise subject to an intensified level of competition within MERCOSUR.

(3) Export promotion by foreign governments

The NIEs countries, Asian countries including the People's Republic of China and Caribbean countries, etc. are promoting export expansion of garment products under the auspices of their governments. The government of Uruguay, however, is not taking any action as part of a national policy to promote export of Uruguayan garment products.

1-3 Analysis of Causes

The causes of the problems listed in the preceding section have been examined from diverse aspects and can be classified under the categories of cost, quality of products, market, industry and government.

(1) Cost

- 1) Higher raw material cost for woolen and cotton fabrics
- 2) More labor and time required due to outdated production facilities
- 3) Lack of recognition by plant owners of the need to upgrade productivity. (Suggestions for the cost reduction and the improvement of productivity are often proposed by production lines.)
- 4) Individualistic character of Uruguayans. (Has impact on cooperation within the industry.)
- 5) Over-dependence on subcontracted export. (It is not possible to compete with developing countries due to higher production costs.)
- 6) Intensified level of price competition with Brazilian industry in preparation for the inauguration of MERCOSUR

(2) Quality

- 1) Conservatism toward capital investment for facility renovation in view of high rate of inflation, unstable economy
- 2) Lack of recognition by plant owners of the need for higher value added products and production of wide varieties in smaller quantities

- 3) Lack of high technology production machines and competent operators
- 4) Lack of recognition of the need to improve product quality in harmony with the actions of consumers (Insufficient protection of consumers' interests)
- 5) Lack of recognition of the importance of auxiliary materials
- 6) Quality control, process control and facility maintenance are not sufficiently thorough
- 7) Lack of recognition of employee's self enlightenment
- 8) Product planning capability is not sufficient
- 9) Intensified level of quality competition with Argentine industry in preparation for the inauguration of MERCOSUR (woolen textiles and knitwear)

(3) Market

- 1) Raw wool materials are of low count (opposite to the global trend of demand)
- 2) Lack of recognition by plant owners of the need for long term management strategy
- 3) Higher product prices than developing garment manufacturing countries
- 4) Lack of design originality
- 5) Lack of overseas market research
- 6) Insufficient advertising targeting the overseas market
- 7) Contacts with overseas buyers are not strong enough

- 8) Lack of information, weakness in responding to market demand due to insufficient number of high technology production machines
 - 9) Tariff barriers
 - 10) Long shipping distance to Europe, North America and Japan
 - 11) Low profile of Uruguayan garments
 - 12) Distrust of certain European buyers toward Uruguayan suppliers (in particular with respect to delivery commitments)
- (4) Industrial associations, government
- 1) Low interest rate financing is not sufficient
 - 2) Net wage losses due to delayed adjustment for inflation
 - 3) Minimum wage lower than other industries
 - 4) Wage system which does not reflect business profits and length of service
 - 5) Education of employers and employees
 - 6) Support for participation in overseas fashion fairs by businesses
 - 7) Review of taxes, social security charges, public service charges in preparation for the inauguration of MERCOSUR
 - 8) Bridging across Asociacion de Industrias Textiles del Uruguay and garment industry

1-4 Targets for the Uruguayan Garment Industry

(1) Short-term targets (1992 - 1995)

- 1) Target: Expansion of local consumption and promotion of import alternatives through the reinforcement of basic strengths of the industry
- 2) Markets to expand: Local market and traditional export markets
- 3) Volume of export to achieve: US\$ 100 - 110 million -- equal to the peak achieved in 1989 (to be achieved by 1995)

(2) Medium-term targets (1996 - 2000)

- 1) Target: Expansion of exports to neighboring countries and further promotion of import alternatives
- 2) Markets to expand: Neighboring countries, in particular members of MERCOSUR
- 3) Volume of export to achieve: US\$ 134 million by 2000 (assuming US\$ 105 million is achieved by 1995, increasing at an annual rate of 5% thereafter)

(Remarks) : Medium-term export target may vary depending upon whether or not the short-term export target has been achieved.

(3) Long-term targets (beyond 2000)

- 1) Target: Production of Uruguayan garments which will be trusted and appreciated by the global market
- 2) Markets to explore: Advanced countries
- 3) Volume of export to achieve: US\$ 155 million in 2005 (assuming US\$ 134 million is achieved by 2000, increasing at

an annual rate of 3% thereafter)

1-5 Problems to be Solved

(1) Problems due to internal factors

1) Raw materials

(a) Low count wool

A need exists to respond to the world-wide trends which prefer lighter and finer textiles.

(b) Textile prices

A need exists to establish close communication and cooperation with the textile industry.

2) Facilities and equipment

A need exists to establish a system supporting extensive utilization of high technology equipment in order to produce high value added products of wide varieties in small lots.

3) Quality

(a) A need exists to pursue ways and means of instituting a quality labeling system. Quality labeling of garments for local consumption is not currently required.

(b) A need exists to improve quality through stimulation of non-price competition.

4) Productivity

A need exists to raise awareness of the significance of production control which is effective in reducing production

costs and improving quality.

5) Will to work

A need exists to encourage laborers to stay with their current employers instead of job hopping in search of higher wages.

6) Subcontracted processing trade

A need exists to disentangle the industry from the subcontracted processing trade because Uruguayan garment enterprises are no longer competitive with the developing countries of the emerging garment industry where production costs are lower.

7) Coordination with other industries, cooperation within the garment industry

A need exists to strengthen coordination with the Asociacion de Industrias Textiles del Uruguay, in particular, in order to improve quality and to reduce costs. A need also exists to strengthen cooperation within the garment industry.

(2) Problems due to external factors

1) Uruguayan garments on overseas markets

The recognition of Uruguayan garments on overseas markets is not high enough. In addition, the export potential of Uruguayan garments is hurt by their prices, which are higher than those Asian and Caribbean countries where the garment industry is emerging. A need exists to restore the export potential of Uruguayan garments.

2) Formation of world-wide economic blocks

A need exists to win the competition against garment

enterprises located in other MERCOSUR member countries after the inauguration of MERCOSUR.

3) Uruguayan government policies

The Uruguayan government has no comprehensive industrial promotion policies, nor does it support any specific industries. A need exists to readjust tax rates to a level comparable with those of other MERCOSUR member countries.

1-6 Reform Measures to be Taken and Their Ranking

(1) Reform measures which are to be implemented in the short term

1) Betterment of policy and systems

- . Institution of a quality labeling system and reinforcement of the consumer center

2) Betterment of management, development of human resources

- . Promotion of cooperative efforts
- . Study and training of required personnel (Standing productivity seminar, incentives for the acquisition of official qualification, reinforcement of public garment research institution, consultation for enterprises).
- . Reinforcement of study and training system

3) Betterment of sales and marketing

- . Implementation of Fashion Week
- . Sales promotion in conjunction with government agencies

4) Technological innovation

- . Development of light woolen textiles and fine woolen yarn
- . Utilization of Uruguayan designers and tailors

. Intellectual rights including design rights, trademark rights, patent rights

5) Quality improvement, cost reduction

. Conditions for quality improvement

. Cost reduction

(2) Reform measures the implementation of which is to commence in the medium term

1) Invitation of a MERCOSUR fashion resource center

Fig. III-1-1 summarizes relations between problems awaiting solution and reform measures.

(3) Ranking of twelve reform measure items

Details of reform measures shall be presented in Chapter 2, while reform measures shall be ranked (by priority) and institutions in charge of implementation shall be discussed in this chapter. Criteria used in ranking the twelve reform measure items are as follows.

- 1) Each reform measure was independently evaluated as to its likely contribution to and immediate effect on quality improvement, cost reduction, development of human resources, expansion of domestic and export markets, and import replacement. In each category a grade was given for maximum effect, b grade for better than average, c grade for average, d grade for minimal.

Rank A : Reform measures which have two and more a grade

Rank B : Reform measures which have a grade and b grade

Rank C : Other reform measures

Table III-1-1 summarizes the ranking of the reform measures.

- 2) Priority is given to those measures which can utilize existing facilities and functions, in view of the immediate effects to be obtained.

Institutions in charge of implementation are classified into those directly responsible for implementation and those to cooperate. It can be seen clearly that objectives cannot be achieved without cooperation between the public and private sectors. The Asociacion de Industrias Textiles del Uruguay and Punto Industrial Uruguayo would have to either be directly responsible for, cooperate with or render services for every reform measure. Those associations will have to be reinforced accordingly. Table III-1-2 summarizes the institutions directly responsible for and those to cooperate for each reform measure.

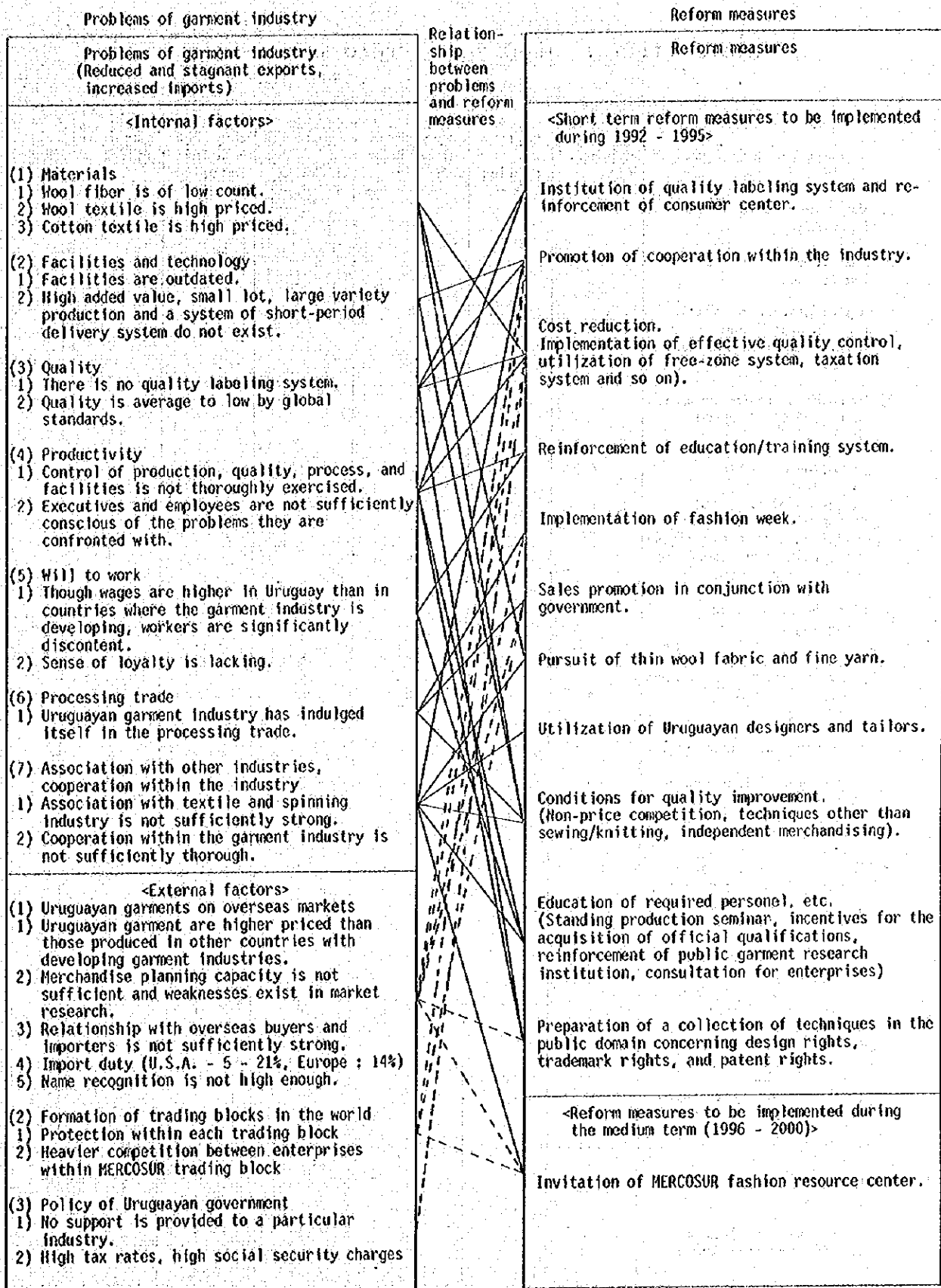


Fig. III-1-1 Relationship between problems and reform measures

Table III-1-1 Ranking of reform measures

Actions for improvement	Quality improvement	Cost reduction	Development of human resources	Expansion of markets	Replacement of imports	Immediate effect	Ranking
(1) Short-term actions for improvement							
1) Improvement of policies and systems							
* Implementation of quality marking system and reinforcement of consumer center	b	d	d	a	a	a	A
2) Improvement of management, education of talented personnel							
* Promotion of joint cooperation	a	a	d	b	d	c	A
* Education of required personnel (Seminars, consultation with enterprises)	c	c	a	d	d	d	C
* Reinforcement of education and training system	c	c	a	a	d	d	A
3) Improvement of sales, marketing							
* Sales promotion in cooperation with government	d	d	d	b	c	a	B
* Implementation of Fashion Week	c	d	d	a	c	a	A
4) Improvement of technology							
* Production of thin woolen fabrics and fine yarn	a	d	d	b	d	d	B
* Utilization of Uruguayan national designers and tailors	b	b	d	c	c	d	C
* Compilation of commonly known technique concerning design rights, trademark rights, patent rights	c	c	c	d	d	d	C
5) Improvement of quality, reduction							
* Conditions of quality improvement (Non-price competition, independent merchandising)	a	d	d	b	d	c	B
* Cost reduction (Effective quality control, free-zones, taxes etc.)	c	a	c	c	b	c	B
(2) Medium-term actions for improvement							
1) Invitation of MERCOSUR fashion resource center	a	c	a	b	d	d	A

Table III-1-2 Prioritized actions for improvement and parties involved

(1) Short-term actions for improvement	Priority	Parties directly responsible	Parties to cooperate and assist
1) Improvement of policies and systems			
* Implementation of quality marking system and reinforcement of consumer center	A	G.	A.,E.
2) Improvement of management, education of talented personnel			
* Promotion of joint cooperation	A	E.	A.,G.
* Training of required personnel	C	A.	G.,E.
* Reinforcement of education and training system	A	G.	A.,E.
3) Improvement of sales, marketing			
* Implementation on Fashion Week	A	G.	A.,E.
* Sales promotion in cooperation with government	B	A.	G.,E.
4) Improvement of technology			
* Production of thin woolen fabrics and fine yarn	B	E.	A.,G.
* Utilization of Uruguayan national designers and tailors	C	E.	A.
* Compilation of commonly known technique concerning design rights, trademark rights, patent rights	C	A.	G.,E.
5) Improvement of quality, reduction of cost			
* Conditions of quality improvement	B	E.	A.
* Cost reduction	B	E.	G.,A.
(2) Medium-term actions for improvement			
1) Proposal for invitation of MERCOSUR IUR fashion resource center	A	G.	A.,E.

Legend : E.- Private Companies, A.- Industry Association, G.- Government
 Contribution and immediate effect to improvement greatest: A, Semi-greatest: B,
 great: C

1-7 Ranking in Four Categories Applicable to Reform Measures
(Quality Improvement, Cost Reduction, Development of Human
Resources, Market Expansion)

Quality improvement, cost reduction, market expansion and development of human resources are the factors most indispensable and critical for the promotion of the Uruguayan garment industry and the promotion of export.

Previously, reform measures were classified into four categories, with the major anticipated effects and ranking of each measure given within each category. Similarly to the ranking of the 12 items, preference was given in ranking the categories to measures which would exhibit greater and more immediate effects, and for which the needed facilities and functions are already available to some extent. Those reform measures which may affect not only a single item but also other items as well were listed under the item on which they ought to have the greatest effect. For example, promotion of cooperative projects would be effective not only for cost reduction but also for quality improvement and market expansion as well, but is listed under cost reduction.

Methods of managing production, quality, processes and machinery as well as methods of inspecting materials and products which would be immediately effective to achieve quality improvement, cost reduction and market expansion if implemented by individual enterprises are summarized in PART III, CHAPTER 3.

(1) Quality improvement

- 1) Institution of quality labeling system and reinforcement of consumer center (Short term, 1st rank)

The institution of a quality labeling system is targeted directly to the protection of consumers and quality improvement, and indirectly to draw greater attention by consumers to quality and price and hence to encourage efforts

by garment enterprises to improve quality. Those are the most fundamental requisites for the expansion of domestic consumption and replacement of imports.

2) Utilization of Uruguayan designers and tailors (Short term 2nd rank)

By taking advantage of the accumulated know-how of local designers and tailors who themselves are capable of wide variety, small lot production, it would become easier to produce high value added products.

3) Conditions for quality improvement

(a) Enhancement of non-price competitiveness (Short term 3rd rank)

Product differentiation would be stimulated by enhancing non-price competition within the industry, involving upbringing of designers and stronger marketing efforts.

(b) Technology including sponging, pattern making and so on. (Short term 4th rank)

Stabilization of textile and garment stretchability, and improved garment design would serve to upgrade the quality of garment products.

(c) Promotion of independent merchandising (Short term 5th rank)

Better quality and differentiation of one's products can be achieved by developing merchandisers capable of independent product planning.

4) Preparation of a collection of commonly used techniques in the public domain (Short term 6th rank)

If a collection of commonly used techniques in the public domain, relevant to design rights, patent rights, and trademark rights is prepared, such techniques and designs could be used extensively for quality improvement and enhancement of productivity and could serve to prevent undue technical intervention by overseas manufacturers.

Item 1), institution of quality labeling system, was ranked first because it would have better effects than item 4), preparation of a collection of commonly used techniques in the public domain, while item 3), utilization of Uruguayan designers and tailors and item 4), conditions for quality improvement should be left to the discretion of individual enterprises. In addition, LATU is equipped with the buildings and personnel required for the institution of a quality labeling system.

(2) Cost reduction

1) Promotion of cooperation (Short term 1st rank)

The high technology equipment which is needed for high value added, wide variety, small lot production within a short delivery time frame (corresponding to the global demand trend), would have a high price and a low rate of utilization and prove to be not very profitable if acquired and used by individual enterprises. The same applies to facilities for sponging processing and stone/chemical washing of denim fabric.

Joint use of these plant is most effective for cost reduction.

Cost reduction could more easily be achieved through joint and cooperative procurement of raw and subsidiary materials, warehousing, and acquisition and utilization of specialized facilities.

2) Cost reduction measures

(a) Implementation of effective quality control (Short term 2nd rank)

Costs could be reduced by preventing occurrence of rejects through implementing process by process quality control.

When rejects occur, recovery and disposal of rejects requires additional expenditure which, however, is recoverable if effective quality control measures are implemented.

(b) Utilization of free zones (Short term 3rd rank)

If enterprises that are exclusively dedicated to export utilize the free zone system, import duties, corporate taxes and consumption taxes can be saved.

(c) Taxes, public service charges, (Short term 4th rank)

Costs can be reduced by reducing taxes, public service charges, to rates comparable with other MERCOSUR member countries.

Among the reform measures for cost reduction, item 1), promotion of cooperation would be most effective in reducing costs. 2)-(1), implementation of effective cost reduction control, is up to the discretion of individual enterprises while (2), utilization of free zones may be advantageous in terms of taxation but the number of enterprises which are capable of investing in free zones to construct new plants may be limited. Relevant to item (3), taxes, and public service charges are being examined by the Uruguayan government. Accordingly, item 1), promotion of cooperation, was ranked first.

(3) Development of human resources

1) Reinforcement of education/training system (Short term 1st rank)

One of the most important factors in expanding the markets of the Uruguayan garment industry is the development and keeping of competent merchandisers.

The Uruguayan garment industry, which is heavily dependent on subcontracted processing export, is not cost competitive with developing garment industry countries. One way for the Uruguayan garment industry to survive is to develop the ability to foresee global export market trends, and its own independent product planning capacity.

Fostering and keeping of competent merchandisers and operators for high technology machines are inevitable in order to realize this target. The expansion of UTU is very important in this meaning.

2) Training of required personnel etc.

(a) Standing seminar on productivity (Short term 2nd rank)

The foremost reason underlying the current difficulties of the Uruguayan garment industry is the lack of proper steering for quick response to global trends. It is therefore considered necessary to disseminate understanding of management concepts and methods and productivity enhancement techniques, through seminars, for example, in order to promote cost reduction, quality improvement and market expansion.

(b) Incentives for the acquisition of official qualifications (Short term 3rd rank)

Employees are discontent because of the low wages paid and tend to be constantly on the lookout for jobs with higher wages. One measure to prevent job hopping would be, for example, to offer incentives for the acquisition of official qualifications and to offer a regular raise for those so qualified. Establishment of courses of study for such qualifications at institutions like UTU would of course have to take place first.

(c) Reinforcement of garment research institution
(Short term 4th rank)

Reinforcement of a dedicated research institution that can carry out R&D of basic technology and new products relevant to textiles and garments is a reform measure that would have significant benefit for the Uruguayan garment industry, but is dependent upon prior development of the required human resources. The costs of research and development which may be too risky for private enterprise to bear can be subrogated.

(d) Consultation for enterprises (Short term 5th rank)

Provided that personnel competent to provide consultation to enterprises have been developed, such guidance on technology and management would serve to assist cost reduction and quality improvement efforts.

Development of human resources is indispensable if Uruguayan garments are to gain the confidence and appreciation of world markets.

The advanced class of the UTU garment course is best suited for the development of competent merchandisers. Item 2)-(1), standing seminar on productivity, is expected to have an immediate effect if the seminars organized by REFA of Germany under the sponsorship of the Ministry of Industry are properly reinforced. Item 2)-(2), incentives for the acquisition of official

qualifications, is granted for implementation in order to benefit the first graduates of UTU's advanced class in 1993 (the title of technologist will be conferred on them after the completion of 4 years study). Items 2)-(3), reinforcement of garment research institution, and (4), consultation for enterprises, are ranked lower because the development of required human resources is a time consuming process.

(4) Market expansion

1) Implementation of Fashion Week (Short term 1st rank)

It was confirmed that the degree of recognition of the Uruguayan garment industry among overseas buyers and importers is not sufficient, and the number of enterprises capable of conducting overseas advertisement and sales promotion is limited. However, if the state of Uruguay organizes state level Fashion Week within Uruguay, many enterprises would be able to participate and domestic demand would increase as Uruguayan citizens become interested in these events.

In addition, such Fashion Week would enhance recognition of Uruguayan products among overseas buyers and importers and therefore would eventually lead to the expansion of export.

2) Sales promotion in conjunction with government agencies (Short term 2nd rank)

Publicity promotion activities and gathering of information on Uruguayan garment products through the overseas offices (New York, Sao Paolo and so on) of the International Trade Department under the jurisdiction of the Ministry of Economics and Finance should lead to market expansion.

3) Pursuit of thin fabric and fine yarn (Short term 3rd rank)

If light and soft garment products in line with global preference trends can be produced in cooperation with the Association de Industrias Textiles del Uruguay, the way to export expansion would be paved.

4) Invitation of MERCOSUR fashion resource center (Medium term 1st rank)

A fashion resource center equipped with facilities for information gathering, analysis, product planning and development, human resource development and promotional activities is essential infrastructure required for the industry to stably supply high value added products.

A fashion resource center representing all of MERCOSUR located in Uruguay would attract the attention of global importers and buyers, helping to expand export.

Item 1), implementation of Fashion Week is considered to be capable of generating a greater market expansion effect. Item 2), sales promotion in conjunction with the government, was ranked second because it involves promoting business-government linkage and considered capable of generating immediate effects. Item 3), pursuit of thin fabric and fine yarn, may be equally important, however the wool textile and garment industries do not have familiar relations with the wool industry and therefore this is ranked third.

(4) The fashion resource center to be invited shall be one serving all of MERCOSUR. If attracted to Uruguay, such a fashion center would be extremely beneficial to the Uruguayan garment industry.

1-8 Relationship Between Short Term, Medium Term and Long Term Objectives and Reform Measures

Fig. III-1-2 shows the relationship between short term, medium term and long term objectives and reform measures. The reform measures are classified into quality improvement, cost reduction, market expansion, and human resource development and the small items listed under each item are ranked. Study, preparation, training period, and generation of expected results are shown for each item and for each small item by time scale.

Objective	Period Objective	Short term (1992 - 1995)				Medium term (1996 - 2000)					Long term (2000 -)		Conducted by			
		Ranking	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Remarks	Organization in charge	Cooperating organization	
<p>Market expansion Targeted money value of exports</p> <p>Reform measures</p> <p><Quality improvement> . Institution of quality labeling system and reinforcement of consumer center . Utilization of Uruguayan designers and tailors . Conditions for quality improvement (1) Enhancement of non-price competitiveness (2) Dissemination of technology including sponging, pattern making (3) Promotion of independent merchandising . Preparation of a collection of commonly used techniques in the public domain</p> <p><Cost reduction> . Promotion and implementation of cooperation within the industry . Cost reduction measures (1) Implementation of effective quality control measures (2) Utilization of free zone system (3) Taxes, public service charges, social security charges</p> <p><Development of human resources> . Reinforcement of education/training system . Education of required personnel (1) Standing productivity seminar (2) Incentives for the acquisition of official qualifications (3) Reinforcement of garment research institutions (4) Consultation for enterprises</p> <p><Market expansion> . Implementation of Fashion Week . Sales promotion in conjunction with government agencies . Pursuit of thin fabric and fine yarn . Invitation of a fashion resource center</p>	Short term - 1st rank															
	2															
	3															
	4															
	5															
	6															
	1															
	2															
	3															
	4															
	1	UTU														
	2															
	3															
	4															
	5															
1																
2																
3																

E.: Enterprise A.: Industrial association G.: Government
 Short term : To be implemented as short term study, preparation, training.
 Medium term : To be implemented as medium term project.

Fig. III - 1 - 2 Relationship between short term, medium term and long term objectives and reform measures

1-9 Action Program Selection and Rationale

(1) Items selected

Those reform measures which are most effective for the short term in each of the four categories quality improvement, cost reduction, development of human resources and market expansion, and which are indispensable for the promotion of the Uruguayan garment industry have been selected for the action program. Production control (quality control, process control, machinery control, inspection of materials and products) which, if implemented by each enterprise under its own initiative, would assist quality improvement, cost reduction and market expansion, is excluded from the selection and shall be discussed in detail in PART III, Chapter 3.

- 1) Quality improvement : Institution of quality labeling system
- 2) Cost reduction : Implementation of cooperative efforts
- 3) Development of human resources : Reinforcement of UTU
- 4) Market expansion : Implementation of Fashion Week

Invitation of a MERCOSUR fashion resource center with the consensus of MERCOSUR member countries has been selected as a reform measure for the medium to long term action program.

(2) Reasons for selection

- 1) Quality improvement : Institution of quality labeling system
Quality improvement can be achieved through the procurement of high quality materials and subsidiary materials, upgrading of sewing and knitting technique, and thorough implementation of production control, which are largely dependent upon the efforts of businesses.

Import of garments into Uruguay has been increasing steadily during recent years, shrinking the domestic market share of the local garment industry. It is considered

necessary for the local garment industry to improve the quality of its products and lower prices in order to expand its domestic market share and replace imports. Implementation of a quality labeling system in Uruguay, as already implemented in advanced countries, is considered significant for this purpose.

If consumers were aware what materials of garments are made of, what care must be taken in their handling, and in what country or by what company they were produced, then consumers would be able to file complaints and make known their quality requirements, obliging companies to improve the quality of their products.

2) Cost reduction : Implementation of cooperative efforts

The worldwide trend in the garment industry is to produce wide varieties of products in small lots within the shortest possible period after the awarding of orders. It is necessary to introduce expensive high technology equipment in order to cope with this trend, but the burden of such investment and the resulting operating costs may be too high to be carried by individual enterprises.

Few enterprises are capable of securing enough orders to fully utilize CAD equipment, a sponging plant, a finishing plant, or a jeans washing plant by themselves. Cooperative utilization within the industry is the solution to cope with the situation.

Cooperative collection of market and technology information, procurement of materials and subsidiary materials, warehousing and dispatching would also lead to cost reduction.

3) Development of human resources : Reinforcement of Universidad de Trabajo del Uruguay (UTU)

In order to implement a system capable of producing wide varieties of goods in small quantities and to improve the originality of Uruguayan garments, it is imperative to develop merchandisers capable of comprehending the needs of export markets through market survey, planning and developing products to match the market needs, and marketing those products. It is also important to train operators for high technology equipment, as well as in-house engineers and middle managers.

However, development of human resources is a time consuming process, thus invitation of specialist lecturers and engineers from the advanced fashion industry countries of Europe or the U.S.A. may be a temporary expediency. In the long run however, the Uruguayan garment industry should be developed by Uruguayan nationals.

The Universidad de Trabajo del Uruguay (UTU), under the jurisdiction of the Ministry of Education and Culture, is the institution responsible for educating and training engineers. UTU has a garment oriented course to educate students in garment related techniques and designs.

CDI, under the jurisdiction of the Ministry of Education and Culture, also has a garment related course and is primarily responsible for educating designers. It is therefore considered more economical and time saving that UTU, which already has sewing, knitting, quality control and design courses, be used to educate merchandisers and operators, rather than establishing a new educational institution.

However, the existing facilities and curriculum of UTU are considered insufficient for the education of merchandisers and operators, hence reinforcement of curriculum and facilities has been selected for the action program.

4) Market expansion : Implementation of Fashion Week

Advertising targeted to domestic and export markets is considered extremely critical in order to expand the market for Uruguayan garments. Based on the current state of affairs in the Uruguayan garment industry, it is considered desirable to organize a state-wide Fashion Week targeted to produce concentrated effects in the short term.

Implementation of a nationwide Fashion Week would enable advertising the Uruguayan garment industry and collecting information within a short period of time at relatively low cost.

5) Medium to long term plan : Invitation of MERCOSUR fashion resource center

A fashion resource center, which is part of the infrastructure needed for the stable supply of high value added products, would be pivotal for upgrading the garment industry and promoting its virtues in Japan and Europe.

However, establishment of a fashion resource center is a time consuming and costly process because of its nature and scale, thus such a center cannot be established by Uruguay alone. The action program therefore has been drafted on the premise of inviting a MERCOSUR fashion resource center which would be established by the consensus of all MERCOSUR member countries.

If it could gain status in the future as the South American equivalent of the FIT resource center in New York or the fashion resource center of the Musée des Arts de la Mode in Paris, it would definitely benefit MERCOSUR as a whole in the long run and subsequently aid the development of the Uruguayan garment industry.

Chapter 2 Reform Measures in the Garment Industry

It is recommended that the Uruguayan garment industry adopt the following posture in order to achieve the targets listed in Chapter 1.

Those actions for improvement should of course be taken at the discretion of the individual businesses. It should be remembered however that certain tasks are beyond the reach of individual businesses and the cooperation and support of the relevant associations and government agencies are desirable.

2-1 Improvement of Policies and Systems

Under this heading, implementation of a quality marking system and expansion of a consumer center shall be taken up.

(1) Implementation of quality marking system

In European countries, North American countries and in Japan, every garment is obliged to be marked as provided for under the applicable laws and regulations.

In contrast, garments for local consumption in Uruguay are not always provided with such markings, while all exports are marked as designated by foreign buyers. There exists no voluntary regulation system in the industry, nor do current laws and regulations in Uruguay provide for such markings. Marking of garments with material composition, illustrated care instructions and country of higher quality and lower price as demanded by consumers, and this kind of synergy would be a vital stimulus for expansion of the local market.

Pursuing of the question of markings is not only to promote quality improvement and protect consumer interests. Increase in interest of consumers in the quality and price of garments would be fostered by the implementation of a marking

system, which in turn would encourage local manufacturers to redouble their efforts to offer products of higher quality and lower price as demanded by consumers, and this kind of synergy would be a vital stimulus for expansion of the local market.

(2) Expansion of consumer center

There are consumer guidance centers under the jurisdiction of the Ministry of Economy and Finance as well as private consumer groups in Uruguay. Utilization of such consumer centers and consumer groups would lead to quality improvement and expansion of domestic consumption.

Similarly to other advanced nations around the world, Uruguay's government and private sector have respectively inaugurated a consumer center and various consumer groups and have established the framework of a consumer protection system. Nevertheless, the existing Centro de Orientacion al Consumidor is not yet sufficiently organized to achieve its objective and will need reinforcement. Centro de Orientacion al Consumidor handles claims and consultation covering every kind of merchandise related to household consumption. In this chapter, recommendations are proposed with respect to garments.

1) Promulgation of markings

Quality marking is intended to draw the attention of garment manufacturers to the quality of their products. The consumer center ought to periodically conduct shop counter surveys and make public the names of companies which have violated the mandatory provision of quality markings and request the immediate rectification of such violations.

2) Reinforcement of commodity test department

There is a commodity test institution which is a part of

the consumer protection and market control division in parallel with the consumer center. Unfortunately, no information is available with respect to the activities of the institution and it is not possible to submit any concrete recommendation. However, implementation of commodity tests is indispensable in handling claims filed for defective garments and the institution must be so equipped as needed.

3) Strengthening of association with consumer groups

A one-sided approach only by the government is not sufficient to raise concern of consumers over the quality of merchandise. The fact that the IOCU once had a secretariat in Uruguay, and the presence of other consumer groups, even when they are not particularly active, should provide sufficient ground upon which consumer activities can be fostered.

2-2 Establishment of Sales and Marketing Network

(1) Sales promotion in association with the government

The Directorate of Commerce and Industry should: establish close contact and communication with the Camara Industrial de la Vestimenta and Punto Industrial Uruguayo; conduct an aggressive advertising campaign for Uruguayan garments; and collect information and intelligence as needed and forward it to the relevant businesses and associations.

(2) Implementation of Fashion Week

Letting importers and buyers know of the presence of the Uruguayan garment industry would lead to export expansion. Helping Uruguayan nationals to understand current fashions would lead to activation of local demand.

If Uruguay intends to reactivate the Uruguayan garment industry and develop it into one of the future world fashion

centers and a base for the transmission of fashion information, a national event such as Uruguay Fashion Week would be an excellent opportunity to demonstrate not only to the domestic market but also to the garment markets in MERCOSUR, Europe and Asia the broad features of the Uruguayan garment industry.

If such a fashion event can be organized so as to invite not only Uruguayan businesses but also designers and specialty garment retailers from all American nations including the three other members of MERCOSUR to participate in a very international atmosphere, Uruguay would certainly gain recognition in European, American and Asian countries as one of the world's fashion information transmission centers.

2-3 Technological Innovation

(1) Technological exchange

1) Development of thin woolen fabrics and fine, high count yarn

The biggest impediments to expansion of export of Uruguayan garments are price and quality. Field surveys revealed that Uruguayan woolen fabrics are of heavy gauge and texture in contrast to the global trend toward lighter and finer fabrics, and sales are seriously hampered as a result.

Use of thinner and lighter fabrics would apparently be more advantageous for manufacturers than the current heavy gauge fabrics, all other factors such as sewing technique and observance of delivery commitments being equal.

Uruguay is now importing fine raw wool from Argentina.

In the long run however, finer raw wool should be locally produced in Uruguay, rather than depending upon imports from Argentina. (The demand for woolen fabric of lighter and

softer texture is much greater than the demand for the heavy fabrics currently manufactured in Uruguay, as a world-wide trend. Production of lighter and softer fabrics would also contribute to expansion of export of Uruguayan woolen fabrics.)

2) Utilization of Uruguayan national designers and tailors

Upgrading of Uruguayan products can be achieved only by taking whatever measures can be effectively adopted immediately, in the short term and medium term.

It is recommended that Uruguayan garment manufacturing enterprises enlist the cooperation and assistance of Uruguayan designers and tailors and establish a system of cooperation.

Tailors and designers are extremely knowledgeable in how to produce fine garments and have excellent sense. They are professionals capable of producing by themselves wide varieties of garments in small quantities. It would be a great loss for the Uruguayan garment industry not to enlist their cooperation and assistance.

The know-how of Uruguayan national designers and tailors shall be fully utilized as a means of upgrading the technical level of the Uruguayan garment industry.

(2) Summary body of commonly known techniques related to design rights, trademark rights and patent rights

There exist many patent rights and utility model rights applicable to garments. Technology which is already well known and the industrial property right of which has expired is considered to be in the public domain and may be freely used by anybody. Summarizing such public domain knowledge would allow Uruguayan businesses which have had no knowledge of techniques or designs for which the industrial property

rights have expired to use those techniques and designs to improve their products and to prevent undue interference by third countries, not to mention within Uruguay itself.

2-4 Improvement of Product and Design Development System

(1) Need for the fashion resource center

An infrastructure must be established to support efforts of the Uruguayan garment industry to enhance its competitiveness in the international market. The fashion resource center is considered to be a concrete step towards establishing the needed infrastructure. It could help the industry to shift to high value added production. The fashion resource center would collect information, develop talented personnel and conduct promotions to help the Uruguayan garment industry to free itself from subcontracted production.

In short, the concept of the resource center arose as it was realized that the task of shifting to high value added production was beyond the individual capabilities of businesses which had indulged themselves in production that did not require any serious effort at product development. The resource center is accessible to all companies in the industry. It provides assistance to individual companies in enhancing their product development capability.

2-5 Quality Improvement, Cost Reduction

(1) Quality factors

- 1) Limits of price competition and factors in non-price competition

The Uruguayan garment industry must therefore restructure

itself from a price competitive structure into a non-price competitive structure that emphasizes the strength of its designs and quality. Only by doing so can Uruguayan garments differentiate themselves from garments produced by Caribbean and Asian countries, as well as those of Eastern European countries which are expected to enter into international price competition.

2) Factors important for establishing world class quality

The quality of garments is generally evaluated primarily by examining sewing and knitting technique. However, stability of fabrics is likely to affect the quality of fabric garments.

The shrinkage characteristics of fabrics can be rather unstable and use of sponging is becoming more and more important.

Softer and lighter texture garments are the mainstream of fashion in advanced countries. This means that the fabrics used are becoming thinner and lighter. Use of sponging is thus becoming even more important in order to finish garments made from such fabrics to a satisfactory quality level.

3) Reinforcement of autonomous merchandising

The industry is now urged to establish its own merchandising, in other words to develop a high value added line of products as it loses its price competitive edge. This is what is called "autonomous merchandising"; the industry must now restructure itself to systematically conduct autonomous merchandising.

To begin with, trends in export markets must be fully comprehended. Establishment of marketing activities is the first step in autonomous merchandising, to be followed by the reinforcement of merchandising activities. The development

of competent merchandising specialists is indispensable for the reinforcement of merchandising.

(2) Cost reduction

1) Promotion and implementation of cooperative work

CIV and PIU must take the initiative in promoting cooperation between member enterprises in joint purchase of materials and auxiliary materials in order to bargain for quantity discounts and to save time and expense on the part of individual enterprises. The same applies to joint purchase of high technology production machines and joint storage and distribution of materials and auxiliary materials to reduce cost of facilities and plant operation for individual companies. Joint use of sponging facilities or stone washing plants which would operate at a low rate of utilization when owned and operated by a single company could save plant capital and operation costs.

2) Implementation of effective quality control program

Most Uruguayan garment manufacturing enterprises do not have a proper quality control program.

Inspection at the end of each intermediate process would make it possible to return the rejected items to the previous process for rework. Step by step production would reduce the occurrence of defects and would lead to cost reduction.

3) Utilization of free zones

(a) Advantages of free zones

Enterprises which operate within a free zone will be exempted from corporate tax, wealth tax, consumption tax and import duties, and are entitled to apply for special rights under the law concerning the promotion of

industry.

(b) Utilization of private sector free zones

The Directorate of Free Zones, Ministry of Economy and Finance is now planning to establish private sector free zones in Montevideo and Fray Bentos.

4) Taxes, public service charges

The active cooperation of the Ministry of Industry is desired for reduction of taxes, and public service charges.

2-6 Improvement of Management, Development of Human Resources

(1) Promotion of cooperative work

Cooperative work is defined such that enterprises and/or stores provide capital funds and operate a business jointly.

1) Need for cooperative work

For Uruguayan garment manufacturing enterprises which aim to penetrate not only MERCOSUR member countries but also the international market, it is imperative not only that they transform themselves into technologically innovative advanced enterprises, but also that the Uruguayan garment industry as a whole restructures itself into a systematized, information and technology intensive industry.

2) Concrete examples and significance of possible cooperative efforts

(a) Joint use of information

By collecting all the information concerning color, pattern, design, raw materials, auxiliary materials,

markets, consuming power and distribution needed by the garment industry and using it jointly, each enterprise will be able to get more affluent information.

(b) Holding of joint fashion shows for order acceptance

Trade associations should take the lead in holding 2 or 3 joint fashion shows every year, in which member companies participate.

(c) Joint use of high technology production machines

CAD/CAM facilities require an enormous amount of capital investment, while individual businesses may not have a sufficient workload to fully utilize them. Likewise, high technology sewing machines, sponging facilities and stone washing plants for jeans are not easily affordable by individual companies. Unless jointly used, their costs cannot be absorbed.

CAD/CAM and other high technology facilities installed in LATU or UTU and made available to every company would help to reduce individual companies' operating costs.

Furthermore, joint order and procurement of materials and auxiliary materials including lining and buttons would also help to reduce individual companies' costs.

Joint storage and joint transport (including hanger transport) would also help to reduce costs.

(d) Education and training of operators

It is necessary to ensure that technicians and middle management staff are capable of operating CAD/CAM and high technology sewing machines in order to cope with production of diverse products in small lots.

(2) Human resource development

- 1) Standing productivity seminar to be organized under the initiative of trade associations or government agencies

The productivity seminar should be classified into a Part I dealing with analytical, industrial engineering approaches to improved productivity, and a Part II dealing with the structuring of management to utilize the TQC way of thinking.

- 2) Incentives to encourage acquisition of official credentials by engineers and technicians

There exists almost no system of periodic raises or bonuses. In such a social environment, the introduction of a wage system linked to the acquisition of official credentials that provides physical and psychological incentives, together with the establishment of a system of official credentials, must be considered as a means of building the morale of sewing machine operators.

- 3) Establishment of research and development capability for garment industry technology

Besides the existing LATU and UTU, a research and development institution dedicated to fundamental technology and accepting product development on consignment ought to be established. Such an institution is indispensable for the Uruguayan garment industry if it intends to advance toward its goal of establishing a modern textile and garment industry. The institution would alleviate the burden of cost of risky research and development for individual companies and would provide an accessible means of consultation and advice on corporate management and business in general.

- 4) Companies' need for consultation

Specific technologies, management techniques, knowledge

of corporate management, wisdom and perceptions can effectively be linked to the operational results of companies by going through consultation. Consultation is intended to alleviate the burden on corporate management by sharing part of the problems confronting them. The purpose of a consultation service should be to introduce external services as needed for the planning and implementation of an aggressive management strategy, instead of evasion of management risk. It should also be system of external assistance and support for the implementation of enterprising management.

(3) Reinforcement of education and training system

High value added production, establishment of the production of diverse varieties in small quantities and differentiation of products are indispensable for the survival and growth of the industry, including export expansion.

Creators, merchandisers, and CAD/CAM operators are needed in addition to in-house engineers and middle management staff to support the shift of enterprises in that direction.

Yet, reinforcement of the existing professional training school (UTU) with a design department and advanced course and establishment of a specialized education and training institution in Uruguay are desirable in order to train as many personnel as possible.

Chapter 3 Reform Measures of Individual Enterprises Based on Production Control

On the basis of the field study, this chapter proposes that some renovation of individual companies in the Uruguayan garment industry is feasible in terms of production control, quality control, and material and product inspection.

It is believed possible that Uruguayan companies can improve their products and reduce production costs by implementing these suggestions, which may require a certain amount of effort on their part.

Table III-3-1 shows the production control in garment industry.

Table III-3-1 Summary of garment production control

1. Definition of production control	The term "garment production control" means overall control of "a series of production tasks to produce garments of given quality, cost, and quantity within given a delivery schedule." Accordingly, the intended result of production control is achieved by effectively implementing primary production control including quality control, process control, machinery control and cost control.	
2. Essential points and method of production control	<p>(1) Characteristics of a continuous production system (production of a small variety of goods in large quantity)</p> <p>1) Process capacity is designed to match the volume of demand.</p> <p>2) Production is planned for a constant level at all times; accordingly, an inventory of finished products must be carried at all times to absorb fluctuations in demand.</p> <p>3) Quality is built into the process. (Process is standardized and managed in order to prevent rejects.)</p> <p>(2) Characteristics of a discrete production system (production of a wide variety of goods in small lots)</p> <p>1) Delivery date must be estimated accurately and committed to.</p> <p>2) The quality characteristics required by customers must be determined.</p> <p>3) Production cost must be estimated accurately. Man hour (operation time) standards are critical to the calculation of production cost.</p> <p>4) Daily production schedule and job assignments must be planned in order to minimize the change-over time between processes.</p> <p>5) The redundant time of each process must be comprehended at all times.</p> <p>6) Standardized accessories and common items must be used as extensively as possible.</p> <p>4) The capacities of individual processes are balanced (to elevate overall efficiency of the entire production line).</p> <p>5) Standard time and standard cost are established as the criteria of control and planning, in order to reduce time and cost.</p> <p>7) Inventory control of accessories is critical.</p> <p>8) The leader of each process must be capable of leading production of individual products.</p> <p>9) Operators must be allocated appropriately because the particular proficiencies of each individual operator are important.</p> <p>10) The superintendent must give serious consideration to process change over and the progress and management of production. He must be capable of dealing with anomalies.</p>	
3. Effects of production control	<p>(1) Cost reduction</p> <p>1) Primary units of material and subsidiary material can be reduced.</p> <p>2) Useless work can be eliminated while rework is reduced.</p> <p>3) Costs associated with rejects are reduced.</p> <p>(2) Quality improvement</p> <p>1) Confidence in the quality of products is built.</p> <p>2) Quality is enhanced while rejects are reduced. Quality is simultaneously made more uniform.</p> <p>(3) Production is increased. Rational production planning becomes possible.</p> <p>(4) The confidence of buyers is gained and the market expands.</p> <p>(5) The corporate organization can be rationalized. Interrelations within the corporate organization become smooth.</p> <p>(6) Repair and expansion of facilities and equipment can be made rationally and in accordance with priorities.</p>	
4. Characteristics of production control of garment industry	<p>1) Garments are assembled by way of three dimensional forming which involves the sewing together of different shaped curves, easing contracting and gathering.</p> <p>2) Garment material is shrinkable and soft. It is subject to deformation which is difficult to control mechanically.</p> <p>3) Parts and accessories have very little interchangeability. They differ from each other in design, color, pattern, material and size, and are difficult to control.</p> <p>4) Production of wide varieties in small lots is critical for high value added production, but is difficult to achieve unless production control is systematized.</p> <p>5) Fashions can change within a short cycle time. Unless delivery commitments are maintained strictly, customers can suffer, leading to the loss of orders.</p> <p>6) Up till now, production control in the garment industry has been haphazard in most cases, and based merely on experience and instinct. The shift to high value added production of wide varieties in small lots within a short delivery period cannot be achieved without implementing scientific, rational production control. Without such production control methods, no manufacturing enterprise can develop successfully.</p>	
5. Quality control (1) Basics of quality control	<p>1) Clarification of quality characteristics (Pattern, material, lining, accessories, sewing thread and so on must be clearly described in instructions.)</p> <p>2) Clarification of quality criteria, work standards and inspection standards</p> <p>3) Clarification of the responsibility for quality (preventing rejects from moving to the next process; clarifying each operator's quality checking responsibilities)</p> <p>4) Stabilization and improvement of processes</p> <p>5) Improvement of quality (efforts to produce products of better quality)</p>	
(2) Reasons for occurrence of rejects and reform measures	<p style="text-align: center;">Reasons</p> <p>1) Design mistake</p> <p>2) Inferior material or subsidiary material</p> <p>3) Improper inspection</p> <p>4) Inferior equipment and facilities</p> <p>5) Improper processing</p>	<p style="text-align: center;">Reform measures</p> <p>- Establishment of design check system</p> <p>- Intensified acceptance inspection</p> <p>- Establishment of inspection methods and inspection standards, establishment of test methods</p> <p>- Establishment of preventive maintenance program; renewal of outdated equipment</p> <p>- Intensified operation guidance and standardization of operation</p>

(continued)

<p>(3) Reasons for delay in delivery and reform measures</p>	<p>1) Acceptance of orders exceeding production capacity 2) Improper delivery control 3) Mistakes in instruction, insufficient ability on the part of operators 4) Delay in material procurement 5) Absenteeism, insufficient supply of labor</p>	<p>- Accurate comprehension of production capacity and redundancy; upgrading of technical capability; utilization of appropriate subcontracting - Clarification of responsibilities; management with the assistance of computers - Standardization of operation methods; preventive maintenance of facilities; rationalization of daily schedule - Intensified material control; advanced procurement and inventory cushion - Activation of job site; maintenance of work environment; utilization of part-time workers and subcontracting</p>																																					
<p>6. Management of machinery (1) Textile garments (Sewing machine example) (2) Knit garments (Computer integrated stitch knit machine example) (Household knitting machine example)</p>	<p style="text-align: center;">Cleaning</p> <p>1) Dust and oil on the backside of needle plate, feeding teeth, hook 2) Dust on arm head, table 3) Legs and their vicinity 4) Check for waste thread, cloth in oil pan and contamination of oil.</p> <p>1) Waste thread and dust underneath the needle table jack (to be cleaned every 8 - 10 hours) 2) Tension wire, side tension, carriage, interior 3) Dust cleaner filter</p> <p>1) Needle noise at the end of operation 2) Thorough cleaning prior to change over to knitting with different color yarn.</p>	<p style="text-align: center;">Oiling</p> <p>1) Spot where an anomaly occurs in rotation noise 2) Volume of oil in oil pan 3) Thorough observance of routine, weekly, monthly oiling instructions</p> <p>1) Oiling of the rocking sliding plate of centralized oiling system 2) Replacement of oil pump filters (once every year) 3) Observance of manufacturer's oiling instructions</p> <p>1) Regular oiling of rail groove and needle groove 2) Observance of manufacturer's oiling instructions</p>	<p style="text-align: center;">Other check items</p> <p>1) Scratches or damage on machine head, spool pin, thread guide, electrical wiring 2) Condition of needle point 3) Motor noise, clutch gap, switch operation 4) Angle of footboard, thread tension release 5) Appropriate inventory of consumables</p> <p>1) Check battery for controller memory, belt tension (every 6 months) 2) Check machine functions using controller debug mode</p> <p>1) Appropriate inventory of consumables 2) Check items for textile sewing machines apply equally to various sewing machines and linking machines.</p>																																				
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4) Faults and/or stains	- Weaving faults: Inspection for weaving bars, reed marks, warp streaks, temple marks. Dyeing faults: Inspection for stains, washer wrinkles, mill wrinkles, dyeing wrinkles, shading marks, straightness																																						
5) Appearance	- External appearance of finished textile. Inspection for craping, fuzziness																																						
6) Handling or feel	- Items to be judged visually - inspection of luster, brilliance. Items to be judged tactually - inspection of smoothness, crispness, stiffness, spread, fullness & softness.																																						
Inspection items	Details of inspection																																						
1) Width	W width S width																																						
2) Length	- +3.0% - 0.0% of contracted value																																						
3) Weight	- +2.5% - 0.0% " " "																																						
4) Straightness, pattern straightness	- +5% " " "																																						
5) Pattern pitch discrepancies	- +5% " " "																																						
6) Cuts	- Max. less than 3.0% but differs by type																																						
7) Whole faults	- To be inconspicuous. 1 repeat for more than 3cm shall be less than 3.5 in vertical direction and less than 2.0% in horizontal direction.																																						
8) Partial faults	- To be inconspicuous																																						
	- " " "																																						
	- Total number of faults per roll as counted by conspicuous faults per square meter shall be less than as specified																																						

(to be continued)

(continued)

8. Inspection of external appearance of finished products	Inspection of external appearance of textile garment	External appearance inspection of knit garment
	<p>(1) Check of quality labeling</p> <ol style="list-style-type: none">1) Are name and label correct?2) Are dimensions the same as labeled? <p>(2) Check of sewing</p> <ol style="list-style-type: none">1) Is texture straight?2) Is direction of fuzz not reversed?3) Is the pattern matched? Are there no color discrepancies?4) Is the stitching as specified? Is the stitching not slipped?5) Is outlet seam as specified?6) Is fusible interlining not peeled off?7) Is sewing thread as specified?8) Is the number of stitches as specified?9) Is there no shrinkage by sewing, no missing stitch, no cut thread?10) Is the stitching uniform and neat?11) Is there no puckering?12) Are seams finished?13) Are blind stitches in place?14) Is overcasting neatly in place?15) Are shoulder height and outside leg lining seams finished?16) Are sleeve lining seams finished? <p>(3) Check of finish, size</p> <ol style="list-style-type: none">1) Are positions of buttons and accessories correct? Are they attached firmly?2) Is position of bar tacking correct? Is it finished firmly?3) Are button hole positions and button sizes correct?4) Are pocket positions correct? Is bar tacking correctly finished?5) Are there no press marks?6) Is thread finished properly?7) Are there no flaws or stains?8) Is garment balanced between right and left?9) Is there no lining sticking out?10) Is overall workmanship good?	<p>(1) Check of quality labeling</p> <ol style="list-style-type: none">1) Is legally stipulated quality labeling attached (including any required by the importing countries)?2) Is quality label sewn to garment in addition to tag?3) Do graphic symbols match the material used and other characteristics of the product?4) Is the type of wool mark attached appropriate? <p>(2) Check of knit fabric</p> <ol style="list-style-type: none">1) Is knit fabric extended to its full length and not overly stretchable?2) Are loops of knit fabric neatly aligned?3) Are milling, nap-raising and shearing uniform and averaged?4) Is backside yarn of a single Jacquard sweater not leaping?5) Is loosely twisted yarn not easy to peel or prone to losing fuzz? <p>(3) Check of details</p> <ol style="list-style-type: none">1) Is joint of V-neck finished neatly? Is point of V-neck not stiff?2) Are shapes of right and left collars well matched with each other?3) Does elongation of neck size not obstruct putting on and taking off? Is opening of turtle neck or cool neck appropriate?4) Do upper and lower fronts of a cardigan or a vest neatly overlap with each other?5) Is width of front averaged and not twisted? Does no tape stick out?6) Are button positions matched to button hole positions? Are they easy to fasten and unfasten?7) Are button holes firmly sewn? Is there no loose thread?8) Are button holes neatly hemstitched? Is there no loose thread?9) Is stretch of sleeve or cuff adequate?10) Is stretch or shrinkage of the girth of bottom or cuff adequate?11) Is pocket position correct? Are both ends of pocket opening firmly finished?12) Are right and left pockets well balanced? <p>(4) Check of sewing</p> <ol style="list-style-type: none">1) Is no sewing thread severed when sewn fabrics are manually tugged apart?2) Is seam not tangled?3) Is shoulder firmly sewn? Is it reinforced by stretch proof tape?4) Is cut edge of heavy textile shoulder overcast or split sewn?5) Is outlet seam of armhole sufficient? Is there no missing stitch in the inside of armhole?6) Is side seam not twisted or there is no missing stitch in side seam? <p>(5) Check of dyeing, finish, size</p> <ol style="list-style-type: none">1) Are colors of body and accessories matched with each other? Are colors of knit fabric and thread matched with each other?2) Are color and knit even?3) Was a small sized garment not forcibly stretched to finish? Was color not deformed by finish?4) Are sizes of small parts within the tolerances specified by specification or by instruction?
9. Damage due to failure to carryout inspection	<p>(1) Damage directly due to the use of defective raw and subsidiary materials Rejects should be expected. In the extreme case, production lines have to be stopped and delay of product shipment may result.</p> <p>(2) Discounting the price of defective products Defective products would need to be discounted in order to be sold.</p> <p>(3) Cost of claim processing Additional costs would be incurred for visits, examinations and re-testing pertinent to claims filed. The cost of replacing defective products may be incurred.</p> <p>(4) Cost of rework and disposal Additional cost would be incurred for reworking defective products. Those not rewrought would have to be disposed of at additional cost.</p> <p>(5) Loss of clients and market due to defective products Shipment of defective products may lead to the loss of credibility and subsequently to the loss of clients and market.</p>	

Chapter 4 Implementation Method of Action Program

The measures selected for the short term action program as described in PART III, Chapter 1,

- (1) Institution of quality labeling system (quality improvement),
- (2) Implementation of cooperative efforts (cost reduction),
- (3) Reinforcement of UTU (development of human resources),
- (4) Implementation of Fashion Week (market expansion), and for the medium to long term action program, assuming the unanimous consent of MERCOSUR member nations,
- (5) Attraction of MERCOSUR fashion resource center shall be discussed in this chapter.

4-1 Institution of Quality Labeling System

- (1) Need for quality labeling system

Marking garments with the type, composition, and properties of materials used, as well as handling instructions in addition to size and design would assist consumers in selecting from the plethora of available products.

Appropriate marking of quality, property and handling is required from the consumer's point of view in order to ensure that garments are used properly.

If consumers are well informed of the quality of garments, they will be capable of selecting garments of the quality and property they desire. Garment enterprises would then be motivated to produce garments matching the needs of consumers in order to expand sales, leading to quality improvement.

Consumers would pay attention to domestic garments if Uruguayan enterprises make better products, which leads import replacement.

(2) Information to be displayed

All garment products (yarn, textiles, clothing) must be labeled with material composition, almost all garments must be labeled with handling and care instructions, while specific items such as curtains or sheets must also be labeled with shrinkage, flame resistance, water repellency and dimensions. Furthermore, labels must display the name of the manufacturer, or product serial number together with country of origin, in order to identify the source of the product.

(3) Implementation of quality marking system

1) Propelling committee organization

The systematization of quality marking is a national undertaking and the committee in charge should comprise the following members in view of the need to disseminate the system throughout the nation:

National Quality Committee, Ministry of Industry, LATU under the jurisdiction of Ministry of Industry, CIV, PIU, Centro de Orientacion al Consumidor of the Direccion de Defensa del Consumidor y Contralor del Mercado under the jurisdiction of the Ministry of Economy and Finance, UNIT (Private Sector Non-Profit Technological Standards Association), Private Sector Consumer Groups, Intellectuals (Quality Control, Sociology)

2) Business of the committee

The committee should comprise a secretariat and a technological subcommittee to conduct the following business necessary for implementation of a quality marking system.

The committee should also invite internal and external intellectuals, dispatch study teams to advanced foreign countries, dispatch candidate inspectors to overseas countries for study and training and so on.

(a) Business of secretariat

- * Preparation of committee rules and planning of operating policies
- * Collection of information concerning advanced countries and MERCOSUR member countries
- * Preparation for the systematic, legal establishment of the quality marking system (composition marking, illustrated care instructions, country of origin marking)
- * Review and preparation of the content of documentation needed
- * Public relations activities targeted to businesses and consumers

(b) Business of technological subcommittee

- * Collection of information concerning ISO (International Standards Organization)
- * Review and planning of standards applicable to product inspection
- * List up and procurement of test and inspection equipment as needed

3) Flow chart up to the commencement of implementation of quality marking system (Example) is shown in Fig. III-4-1.

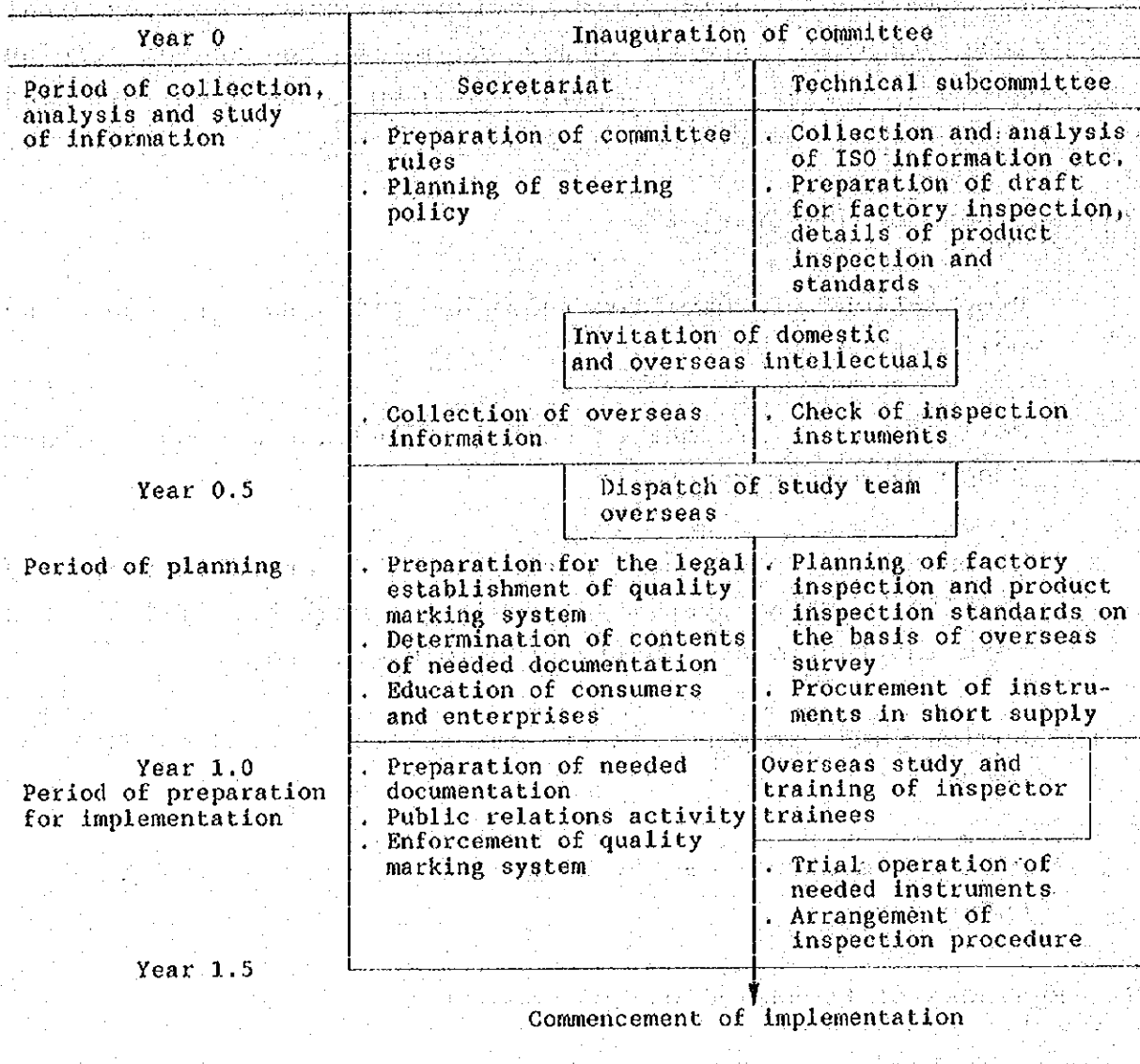


Fig. III-4-1 Flow chart of implementation of quality marking system

At the point the quality marking system is institutionalized, the propelling committee is dissolved developmentally to form a quality marking committee which consists of the same members with those of the propelling committee.

4) Institution to inspect and issue quality markings

LATU is the institution most suited to be in charge of inspection and issue of quality marking label in view of the buildings, inspection facilities and scale of inspecting personnel needed, as a result of the field survey. It is thus desirable that the committee and its secretariat be located within LATU.

5) Steering policy of quality marking committee

- (a) The committee should inspect factories, in response to applications filed by organizations or individuals who intend to begin use of quality markings, in order to determine whether they are capable of producing products of the designated quality (the accreditation inspection).

Applicants who have been accredited should conclude an agreement with the committee to grant use of the quality marking and pay fees to the committee for its use.

- (b) The applicant should then request LATU to inspect its products based on the agreement granting use of the quality marking.

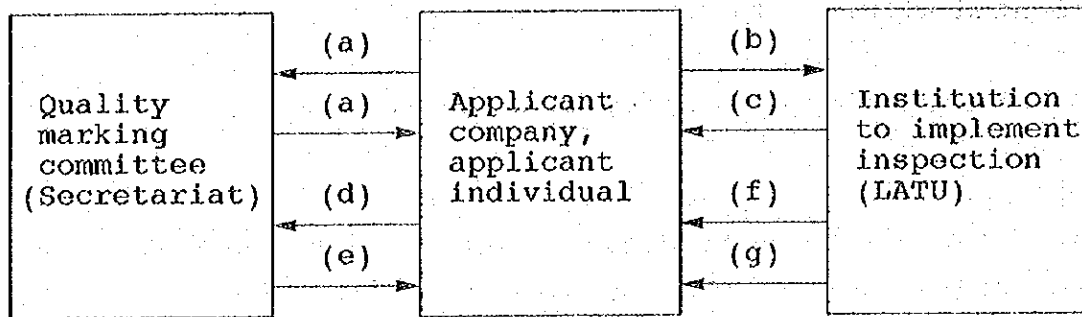
- (c) LATU should inspect the products and issue inspection certificates.

- (d) Applicants should file applications with the committee for issuance of quality markings together with inspection certificates.

- (e) The committee should issue quality markings in a number corresponding to the number of products inspected as stated in the pertinent inspection certificates. The committee should collect an appropriate fee for every quality marking issued.

(f) LATU should inspect products at the time of shipment (sampling inspection).

(g) LATU should inspect factories of enterprises to whom the use of quality markings has been granted once every year (on-the-spot inspection without warning).



The quality marking committee should finance itself by fees collected for granting the use of quality markings and fees for the issuance of quality marking label. LATU should inspect products and issue quality marking labels under the contract with the quality marking committee. The initial capital investment should be financed by appropriation in the state budget.

4-2 Implementation of Cooperative Efforts

(1) Significance of the implementation of cooperative efforts

1) Export oriented Uruguayan garment enterprises must establish systems capable of producing wide varieties of such high value added products as the international marketplace demands, in small lots within a short period of time. Thus expensive high technology equipment must be procured. Few Uruguayan garment enterprises already have high technology equipment, and most of them may not have the financial resources to acquire it. Joint procurement and joint use by as many enterprises as practical would offer an opportunity to get around this obstacle.

- 2) Most Uruguayan garment makers are of a relatively small scale. These small scale enterprises may not be able to afford their own sponging processing plants as needed to stabilize the shrinkage of textiles, or jeans washing plants, due to the likely low rate of utilization. Joint construction and joint use by as many businesses as practical would serve to increase the rate of plant utilization, while the costs of plant construction and operation could be shared by all participating enterprises.
- 3) The labor and man-hour costs borne by individual enterprises can be reduced by joint procurement, storage and dispatch of materials and subsidiary materials.
- 4) Concentrating libraries of various information materials at UTU or CDI for joint utilization would allow greater access to information, including not only data on world fashion trends, market trends and state-of-the-art technology and equipment, but also worldwide textile and garment statistics.

(2) Forms and examples of cooperative efforts

1) Cooperative efforts which require no additional facilities

- (a) Joint procurement of materials, subsidiary materials and so on.
- (b) Joint survey of overseas markets
- (c) Joint sales
- (d) Joint development and employment of merchandisers and operators
- (e) Advantages and disadvantages

a) Advantages

The advantages of this kind of cooperative effort are reduction of investment and cost, and implementation within a relatively short period of time.

b) Disadvantages

Unless the joint organization to be established is fully discussed in advance so that its significance is mutually understood by participating enterprises, the organization may disintegrate. An appropriate rule should be made for avoiding a leak of secret information possessed by enterprises.

2) Cooperation in the form of one enterprise providing processing for a fee to others

(a) Form of operation

Under this scheme, a sponging processing plant, for example, would be constructed by a nominated large scale enterprise, and provide processing to other enterprises at a fee.

(b) Advantages and disadvantages

Advantages and disadvantages are discussed relative to the provision of the same kind and extent of services by a jointly established and operated plant, as described below.

a) Advantages

- Enterprises except for the one building the plant do not have to provide investment funds.
- Because a single company is responsible for the management of the plant, decisions concerning management policies and processing fees can be made quickly. Such decisions may be delayed in the case of a jointly

operated plant.

b) Disadvantages

- The plant would be run in order to generate profits from commissioned processing. Processing fees may be higher than those charged by a jointly operated plant.
- Even if the processing capacity and extent of services offered are the same as those provided by a jointly operated plant, the enterprise which manages the plant may give priority to the processing of its own products, so that the services available by commission to other enterprises may be limited, and delivery of their processed products may be delayed.
- If relations with the managing enterprise deteriorate, service may be refused.
- The plant may suffer from a loss of clients in the future.

3) Cooperation in the form of joint operations

(a) This type of cooperation involves the establishment of a joint corporation to build and manage a facility such as a washing plant. Participating enterprises needing to use the facility would share the investment required.

(b) Facilities which may be operated jointly

The following facilities may be operated jointly.

a) Plant equipped with CAD or CAD/CAM

b) Sponging plant

c) Jeans stone/chemical washing plant

d) Finish pressing plant

(c) Advantages and disadvantages

a) Advantages

- A large investment may be shared by participating enterprises.
- Participating enterprises may be able to secure processing at less cost than would be charged by a plant managed by a nominated enterprise as discussed in item (2) above.

b) Disadvantages

- Participating enterprises are required to raise capital funds.
- The corporation would be jointly managed by plural enterprises and thus corporate management decisions may likely be delayed.

(3) Steps to be followed for the implementation of cooperative efforts

1) Cooperative undertaking project team

(a) Members of project team

PIU and CIV should be the sponsors that nominate the cooperative undertaking project team by requesting the participation of garment and knitwear companies and the Asociacion de Industrias Textiles del Uruguay under the support of the Ministry of Industry and the Ministry of Economy and Finance. (Businesses operating in the free zone should also participate if the cooperative undertaking takes place within the private sector free zone of Montevideo.)

(b) Business of the project team

- a) The project team should seek to comprehend the actual state of affairs through the distribution and collection of questionnaires concerning individual companies' methods of purchasing clothes, yarn and auxiliary materials, storage, packaging and distribution. Hearings should be held concurrently to air the opinions of individual companies on the joint use of high technology production machines including CAD/CAM systems, joint storage and use of materials and auxiliary materials, joint use of plant and equipment, joint transport and distribution, joint merchandising, joint sponging, joint washing of jeans and so on.
- b) The project team should summarize the advantages and disadvantages of the cooperative undertaking and classify it into either the short-term, medium-term or long-term category.
- c) The project team should prepare a preliminary study report with respect to the form, scale and substance of the cooperative undertaking.

(c) Contents of questionnaire survey

By dividing the questionnaire survey into a survey of the actual status of individual enterprises and a survey of the intentions of individual enterprises, results obtained would be more easily analyzed. The following is one of examples of questionnaire.

QUESTIONNAIRE SURVEY WITH RESPECT TO INTER-ENTERPRISE COOPERATION

(DRAFT)

A. Survey of actual status (Results of previous year)

1. Purchases by your enterprise

(1) Purchases by yourself (Component ratio %)

(2) Purveyance by client (Component ratio %)

Material, subsidiary material	Type of packing	Unit	Annual purchase	Minimum quantity /month	Maximum quantity /month	Number of vendors

2. Inventory of your enterprise

Material storage section	Space m ²	Principal inventory items	Occupancy of storage space

Remarks : Please report any leased storage space as well.

3. Product shipments by your enterprise

Classification	Yourself /commissioned	Number of operators	Working space m ²	Minimum quantity /month	Maximum quantity /month
Packaging operation					
Dispatch operation					

(to be continued)

(continued)

B. Survey of intentions

Please circle those items concerning inter-enterprise cooperation which are closest to your intentions.

. Joint collection and use of information concerning markets, fashion and techniques

- Extremely necessary - Necessary - Not necessary

. Joint procurement and storage of materials, subsidiary materials

- Extremely necessary - Necessary - Not necessary

. Joint dispatch of products

- Extremely necessary - Necessary - Not necessary

. Joint use of high technology equipment including CAD/CAM

- Extremely necessary - Necessary - Not necessary

. Joint finishing plant

- Extremely necessary - Necessary - Not necessary

. Joint sponging plant

- Extremely necessary - Necessary - Not necessary

. Joint washing plant

- Extremely necessary - Necessary - Not necessary

(to be continued)

(continued)

. Any other joint operations

. Opinion concerning inter-enterprise cooperation

(the end)

2) Committee in charge of promoting inter-enterprise cooperation

The objective of the committee in charge of promoting inter-enterprise cooperation is to carry out feasibility study of the projects confirmed for implementation by the preliminary study report.

The committee should be established by expanding and reinforcing the cooperative undertaking project team. A steering subcommittee, construction subcommittee, technology and facility subcommittee, purchase and storage subcommittee, transport subcommittee, information and sales subcommittee and so on should be appointed under the committee.

3) Corporation in charge of operating cooperative undertaking

(a) The corporation should be operated by associations and individual companies with the assistance and support of the relevant government agencies.

(b) The necessary capital should be financed through low interest rate borrowing and capital participation by individual companies.

(c) Operating costs should be financed by annual membership fee revenue and plant and equipment usage fees.

4) Course of events prior to the joint use phase of the cooperative undertaking

The course of events beginning with the inauguration of the cooperative undertaking and ending with the commencement of joint usage should be as follows.

Appointment of project team

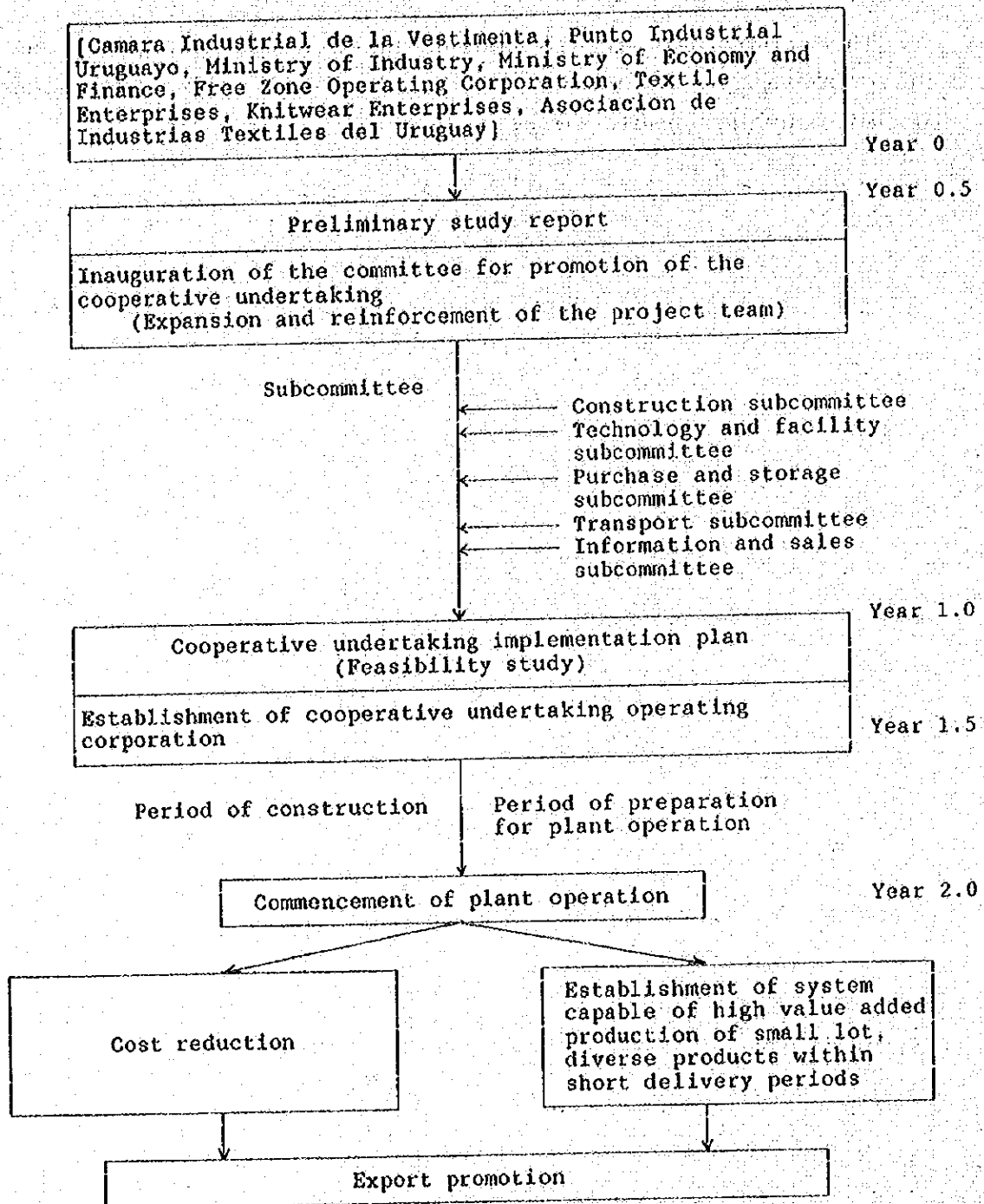


Fig. III-4-2 Procedure for promotion of cooperative undertaking

(4) Finishing plant (Jointly operated corporation)

- 1) The finishing process is indispensable for garment and knit garments.
- 2) The existing presses currently owned by Uruguayan garment enterprises in general are more outdated than other equipment and will have to be renovated sooner or later.
- 3) By upgrading the shape retention and beauty of products, their perceived quality level can be elevated.
- 4) The sponging process is critical in raising non-price competitiveness, though not currently carried out by Uruguayan garment sewing enterprises. Renovation of the existing finishing press process is considered more critical than the inclusion of sponging. Likewise, a washing plant may be critical for denim garments but is not needed for woolen or knit garments. Although joint use of CAD/CAM may be critical, when various related factors are taken into consideration, such as that development of competent operators would be time consuming, on-line communication is required between company offices and plants, and enterprises can operate without the help of CAD/CAM, it was decided to give priority to the finishing plant which would serve to elevate the level of Uruguayan garments as they are. While the capacity of a finishing plant to be managed by one enterprise for processing the products of others at a fee should be no greater than twice its own demand in view of future risks (decrease in the number of client enterprises etc.), the number of enterprises which are prepared to commission products for finishing to the plant would rather be limited. Consequently, it was considered more feasible to establish a finishing plant through joint investment to be jointly managed by those enterprises which recognize the need for cooperation in order to ensure implementation of the project.

Because of the reasons mentioned above, inter-enterprise cooperation is exemplified by a finishing plant, to be jointly managed by participating enterprises, whose business covers collection from participating enterprises -> receiving -> sorting -> pressing -> ironing -> inspection and labeling -> warehousing -> packaging -> crating -> consignment -> transport; the fundamental operation of the plant being pressing.

4-3 Expansion and Reinforcement of Professional Training School (UTU)

(1) Need to reinforce UTU

To extricate itself from the subcontracted processing trade and establish sales development based on its own independent merchandising, the Uruguayan garment industry would definitely need competent merchandisers and competent operators of high technology equipment. Because there are currently very few of these people available, a system for their training must be developed in Uruguay.

UTU currently operates courses on sewing and knitting technique, quality control, design and so on, (1) the quality of teachers must be improved, (2) the curriculum must be reinforced, and (3) the practice facilities must be reinforced. Subsequently, UTU must be reinforced in order to solve those pending problems. A committee in charge of reinforcement of UTU would have to be appointed to begin with in order to thoroughly study and implement the project.

(2) Method and contents of reinforcement

- 1) Appointment of a committee for the expansion and reinforcement of UTU

(a) Construction and organization

The committee should consist of members representing the Ministry of Education and Culture, UTU, CDI, and Ministry of Industry. Representatives of the PIU and CIV should also participate as observers.

2) Business of the committee for the expansion and reinforcement of UTU

(a) Overseas study and training of teachers

(b) Establishment of new curriculums in product planning and market research

(c) Training facilities

(d) UTU/CDI joint lecture and practice

3) Significance of expansion and reinforcement

The term "expansion and reinforcement" as used herein is to be understood to mean upgrading the quality of teachers and students as well as renovation of facilities. Carrying out expansion and reinforcement would encourage the development of successive generations of talented personnel that could continue to contribute to the development of the Uruguayan garment industry long into the future.

It is highly desirable that the Ministry of Education and Culture fully recognize the difficulties confronting the Uruguayan garment industry--i.e. imports are increasing while exports are stagnant--and take action to budget for the expansion and reinforcement of UTU facilities.

4-4 Implementation of Fashion Week

(1) Effects of Fashion Week

A nationwide Fashion Week would contribute to the expansion of exports.

It is said that a nationwide Fashion Week has more far-reaching tangible and intangible effects than similar events organized by garment enterprises alone or by garment industry associations. While the importance of an order accepting meeting is not denied, it is certain that an event of this kind would have intangible investment effects which cannot be stated in figures.

The strong impression created by a nationwide Fashion Week would trigger strong interest in the Uruguayan people, which in turn would serve as the vital energy supporting the Uruguayan garment industry in its efforts to expand domestic demand.

A Fashion Week drawing the participation of many textile, garment and subsidiary material enterprises would collect many visitors within a short period of time, with concentrated short term effects on textile, garment and fashion industries.

(2) Steps to be taken for the organization of a Fashion Week

A nationwide Fashion Week in Uruguay would have to be organized in accordance with a well established program in order to avoid undue strain on the Uruguayan garment industry.

- 1) Fashion shows and exhibitions in Uruguay are being organized by renowned designers, high class garment stores and the garment industry by themselves. It is recommended to let government agencies and industrial associations promote the

unification of these fashion shows and exhibitions in order to organize a nationwide Fashion Week event at least twice a year targeted to the domestic market.

2) The second step would be to invite the participation of the Asociacion Industrias Textiles del Uruguay, and textile, garment and subsidiary material manufacturers in order to enlarge the scale of the Fashion Week events. Simultaneously, operating methods and advertising of overseas Fashion Week events must be studied and examined in order to find methods compatible with Uruguay.

3) As the third step, a state-level Fashion Week targeted to the expansion of exports should be planned.

By taking the steps mentioned above, the risks associated with the organization of a Fashion Week event could be managed and an effective Fashion Week would become possible.

(3) Uruguayan Fashion Week

1) Sponsors and co-sponsor

It is suggested that the relevant government agencies be the sponsors of Fashion Week events, together with various textile and garment related associations belonging to the Camara Industrial, while the city of Montevideo be the co-sponsor.

Sponsors: CIV, PIU and Asociacion Industrias Textiles del Uruguay, textile and garment related associations belonging to other industrial chambers, Ministry of Industry, Ministry of Economy and Finance, Ministry of Foreign Affairs, Ministry of Tourism.

Co-sponsor: City of Montevideo

2) Management of Fashion Week events

The organization and budget needed beforehand to implement Fashion Week events are discussed in this part.

(a) Fashion planning executive committee

a) Planning executive committee chairman

The first step in implementing Fashion Week is to organize of a planning executive committee. Election of the committee chairman, the key person, is very important. The committee chairman must be knowledgeable in the culture and traditions of Uruguay, and have good personal connections with internal and external political and business circles and the mass media. The first job of the planning executive committee chairman, once elected, will be to elect a committee secretariat director who will assist the committee chairman.

b) Planning executive committee members

The planning executive committee should consist of ten committee members including independent and active Uruguayan designers, representatives of textile and garment related sponsoring associations, staff of concerned government agencies as well as one committee member in charge of public relations.

c) Business of planning executive committee

The planning executive committee should have the full authority needed to manage Fashion Week events. The committee should appoint three subcommittees respectively in charge of order acceptance fairs, fashion shows and other related events to be held during Fashion Week, and public relations in order to manage Fashion Week as a whole.

The committee should study the objective, content, budget, timing and site of events to be held during Fashion Week, as well as the acquisition of appropriate sites, reception of buyers, list of invitees including guests from the mass media, method of admittance, public relations activities and so on.

d) Financing

The planning executive committee shall be responsible for securing the needed financing. Sources of funds may include the government, concerned government agencies, subsidies offered by quasi-governmental public institutions, participating textile and garment related association members, participation fees charged for fashion shows or order acceptance fairs, financial aid offered by related industrial associations and various business institutions, and financial aid offered by garment related enterprises including garment accessory manufacturers, textile manufacturers, sewing machine manufacturers, trading houses, computer companies and so on.

e) Secretariat

The secretariat shall assist the committee chairman. Executive staff to be in charge of various events held during Fashion Week and office space for them will be needed. The executive staff must include specialists in charge of public relations, arrangement of fashion shows and convention halls.

4-5 Invitation of Fashion Resource Center

A fashion resource center is evaluated to be a pivotal facility for upgrading the garment industry and promoting its virtues in the U.S.A., Europe and Japan.

Although it would be ideal for a fashion resource center to

be established by Uruguay alone, it is more realistic to assume that the fashion resource center is one serving MERCOSUR as a whole and attracted to Uruguay in consideration of the following.

- (1) Utilization of the fashion resource center would very likely be disproportionately small compared to the cost of establishment in view of the small population and small market in Uruguay.
- (2) The degree of international recognition would be enhanced if the fashion resource center served all of MERCOSUR.
- (3) The cost of establishment could be shared by MERCOSUR member countries.
- (4) If overall level of MERCOSUR as a whole can be upgraded, world-wide appreciation for intra-MERCOSUR products can be secured to contribute to the promotion of export. (Simultaneously, competition between four MERCOSUR member countries may aggravate, while such a competition would be beneficial for MERCOSUR as a whole.)

However, a precondition for attracting a MERCOSUR fashion center is the consensus of MERCOSUR member countries and hence it must be addressed as part of the medium to long term action program.

- (1) Need for and benefits of inviting a MERCOSUR fashion resource center

It is imperative for MERCOSUR member countries to increase the added value of their garments in order to gain an advantage with respect to non-price competitiveness. Establishment of a fashion resource center as part of the infrastructure for upgrading the textile and garment industries is critical. The fashion resource center should be established at the state level in view of its nature and scale. It would be more advantageous, in view of the cost of

construction and operation, to establish a joint MERCOSUR fashion resource center rather than separate fashion resource centers for individual member countries.

The following are additional benefits to be gained when the fashion resource center is established jointly by member countries.

- 1) Advantages of scale may be secured by integrating information related activities, planning and development of merchandise, and development of human resources, compared to carrying out such activities by member countries or enterprises alone.
- 2) Various functions can be enriched substantially as the scope of activities is broadened.
- 3) Common intra-MERCOSUR problems (export/import, quality, human resources etc.) would surface to strengthen the awareness of solidarity, if the fashion resource center is operated by MERCOSUR.
- 4) Export oriented sample shows would have stronger impact if they are organized by MERCOSUR as a unit.

(2) Details of MERCOSUR fashion resource center

- 1) The establishment of a MERCOSUR fashion resource center and its relation with related institutions and users

Fig. III-4-3 shows the establishment of a MERCOSUR fashion resource center and its relation with related institutions and users.

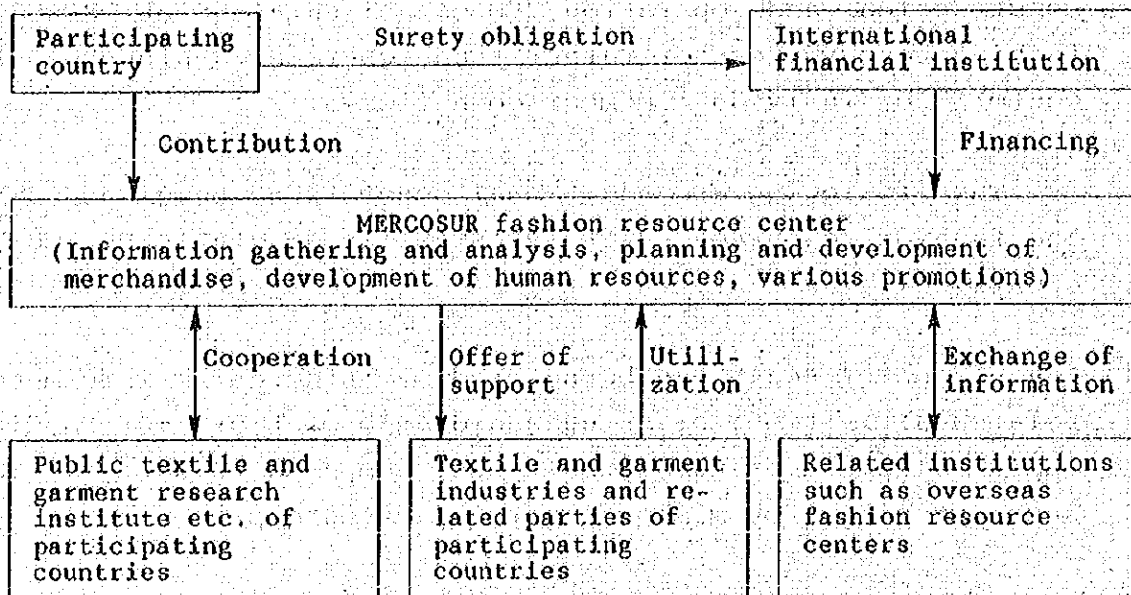


Fig. III-4-3 The establishment of a MERCOSUR fashion resource center and its relation with related institutions and users

2) Details of activities and principal facilities of the MERCOSUR fashion resource center

Fashion resource centers in other countries are undertaking activities and own facilities as shown in Table III-4-1, Details of activities and principal facilities. The MERCOSUR fashion resource center should develop similar activities and facilities.

Table III-4-1 Details of activities and principal facilities

Function	Details of activities	Principal facilities
Information	<ul style="list-style-type: none"> . Information gathering, analysis and retrieval services . Operation of library . Operation of museum 	<ul style="list-style-type: none"> . Gallery . Library . Museum
Planning and development of merchandise	<ul style="list-style-type: none"> . Provision of the results of development including design software . Installation of high technology equipment 	<ul style="list-style-type: none"> . CAD, high technology sewing machine etc.
Development of human resources	<ul style="list-style-type: none"> . Organization of seminars 	<ul style="list-style-type: none"> . School room
Promotion	<ul style="list-style-type: none"> . Organization of exhibitions . Invitation of overseas exhibitions . Room rental business 	<ul style="list-style-type: none"> . Exhibition hall (large, medium) . Rental conference room

(3) Reasons for inviting MERCOSUR fashion resource center to Uruguay

Establishment and invitation of MERCOSUR fashion resource center supporting information analysis, planning and development of merchandise, development of human resources and various promotions would definitely serve to strengthen merchandise planning capacity and to expand exports. However, should it turn out that quality improvement and cost reduction are not achieved despite the efforts of garment enterprises, CIV, PIU and concerned government agencies, Uruguayan garment enterprises may find it possible to survive by opting for a path leading to becoming converters as a part of their diversification programs. Under such circumstances, invitation of a fashion resource center having the above mentioned functions to Uruguay would have extremely high significance. Therefore, Uruguay should take the lead and exercise its initiative in attracting the fashion resource center.

(4) Establishment of the committee in charge of preparation for the invitation of a MERCOSUR fashion resource center

Invitation of a MERCOSUR fashion resource center is an effective means for export promotion in the future, as well as a valuable resource should enterprises exercise the option of becoming converters. Accordingly, the concerned government agencies (Ministry of Industry, Ministry of Economy and Finance), PIU and CIV should organize a committee in charge of preparing for attraction of such a center in order to take the lead in planning concepts for its establishment and invitation.

(5) Business of the preparation committee for invitation

In order to become recognized throughout the international market as the Latin American fashion resource center in the 21st century, the fashion resource center must ultimately be equipped with a data base structured to collect, arrange and process an enormous volume of data, and supporting development of a thesaurus. The fashion resource center must also be equipped to support product planning and development, development of human resources and various promotional activities. The establishment preparation committee should be the following in order to bring a fashion resource center of such enormous scale to Uruguay.

- 1) European and American fashion resource centers should be thoroughly surveyed and studied in order to formulate a concrete conception of the MERCOSUR fashion resource center of the future.
- 2) The structure of the system for collecting garment industry related information in a data base, and methods for developing a thesaurus must be designed and implemented. The cooperation of the Universidad de la Republica should be solicited for assistance in building the information system, which will serve as the hub of the fashion resource center. To begin with, the information system and data base must handle the collection of information about materials, technology and markets for fabrics and garments including

knits on a relatively small scale. However, if the information system and data base are to handle information covering the garment industry as a whole, including auxiliary materials or woolen textiles or leather goods as well, the scale of the system would have to be enormous even for Uruguay only.

3) At a certain intermediate stage, for example when the data base has been built and data input is ready to begin, the concept of a MERCOSUR fashion resource center should be made known to the other three MERCOSUR member countries for study by all member countries.

4) MERCOSUR fashion resource center establishment committee

(a) The committee should consist of the respective preparation committees from the four MERCOSUR member countries.

(b) Principal business of the MERCOSUR fashion resource center establishment committee

The committee should study not only facility construction and financing as needed, but also, more importantly, how to educate and secure the necessary human resources to ensure that the fashion resource center fulfills its functions fully and operates smoothly.

a) Fashion data base

An enormous volume of data would have to be arranged and processed for easy access in order to provide information to the MERCOSUR garment industry in a convenient and useful way. The fashion related data base must be structured as promptly as possible. An urgent need exists to develop a thesaurus which is easy to use by the garment industry in order to build a data base out of fashion related information left unarranged. If structuring of the data base and development of the needed thesaurus are ignored, the simultaneous use of

information within MERCOSUR will not be possible. The necessary personnel must be educated and secured beforehand.

b) Arrangement of available information

A massive injection of human resources will be required for the information system along dimensions other than just setting up computer systems. The survey to locate information sources will depend vitally upon the available manpower; considerable human resources will be needed until the system can be put into its planned orbit. If collection and arrangement of information, including this survey, is neglected, the data base will be of inferior quality. Among other tasks, the collection and analysis of swatches (sample pieces of fabric) will depend greatly upon how many qualified specialists can be secured.

c) Education and training of merchandisers

The fashion resource center must be equipped for product planning and development. The education and training of competent merchandisers will be necessary.

(c) Study of fashion resource center steering policy

(d) Study of fund raising needed for establishment (including borrowing from international financing institutions, contribution of member countries, etc.)

PART IV CONCLUSIONS AND RECOMMENDATIONS

The reform measures are recommended in order to promote Uruguayan garment industry after grasping the problems identified. It is a purpose to draft a master plan for realizing the reform measures which enterprises, associations and government agencies carry out in cooperation with one another. Three field studies involving visits to Uruguayan enterprises, hearings for concerned institutions, and collection of relevant materials were implemented.

The results of the study, as well as problems identified in promoting the Uruguayan garment industry and recommendations based thereon, are presented hereunder.

1. Results of the study

(1) Although exports of Uruguayan garments continued to increase up until 1989, they have been stagnant, in particular exports to the U.S.A., due to the emergence of rapidly developing garment industries in Asian and Caribbean countries. Based on the results of the study, the problems are identified and the following reform measures are recommended.

(2) One problem identified is that there are limits to the effectiveness of independent efforts by the garment industry, but there is no system to encourage the cooperation of industrial associations and concerned government agencies. Nevertheless, cooperation among enterprises, associations and concerned government agencies is indispensable for the promotion of the Uruguayan garment industry. The following reform measures are recommended to promote cooperation among these parties. Out of 19 items, 12 reform measures were summarized. They were narrowed down to the 5 items for considered most realistic, and those measures were finally selected for the action program to be implemented.

2. Recommendations

Based on the current status of the Uruguayan garment industry and its problems that need to be addressed, the following recommendations are presented for consideration.

- (1) Executives must extricate themselves from the subcontracted processing trade and recognize that what is most needed now is to establish a system capable of producing high value added products in small lots of wide variety within the shortest possible delivery period. They must seriously concern themselves with global garment and fashion trends and must have independent product planning capacity. They have to actively participate in overseas fashion fairs and engage in sales promotion activities. Enterprises must implement production control thoroughly and must be rationalized while the will to work of employees must be elevated. Executives themselves must participate in various seminars for study and training.
- (2) The cooperation within the industry needed to produce high value added products and reduce costs must be actively promoted by enlisting the cooperation of the associations and government. Promotion of cooperation within the industry is critical with regard to the need for expensive high technology equipment to produce high value added products in small lots of wide variety within the shortest possible delivery period. Also, joint procurement, storage and distribution of raw materials and subsidiary materials is needed to reduce costs.

In addition, efforts must be made to reduce costs of raw materials and to improve quality by means of establishing and maintaining close contact with the Asociacion de Industrias Textiles del Uruguay, and Uruguayan designers and Uruguayan tailors through the arrangement of the associations and government agencies.

- (3) The associations need to intensify cooperation with concerned government agencies and circulate information they have collected to business enterprises in order to support the sales activities of those enterprises. In particular, joint participation in overseas fashion fairs should be arranged in case individual enterprises are unable to participate.

It is also necessary that seminars on management concepts and the elevation of productivity be organized, and that a cooperative approach is taken to improving labor relations, including provision of incentives for the acquisition of public qualifications, in order to develop human resources for the garment industry as a whole.

Furthermore, the associations must exercise their leadership in order to play a central role in the preparation of a collection of commonly used techniques in the public domain by enlisting the cooperation of enterprises and concerned government agencies.

- (4) The government must prepare and immediately institute a quality labeling system, by nominating LATU as the institution in charge of implementation.

Merchandisers are key staff who will be indispensable to garment enterprises in the near future. It is, therefore, of an urgent necessity to foster merchandisers. Merchandising related courses must be included in the curriculum of UTU by studying overseas examples, and UTU's equipment facilities must be expanded immediately.

Implementation of state level fashion week in Uruguay would allow Uruguayan garment enterprises to make contacts with overseas buyers. This is particularly significant for Uruguayan garment enterprises who are not able to participate in overseas fashion week by themselves. Preparation and organization of such fashion week must include cooperation of the associations and enterprises.

Although the Uruguayan government takes the stance of not supporting any specific industry, it should be remembered that many countries where the garment industry is newly emerging are implementing substantial export promotion policies in order to protect their garment industries. The industrial policy of the Uruguayan government must progress hand in hand with Uruguayan industries. It would be highly important for Uruguayan industry to establish an institution to be organized jointly by the public and private sectors for the promotion of foreign trade (for example, an institution similar to Japan External Trade Organization (JETRO)). The institution would promote quick and appropriate expansion of export trade by carrying out overseas market studies and organizing sample fairs. It is believed that such an institution would contribute to the promotion of the garment industry, thus early implementation is desirable. It must be kept in mind however, that to establish such an institution is time consuming and would require prudent preparations. Efforts are also needed to review and reduce tax to a level comparable with other MERCOSUR member countries.

- (5) When viewed from the medium and long term points of view, to invite a fashion resource center serving the entire textile industry, including the garment segment, and jointly organized with other MERCOSUR countries, to locate in Uruguay would be most significant in terms of elevating the level of enterprises within MERCOSUR, including those of Uruguay.

In view of the time and enormous cost involved however, the Uruguayan government should initiate as soon as reasonably possible the preparations required for establishment and invitation of MERCOSUR fashion resource center.

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