

No. 168

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

NOVEMBER 1992

JAPAN INTERNATIONAL COOPERATION AGENCY

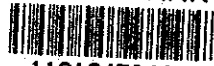
THE STUDY ON GARMENT INDUSTRY DEVELOPMENT PROGRAM
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PREFACE

In response to a request from the Government of the Oriental Republic of Uruguay, the Government of Japan decided to conduct a study on Garment Industry Development Program in the Oriental Republic of Uruguay and entrusted the study to the Japan International Cooperation Agency (JICA).

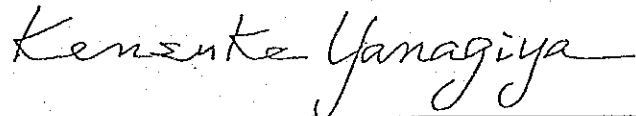
JICA sent to the Uruguay a study team headed by Mr. Mayuki Takeno, CRC Research Institute, Inc., four times between July 1991 and November 1992.

The team held discussions with the officials concerned of the Government of the Uruguay, and conducted field studies. After the team returned to Japan, further studies were made and the present report was prepared.

I hope that this report will contribute to the promotion of the project and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Oriental Republic of Uruguay for their close cooperation extended to the team.

November, 1992

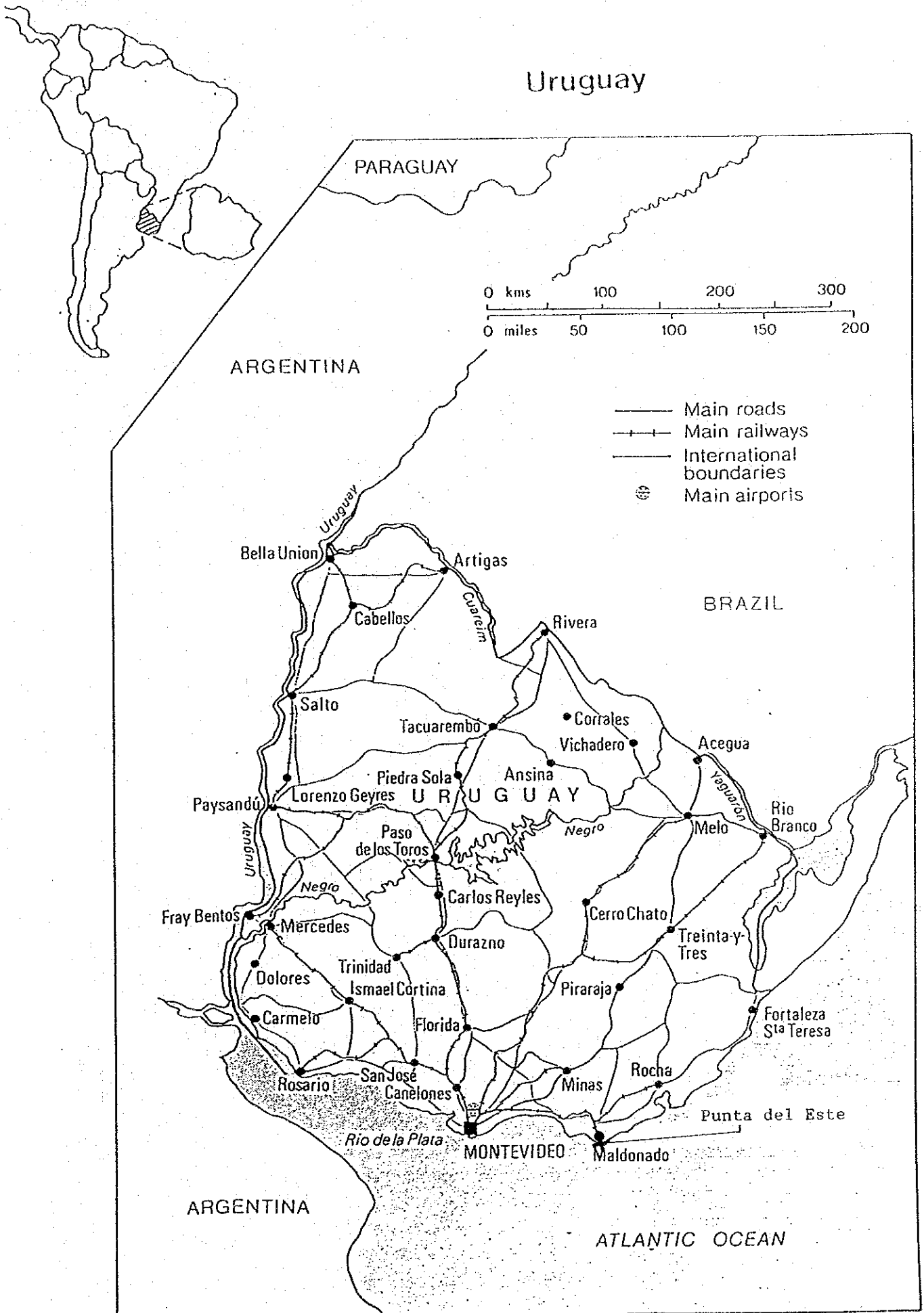


Kensuke Yanagiya

President

Japan International Cooperation Agency

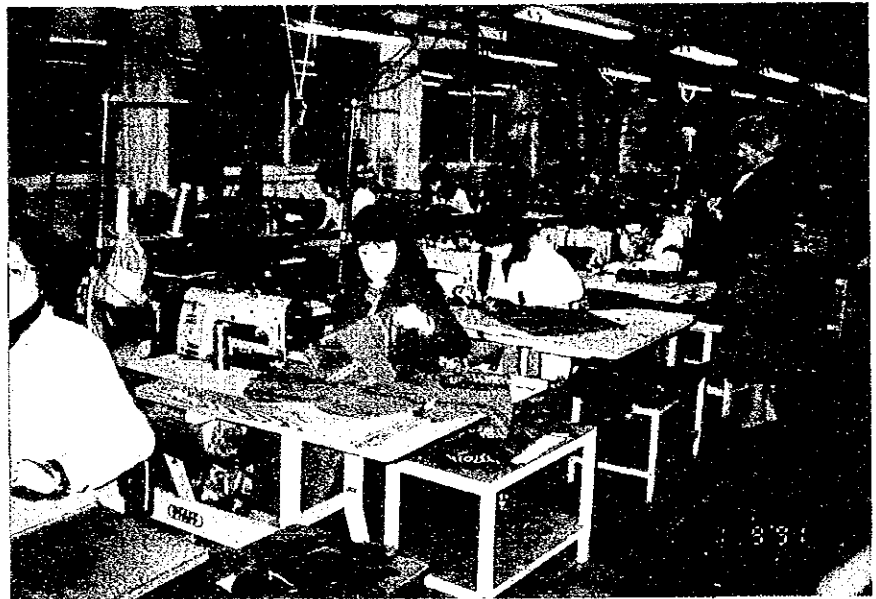
Uruguay



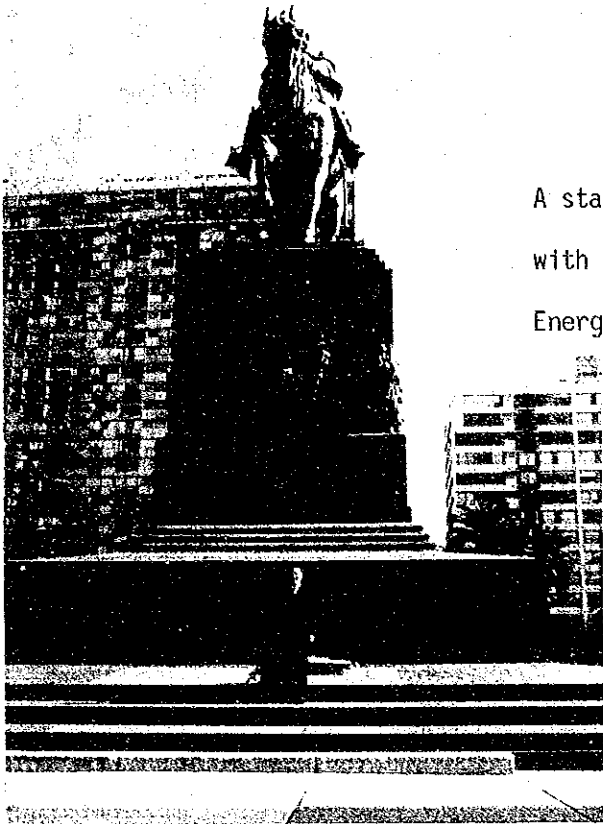


Uruguay stands seventh
in world wool production

An example of
representative sewing
factories

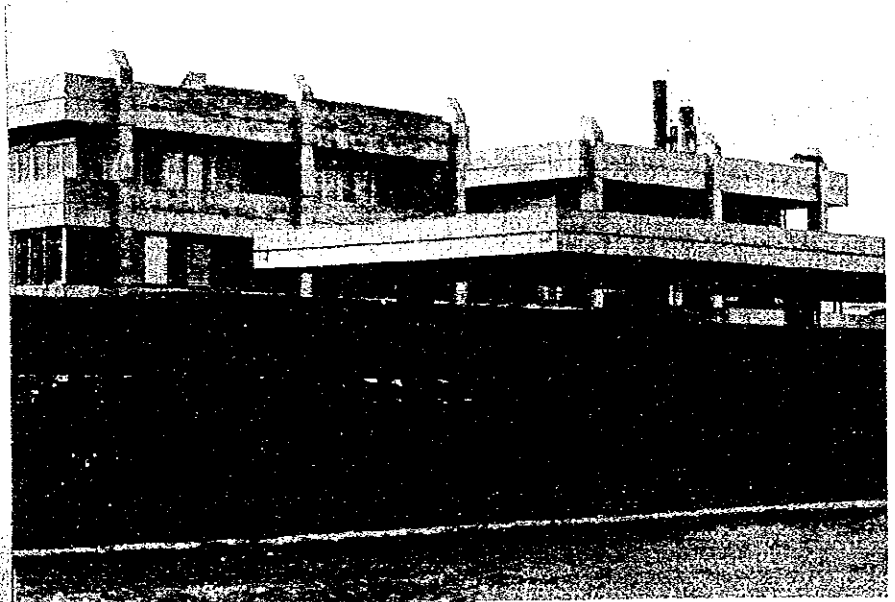


An example of mechanized
knitting factories



A statue of Artigas, a founder of Uruguay,
with a building of Ministry of Industry,
Energy & Mining in the back.

Laboratorio
Tecnologico del Uruguay



A distant view of Punta
del Este, one of the most
famous resort areas in
South America.

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PART IV CONCLUSIONS AND RECOMMENDATIONS

EXECUTIVE SUMMARY

1. Outline of political and economic situation

The population of the Oriental Republic of Uruguay (hereinafter called "Uruguay") is approximately 3.09 million (as of 1990) and the literacy rate is fairly high. A democratic republican system has been maintained in Uruguay by tradition. The per capita GNP of Uruguay is US\$2,620 (as of 1989) which is higher than those of Brazil, Argentina and Mexico. Similarly to other South American countries, the economic situation in Uruguay is not stable and has been lagging. The annual economic growth rate during the last three years was around 1%, while the annual inflation rate was about 100%. The trade balance showed a surplus on the order of US\$ 300 million in 1989 and 1990, but a deficit of about US\$ 26 million in 1991 due primarily to the fall of international wool prices. The most important problem to be addressed in Uruguay is how to deal with establishment of the MERCOSUR, made up of Argentina, Brazil, Paraguay and Uruguay, which will be officially inaugurated in January 1996 in the case of Uruguay.

While on the one hand the creation of an enormous market containing a population of 185 million generating a US\$ 415 billion GDP is appreciated favorably, on the other hand is the pessimistic argument that MERCOSUR will probably generate more intense competition with Argentina and Brazil causing some Uruguayan enterprises to go into hard position. The Uruguayan government has set up a domestic committee to review the maintenance and elevation of the competitiveness of Uruguayan industries and has implemented various measures to cope with the situation.

2. Garment industry

(1) Introduction

When compared with the wool industry, which has been growing up hand in hand with the development of Uruguay since its foundation as a country, the garment industry in Uruguay has a far shorter history. One hundred forty-two enterprises are registered in the Camara Industrial de la Vestimenta (CIV) which was established in 1964, while 64 enterprises are registered in Punto Industrial Uruguayo (PIU). According to those associations, total shipments by the industry in 1989 valued US\$ 208 million, while it employs about 12,000 people. Annual export of Uruguayan garments was worth US\$ 140 million according to the export trade statistics of 1990, showing a 16% increase from the previous year. If leather garments are excluded, annual export of garments valued US\$ 89.8 million, showing a 16% decrease from the previous year (US\$ 107.5 million).

Although the majority of exports are for the U.S.A., orders received from that country began to show a decrease in 1990 while exports to Europe, Brazil and Argentina have been increasing.

Although Uruguayan garments for export are provided with labels showing country of origin and handling cautions as requested by the importing countries, those for the domestic market are not provided with such labels.

Individual enterprises engage in their own export sales activities and no joint sample fair is organized by the industry associations.

The garment industry utilizes outdated production facilities and equipment, and barely any capital investment is being made to modernize. Instances of capital investment to procure CAD/CAM systems or state-of-the-art computerized

knitting machines by some large scale enterprises can be seen. The majority of sewing and knitting machines are German make.

(2) Overview of woolen textile garments

Uruguayan garment enterprises are characteristically oriented to processing to specifications provided by others. MERCOSUR member countries and the U.S.A. are the major export markets, while some enterprises are exporting to Europe. Very few enterprises have their own brands and no effort to market an owned brand globally can be seen.

Woolen textile garment enterprises are export oriented and show less interest in the domestic market.

(3) Overview of denim garment enterprises

Most denim garment enterprises were founded after 1940. Their facilities and techniques have remained almost unchanged ever since. Neither high technology labor and energy saving sewing machines of high performance and productivity nor new techniques are being introduced into Uruguayan denim garment enterprises, in contrast to the situation in Southeast Asian and Caribbean countries. Because U.S. and European enterprises have found low cost and good quality production bases in Mexico, Caribbean countries and Southeast Asian countries, Uruguayan denim garment enterprises are quickly losing orders. While the prices offered for five pocket classic denim jeans by most of those countries are within the range of US\$ 6 - 6.5 per jeans, those offered by Uruguayan enterprises are within the US\$ 8 - 8.5 range. Nevertheless, Uruguayan enterprises which are equipped with the capacity to produce high value added products in small lots of wide variety would have a chance to survive and develop even further.

(4) Overview of knit garment enterprises

Uruguayan knit garment enterprises mainly produce sweaters and the like which make the best use of Uruguayan wool. These enterprises are either hand knit oriented or machine knit oriented. The former, however, are in the process of shifting to machine knit production in order to cope with a short supply of labor and to reduce production costs. Large scale enterprises are export oriented and are less interested in the domestic market.

Raw material is predominantly of Uruguayan origin. Accordingly, yarn is of low count which is primarily used to produce sweaters for protection against the cold.

Alpaca and angora which are of higher quality than wool are also used respectively for hand knits and machine knits. Summer cotton sweaters are also produced by many enterprises.

3. Current state of affairs and future targets of the garment industry

(1) Current state of affairs

The quality of Uruguayan products is positioned in the mid-middle or low-middle on a global scale except for certain lines of hand knit garments. Internal and external problems to be addressed by the Uruguayan garment industry, which is suffering from the increase of imports and decrease of exports, are as follows.

1) Internal problems

(1) Problems pertinent to material

Wool of Uruguayan origin is of low count which does not match the worldwide demand trend for lighter, finer and

softer garments.

- . Wool is high priced even though Uruguay is a wool producing country.
- . Material for cotton garments is all imported at high cost.

(2) Mechanical facilities and technical capability

- . The majority of mechanical facilities owned by woolen textile, denim and knit garment enterprises are obsolete. The number of CAD and automated high technology machines is overwhelmingly less than that owned by their counterparts in NIEs, Southeast Asian and Caribbean countries.
- . No capability exists to produce high value added products in small lots of wide variety within a short delivery period.

(3) Quality

- . Although quality labeling is attached to Uruguayan garments for export in accordance with the instructions of buyers in the export markets, no composition, graphic handling caution or certificate of origin labeling, which is normally institutional in advanced countries, is attached to those for domestic consumption.
- . According to the market survey carried out in the U.S.A., Germany, Spain and Japan (hereinafter referred to as "Overseas market survey"), the quality of Uruguayan garments is rated as no better than mid-middle except for certain hand knit garments.

(4) Productivity

- . The high cost of production in Uruguay is partly due to high material costs, but is due more to lower productivity than in other countries.

(5) Will to work

- . Labor costs are higher in Uruguay than in neighboring countries and newly emerging garment producing countries (Asian countries, Caribbean countries etc.). For example, wages are about US\$ 55/month in People's Republic of China (average wage) and about US\$ 70/month in Brazil (minimum wage) as opposed to about US\$ 90/month in Uruguay (minimum wage).
- . A sense of loyalty of employees toward enterprises is tenuous.

(6) Processing trade

- . The processing trade which had been the mainstay of export is no longer competitive. Uruguayan enterprises as they now exist would find it difficult to meet the requirements needed to produce high value added products at low cost within a short delivery period because of high labor costs and the scarcity of high technology equipment.

(7) Liaison with other industries, cooperation within the industry

- . Liaison with the spinning and weaving industries is not strong enough.
- . A spirit of cooperation within the garment industry is lacking.

2) External problems

(1) Uruguayan garments in foreign countries

Results of the market survey carried out in the U.S.A., Germany, Spain and Japan are summarized as follows.

U.S.A. : Imports from Uruguay valued US\$ 42 million, equal to only 1.7% of total woolen garment imports worth US\$ 2.4 billion in 1990. Similarly, imports from Uruguay valued US\$ 11.4 million, equal to less than 1% of total imports of cotton garments worth US\$ 1.2 billion. The U.S.A. applies import quotas on 7 items of Uruguayan garments, none of which is fulfilled. In other words, the available quotas are not fully utilized.

Germany : Germany is the second largest consumer of garments next to the U.S.A. The increase in expenditure for garments during 1986 and 1988 was 13% per annum, while imports from Uruguay have decreased in quantity and monetary value since 1986. No import quota is applicable to imports from Uruguay because of the small quantity of imports from Uruguay.

Spain : Expenditure on garments has increased at an annual rate of 18% since 1986. Increase at an annual rate of 12% is predicted for the next several years to come. Two-thirds of imports are from EC countries, while imports from South America amount to less than 1%. No quota is applicable to imports from Uruguay, similarly to the situation in Germany.

Japan : Textile imports in 1989 valued Yen 2.28 trillion (Approx. US\$ 17.54 billion) out of which Yen 1 trillion (Approx. US\$ 7.6 billion) represents garment imports. Imports from Uruguay consist of no more than a small quantity of hand knit garments only.

(2) Formation of trade blocks throughout the world

Formation of trade blocks such as the EC, NAFTA and MERCOSUR is in progress. Although industries within such a block are subject to protection from those outside, the level of competition between enterprises within the same block intensifies. Uruguayan garment enterprises will be subject to competition with other enterprises in MERCOSUR member countries.

(3) Export promotion implemented by foreign governments

Governments of Asian countries including NIEs and People's Republic of China, Mexico, and Caribbean countries actively promote the export of garments. The Uruguayan government is reluctant to promote export by any specific industries as a governmental policy.

(4) Taxes, social security charges

Tax rates and social security charges are higher in Uruguay than in other MERCOSUR member countries.

3) Analysis of reasons

The causes behind the problems pointed out above have been classified into the categories related to cost, quality, market, industry and government as follows.

(1) Cost related category

- . High material cost of woolen textiles and cotton textiles
- . Additional required number of laborers and man hours due to outdated facilities and equipment

- . Lack of consciousness of the need for elevated productivity among executives

(Measures to reduce cost and improve quality are likely to be suggested by production line personnel.)

- . Individualistic nature of Uruguayans (adversely affecting cooperation within the industry)
- . Over-dependence on processing trade (which is no longer competitive with the countries which are newly emerging garment industries)
- . Intensified price competition with Brazil prior to the inauguration of MERCOSUR (in particular with respect to denim garments)

(2) Quality related category

- . Reluctance to invest in new facilities and equipment due to the high rate of inflation and the unstable economy
- . Lack of recognition among executives of need for a system of high value added production in small lots of wide variety
- . Lack of recognition of the need for consumer protection and quality improvement in harmony with consumers (Insufficient consumer protection)
- . Lack of recognition of the importance of subsidiary materials
- . Insufficient quality control, process control, equipment control

- . Insufficient self-improvement consciousness among employees
- . Insufficient product planning capability
- . Intensified quality competition with Argentina prior to the inauguration of MERCOSUR (with regard to woolen textiles and knit garments)

(3) Market related category

- . Low count wool material (contrary to worldwide trend)
- . Lack of recognition among executives of the need for long term management strategy
- . Product prices higher than those of countries with newly emerging garment industries
- . Lack of product originality
- . Insufficient research of overseas markets
- . Insufficient advertising targeted to overseas markets
- . Tenuous connections with overseas buyers
- . Weak capability of responding to market needs due to lack of information and scarcity of high technology equipment
- . Tariff barriers
- . Long distance to Europe, U.S.A. and Japan
- . Low recognition of Uruguayan garments

- . Lack of confidence among European buyers toward certain South American enterprises (in particular with respect to delivery)

(4) Industry association and government related category

- . Insufficient long term, low interest financing
- . Substantial decrease of income due to delayed adjustment to inflation
- . Minimum wage lower than that of other industries
- . A wage system which neglects performance and length of service
- . Education of executives and employees
- . Support of enterprises which participate in overseas fashion fairs
- . Review of taxes, social security charges, public service charges in preparation for the inauguration of MERCOSUR
- . Mediation between Asociacion de Industrias Textiles del Uruguay and garment industry

(2) Establishment of targets

Many problems and the reasons underlying them have been identified thus far. The following targets would be established to achieve on the assumption that the problems identified will be addressed and solved through the cooperation and joint efforts of Uruguayan garment enterprises and the Uruguayan government.

Short term target (1992 - 1995)

- . Implementation target : Promotion of import replacement and recovery of exports by means of expanding domestic demand and strengthening the basic capabilities of the garment industry
- . Markets to expand : Domestic market and traditional export markets
- . Export target amount : To recover the US\$ 100 million - US\$ 110 million level, equal to the peak achieved in 1989

Medium term target (1996 - 2000)

- . Implementation target : Accelerated promotion of exports to neighboring countries and import replacement
- . Markets to expand : Neighboring countries, in particular MERCOSUR member countries
- . Export target amount : US\$ 134 million by the year 2000 (assuming a 5% increase per annum from the US\$ 1.05 million to be achieved by 1995)

(Remarks) : The medium term export target amount may differ depending on whether the short term target has been achieved.

Long term target (2001 onward)

- . Implementation target : Production of Uruguayan garments capable of winning worldwide confidence and appreciation
- . Markets to expand : Europe, U.S.A., Japan
- . Export target amount : US\$ 155 million to be achieved by 2005 (assuming a 3% increase per annum from the US\$ 134 million to be achieved by 2000)

4. Reform measures to achieve targets

After the details of field survey results and information collected have been analyzed, the following reform measures have been studied and selected their ranking, institutions in charge of implementation and institutions to cooperate have been identified as summarized in Table 1 has been set forth.

Criteria for ranking are as follows.

- 1) Those measures which would result in greater and more immediate effects on cost reduction, quality improvement, and expansion of domestic and export markets shall be given preference.
- 2) Those measures which would utilize facilities and functions which already exist to some extent shall be given preference.

Table 1 Ranking of reform measures and institutions in charge of implementation

Reform measure	Rank	Institution in charge of implementation	Institution in charge of cooperation
(1) Reform measures to be implemented in the short term			
1) Improvement of policies and system . Institution of quality labeling system and reinforcement of consumer center	A	G.	A.,E.
2) Improvement of management, development of human resources . Promotion of cooperation within the industry	A	E.	A.,G.
. Training of required personnel	C	A.	G.,E.
. Reinforcement of education/training system	A	G.	A.,E.
3) Improvement of sales/marketing . Implementation of Fashion Week	A	G.	A.,E.
. Sales promotion in conjunction with government agencies	B	A.	G.,E.
4) Technical improvement . Development of thin woolen textiles and fine yarn	B	E.	A.,G.
. Utilization of Uruguayan designers and tailors	C	E.	A.
. Preparation of a collection of commonly used techniques relative to design rights, trademark rights, patent rights and so on	C	A.	G.,E.
5) Quality improvement, cost reduction . Conditions for quality improvement	B	E.	A.
. Cost reduction	B	E.	G.,A.
(2) Reform measures for medium term implementation			
1) Invitation of MERCOSUR fashion resource center (Remark) Reform measures under (1) above shall continue through the medium term.	A	G.	A.,E.

E.: enterprise

A.: Industrial associations (CIV, PIU)

G.: Government

Contribution and immediate effect to improvement.

Greatest : A, Semi-greatest : B, Great : C

Reasons underlying the reform measures suggested are as follows.

(1) Institution of quality labeling system

A quality labeling system is not recommended just for the sake of promoting quality improvement and consumer protection. It is considered extremely important, in order to

expand domestic consumption and to expedite import replacement, that the interest of consumers in garment quality and pricing be raised, and that garment producing enterprises strive to improve quality and price of garments as closely as possible to the levels acceptable to consumers.

(2) Sales promotion in conjunction with government agencies

The Department of Trade should actively advertise in support of Uruguayan garments, collect information through overseas offices under its jurisdiction, and feed the information so collected back to enterprises and the garment associations. Participation in overseas fashion fairs and establishment of contacts with overseas buyers by garment associations and individual enterprises, in coordination with the actions taken by the Department of Trade, would definitely serve to promote export.

(3) Implementation of Fashion Week

A state level Uruguay Fashion Week event should provide an excellent opportunity to introduce the whole aspect of the Uruguayan garment industry, not only to the domestic market but also to the enormous garment consuming markets of MERCOSUR, Europe, the U.S.A. and Asia. Organization of a fashion show by a single enterprise would be too risky, not only in terms of the cost involved but also in terms of attracting visitors. Participation in fashion events would be an excellent opportunity for individual enterprises to advertise their own products and enhance their own recognition.

(4) Technical improvement

1) Technical exchange

Development of thin woolen textiles and fine yarn

Products made of thin woolen textiles and fine yarn are considered far more advantageous than those made of the currently available thick woolen textiles and thick yarn, not taking account of other factors such as sewing technique and observance of delivery commitments. Although Uruguay currently imports high count wool from Argentina, in the long run high count wool of Uruguayan origin should be used instead of continuing to rely on import from Argentina. This aspect shall be reviewed and studied further between Asociacion de Industrias Textile del Uruguay and garment associations.

2) Utilization of Uruguayan designers and tailors

Tailors and designers are fully knowledgeable on how to produce high quality garments, and also excel in esthetic skills. They are artisans capable of small lot production of a wide variety of goods by themselves. Not to utilize their faculties would mean an enormous loss to the Uruguayan garment industry.

3) Collection of commonly used techniques in the public domain relative to design rights, trademark rights, patent rights and so on

If a collection of commonly used techniques in the public domain is prepared, opportunities may arise to utilize techniques or designs whose terms of validity have expired for the improvement of quality and productivity, as well as for the prevention of technical intervention by overseas enterprises.

(5) Need for a fashion resource center

Reinforcement of the basic infrastructure is needed for the elevation of international competitiveness. Establishment of a fashion resource center is one concrete step towards achieving high value added production by the garment

industry. A need exists to collect and analyze information, to develop new products, and to promote development of human resources so that the garment industry can disentangle itself from the processing trade.

(6) Quality improvement, cost reduction

1) Conditions for quality improvement

(1) Conditions to move from price competition to a non-price competitive basis

The Uruguayan garment industry must be restructured in order to become non-price competitive and expand export to the advanced countries of Europe, North America and Japan. In other words, non-price competitive factors such as design and quality must be elevated. By doing so, it would become possible for the industry to differentiate itself from those of competing Caribbean and Asian countries, as well as from those of East European and Mid-East countries which are expected to emerge in the future.

(2) Conditions to establish top quality

The quality of garments in general tends to have its basis in sewing and knitting technique, but in the case of textile garments the stability of the fabric often affects quality of the final garment product. Textile shrinkage tends to be unstable, therefore sponging is critical for stabilization of fabrics. "Softer and lighter" is a catch-phrase for garments in advanced countries. It refers to the trend to use thinner and softer textiles. Sponging is highly critical for achieving superior quality.

(3) Strengthening of independent merchandising

In order to develop high value added products, in other words, independent merchandising, trends in the targeted export markets (at the consumption point) must be comprehended. Strengthening of marketing ability is the first step toward independent merchandising, to be followed by merchandising ability. Development of competent merchandisers is indispensable for the strengthening of merchandising.

2) Cost reduction

(1) Implementation of effective quality control programs

The majority of Uruguayan garment enterprises are not implementing effective quality control programs. The reject rate would be reduced automatically if a system were implemented to return rejects to the previous process for rework at each step, so that products are perfected step by step, thus eventually leading to cost reduction.

(2) Utilization of free-zones

. Advantages of free-zone system

If the free-zone system is utilized by an export oriented enterprise, it is exempted from import taxes, corporate tax and so on.

. Utilization of privately operated Montevideo free-zone

The free zone department of the Ministry of Economics and Finance is planning construction of privately operated free zones in Montevideo and in Fray Bentos. The one in Montevideo (ZFM) in particular is inviting applications by enterprises from 1992 onward.

(3) Taxes, social security charges, public service charges

It is desirable for the Ministry of Industry to actively cooperate in trying to reduce taxes, social security charges and public service charges.

(7) Improvement of corporate management, development of human resources

1) Promotion of cooperative projects

(1) Need for cooperative projects

Uruguayan enterprises which would hope to enter not only the MERCOSUR market but also worldwide markets will have to transform themselves into systematic, information and technology intensive businesses. Such renovation will require enormous amounts of capital and time. Unfortunately, Uruguayan enterprises which can afford to make the necessary capital investment are very few.

(2) Concrete examples of inter-enterprise cooperation

. Joint use of information

By gathering all necessary information concerning color, pattern, design, material, subsidiary materials, market, consumption and distribution to UTU or CDI and using it jointly, each enterprise will be able to get more affluent information.

. Organization of joint fashion shows and order acceptance meetings

The garment associations should exercise the initiative in organizing 2 - 3 fashion shows or order acceptance meetings every year.

. Joint use of high technology equipment or facilities

Installation of high technology equipment requires substantial investment. Enterprises capable of securing enough orders to fully utilize such capacity by themselves are few. The same applies to a sponging processing plant or a jeans stone washing plant. Unless the rate of utilization is elevated through joint use, the costs of construction and operation are not recoverable. Joint procurement of materials and subsidiary materials including buttons and lining would lead to cost reduction. Similarly, joint storage and dispatch (including hanger transport) would lead to cost reduction.

. Education and training of operators

Technicians who are capable of operating CAD/CAM systems, high technology sewing machines and so on, as well as competent middle management staff, must be secured even in small enterprises in order to respond to the need for wide variety production in small lots. Development, education and training of human resources for the industry is absolutely.

. Joint market survey

Joint marketing, joint participation and sale in overseas fashion fairs are effective to enterprises in particular to small scale enterprises.

2) Training of required personnel

- (1) Standing seminars on the subject of productivity organized under the leadership of the associations or concerned government agencies

The organization of standing seminars should focus

first on teaching how the industrial engineering view is applied to analysis and reform, and secondly on how to build up existing management systems to utilize the TQC (Total Quality Control) way of thinking. Standing seminars should be targeted not only to the education of executives but also to the education of middle management staff as well.

- (2) Incentives for the acquisition of official qualifications by technicians and engineers

Wages paid to sewing machine operators are not high enough. Regular raises and bonuses scarcely exist. In order to maintain the morale of sewing machine operators under the existing social circumstances, reasonable incentives must be offered by way of introducing a system by which wages are linked to official qualifications.

- (3) Establishment of an institution to research techniques for the garment industry

The existence of a research and development institution to develop basic techniques and undertake research and development of new garment products on a commission basis would be quite significant to the garment industry, and indispensable for the state of Uruguay if it intends to establish that industry as a strong segment of its economy. For private enterprises, the risky costs of research and development could be subrogated, and consulting services for management and business matters would become available.

- (4) The need to provide consulting services to businesses

Specific techniques, management techniques and know-how, accumulated knowledge and theories can be more effectively conveyed to business enterprises through consulting. A consultant service would alleviate the

burden on management by effectively subcontracting part of its work. Consulting must be understood not to mean evasion of management risk, but an external support system for planning a more progressive management strategy and for introducing wisdom and know-how as required from external sources.

3) Reinforcement of education and training system

Establishment of differentiated high value added production in small lots of wide variety is indispensable for the survival and further development of the Uruguayan garment industry. Competent in-house engineers, middle management staff, merchandisers and high technology equipment operators are needed if the Uruguayan garment industry intends to steer itself in this direction.

Study and training in European or North American countries with advanced fashion industries would be one option for the development of human resources. However, reinforcement of UTU, which has an advanced class of garment course, is desirable for elevating the level of as many employees as possible.

5. It is sure that correct production control, and the effective inspection of materials and finished products that ought to be conducted by garment and knit enterprises bring quality improvement and cost reduction.

6. 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.

- 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

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.

Although the item is entitled "Institution of quality labeling system and reinforcement of consumer center", under the reform measure listing, the consumer center was excluded from the action program because it was established under the jurisdiction of the Ministry of Economy and Finance, and with the name the Consumer Guidance Center.

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.

Implementation of cooperative effort within the industry has therefore been adopted as part of the action program because it is the most effective means reducing costs and is able to deal with the worldwide trend.

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

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.

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.

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

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.

Although participation in overseas fashion fairs and advertising targeting overseas markets are critical, enterprises capable of engaging in such activities are limited in number and they are obliged to give up participating in the activities in terms of effectiveness compared with cost.

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. Accordingly, this measure has been adopted for the action program.

5) Medium to long term plan : Invitation of a 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 evaluated as pivotal facility for upgrading the garment industry and promoting its virtues in Japan, the U.S.A. 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.

(3) Detailed method of implementation

1) Implementation of quality labeling system

(1) Quality labeling promotion committee

. Organization of the committee

Institutionalization of quality labeling is a state level undertaking. The committee should be organized by the following in order to disseminate the system extensively:

National quality committee, Ministry of Industry, LATU, CIV, PIU, Consumer guidance center of the Market Control Department under the jurisdiction of the Ministry of Economy and Finance, UNIT (Instituto Uruguayo de Normas tecnicas), Private sector consumer groups, Intellectuals (quality control, sociology)

. A flow chart (example) of steps up to the implementation of the quality labeling system is shown in Fig. 1

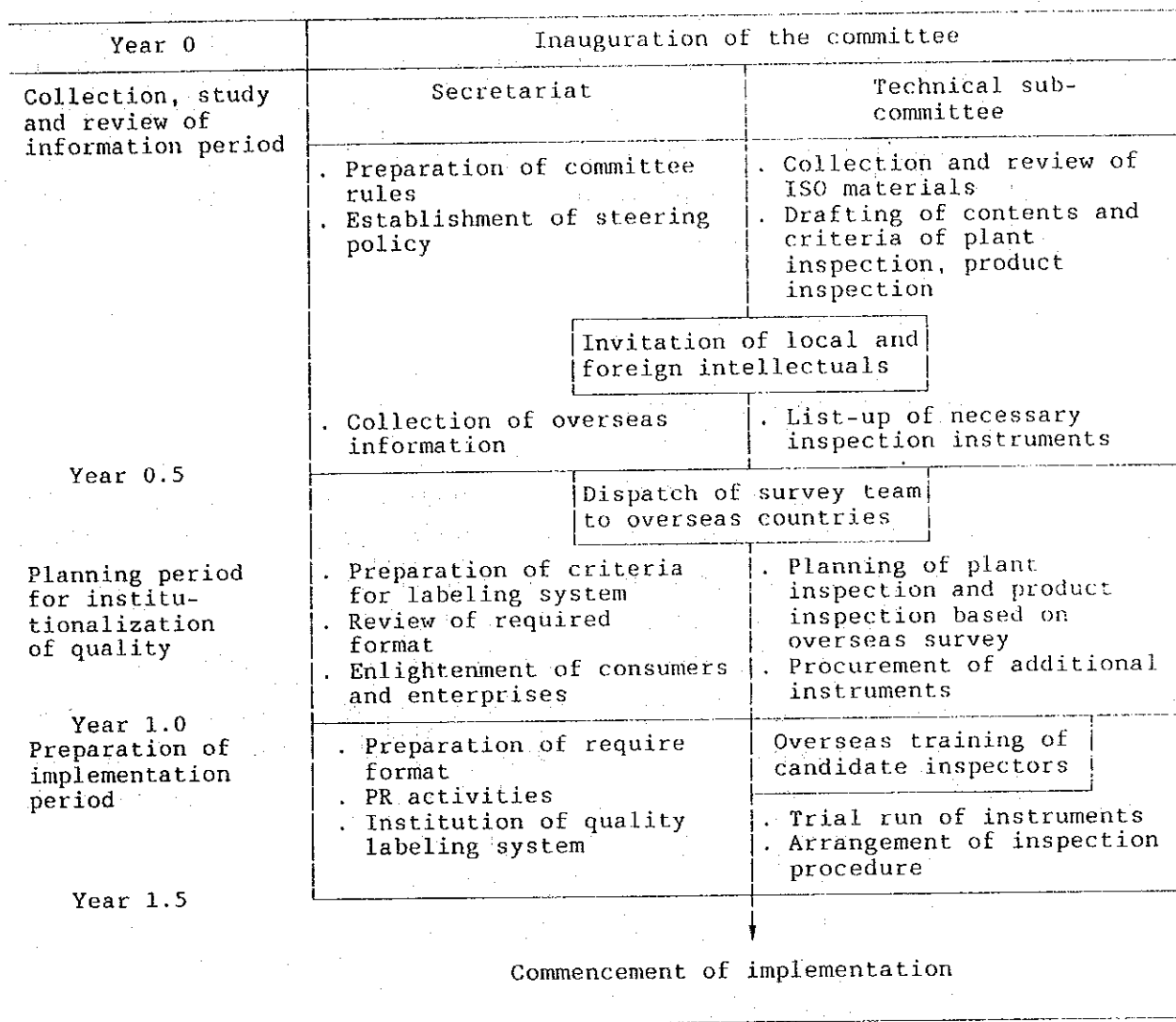


Fig. 1 Flow chart of activities up to the implementation of the quality labeling system

(2) Equipment needed for the implementation of quality labeling system

The total cost required to procure the equipment needed for a quality labeling system under the administration of LATU is approximately US\$ 165,000 on the basis of ex-work in Japan.

2) Implementation of cooperative projects

A cooperative project team should be appointed in order

to pursue the possibility of cooperative projects within the industry. Inauguration of a promotion committee should follow to carry out feasibility studies. Prudent steps must be taken to implement each joint project by establishing a corporation in charge of its management as soon as it has been proved economically feasible.

(1) Cooperative efforts project team

. Project team members

PIU and CIV should be the promoters responsible for organizing the project team comprising members representing garment and knit enterprises and the Asociacion de Industrias Textiles del Uruguay with the support of the Ministry of Industry and the Ministry of Economy and Finance. (A member representing the free-zone management corporation (ZFM) should join the project team if a cooperative project is to involve the Montevideo private sector free-zone.)

(2) Cooperative project promotion committee

. Organization

This committee should be organized by reinforcing and expanding the cooperative project team. Sub-committees in charge of steering, construction, technology and facilities, purchase and storage, transport, information and sales should be appointed under the committee to perform those tasks.

(3) Corporation in charge of managing joint projects

. Management of the corporation should be the responsibility of the Associations and its member enterprises with the support of concerned government agencies.

. Capital investment should be financed by a low interest rate financing system with capitals from member enterprises.

. Operating costs should be covered by annual membership fees and charges for the use of equipment.

(4) Particulars up to the inauguration of cooperative and joint projects

A minimum of 2 years would be needed for review beginning with the appointment of a cooperative project team up to the inauguration of cooperative and joint projects.

(5) Example of cooperative project

An example of a cooperative project would be a corporation established to manage a cooperatively utilized finishing plant that dispatches and transports products with emphasis on pressing. The capital investment required would be approximately US\$ 1.49 million for buildings and US\$ 1.42 million for facilities and equipment on the basis of ex-work in Japan.

3) Reinforcement of Universidad de Trabajo del Uruguay (UTU)

Curriculum, facilities and equipment needs of UTU

The following curriculum needs to be added in order to elevate the quality of students. Also, facilities and equipment must be renewed.

Curriculum

Following curriculums are indispensable for the development of merchandisers.

- (1) Marketing science
- (2) Merchandising science/practice
- (3) Design management science
- (4) Outline of production control
- (5) Visual merchandising
- (6) Fashion marketing

Practice facilities and equipment

The amount needed to procure the facilities and equipment considered necessary for the reinforcement of UTU is approximately US\$ 600,000 on the basis of ex-work in Japan. The estimate is made on the basis of the following assumptions.

- (1) Existing land and school buildings of UTU shall be used.
- (2) The number of students shall be 20 per school year.
- (3) Though it is desirable that UTU be equipped with its own CAD and computer graphics systems, those owned by LATU and CDI shall be jointly used.

4) Implementation of Fashion Week event

(1) Sponsors and co-sponsor

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

Co-sponsor : Montevideo City

(2) Steering of Fashion Week

A steering committee must be appointed for the

implementation of Fashion Week. The appointment of the chairman of planning and the executive committee, the key person responsible for steering the event, is most critical. The executive committee should comprise 10 members. The executive committee should organize sub-committees in charge of order entry meetings to be held within Fashion Week, fashion show and associated events, and public relations in order to steer Fashion Week.

Funds would have to be raised in the form of subsidies provided by concerned government agencies and other public institutions, participation fees paid by textile and garment related enterprises and enterprises involved in fashion shows and order entry meetings, contributions by the concerned industrial associations and other business groups as well as by aid contributed by manufacturers of garment accessories, textile manufacturers, sewing machine manufacturers, trading firms, computer manufacturers and so on.

(3) Example of fashion fair

An outline of the fashion fair held every year in Gifu Prefecture, one of the centers of the garment industry in Japan, is presented for reference.

5) Invitation of MERCOSUR fashion resource center

(1) Fashion resource center to serve MERCOSUR

Though it may be considered for Uruguay to establish its own fashion resource center by itself, it would be more realistic to invite a fashion resource center in Uruguay that serves all of MERCOSUR as a whole, in view of the following conditions.

- . The population and market in Uruguay may not be sufficient to fully utilize a fashion resource center, in view of the capital investment required.
- . A fashion resource center serving MERCOSUR as a whole would be recognized internationally.
- . The founding and operating costs of a jointly established fashion resource center to serve MERCOSUR could be shared by the four member countries.
- . Elevation of the level of the garment industry in MERCOSUR as a whole would improve international recognition of intra-products and promote export. (Though the four member countries might compete with each other more fiercely, the benefit available to MERCOSUR as a whole should be given preference.)

(2) Example of fashion resource center

Renowned fashion resource centers exist in Europe and the U.S.A. where they are utilized extensively. Because those fashion resource centers have existed for many years, Ichinomiya Fashion Design Center in Japan which was established rather recently in Ichinomiya City, Aichi Prefecture is referenced in this paper as one of examples.

7. Conclusions and recommendations

(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 fairs 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.

INTRODUCTION

1. BACKGROUND OF THE STUDY

The rate of economic growth of the Oriental Republic of 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 master 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

4. CONTENTS AND METHOD OF STUDY

Outline of the contents and method of the study are shown in (1) - (7) hereunder.

(1) Preliminary study in Japan (June, 1991)

Prior to the first field study, as much Uruguay related information as possible was collected in order to broaden knowledge of the Oriental Republic of Uruguay.

[Study items]

- (1) Collection and analysis of information currently existing in Japan
- (2) Preparation of detailed field study schedule and domestic analysis schedule
- (3) Preparation of inception report (I)

- (4) Preparation of study process schedule
 - (5) Preparation of questionnaires
- (2) First field study (July 1 - July 24, 1991)

The inception report (I) stating the objectives, contents and methods of the field study and domestic study was presented to the Uruguayan counterpart for mutual consultation. Presentation was followed by study of 41 Uruguayan garment manufacturing enterprises (22 wool and denim garment makers and 19 knit garment makers) which had been selected from among 49 candidate businesses comprising 28 woolen and denim garment makers and 21 knit garment makers, excluding 8 companies which could not be visited conveniently, in accordance with the contents of items (1) - (4) hereunder.

- (1) Interview of executives
- (2) Study of production plants and warehouses
- (3) Collection of questionnaires (4 types) which had been distributed through Camara Industrial de la Vestimenta (CIV) and Punto Industrial Uruguayo (PIU).
- (4) Collection of commodity catalogues

Information collected by the first field study was analyzed and studied and, as a result, 14 model companies (5 wool, 4 denim and 5 knit makers) to be studied in greater detail were selected and agreed upon with the Uruguayan counterpart.

The degree of likely cooperation was given emphasis during the course of selection of model businesses for the second field study, in addition to assessment of management, control, technology and facilities.

Selection of the third countries to be studied was decided during the first field study and an agreement to that effect was signed by the Uruguayan counterpart and the preliminary study team. Out of seven countries (U.S.A., Canada, Sweden, Germany, U.K., Spain) suggested by the Uruguayan party in the minutes of the meeting, three countries, namely the U.S.A., Germany and Spain, were finally chosen by mutual agreement. During the course of selecting those three countries, the views of the Foreign Trade Department of the Ministry of Economy and Finance as well as "Per capita annual textile consumption statistics by country" prepared by the Food and Agricultural Organization of the United Nations were referenced.

In addition, the Ministry of Economy and Finance, the Central Bank of Uruguay and the Laboratorio Tecnológico del Uruguay (LATU), etc. were visited and studied in order to comprehend the current status of and trends in politics, economies, industrial promotion and export policy in Uruguay, and to collect pertinent information.

[Items of study]

- (1) Explanation of and discussion on the inception report (I)
- (2) Selection of model enterprises to be studied
- (3) Discussion on the results of field study and methods used for analysis in Japan
- (4) Selection of third countries to be studied and preparation of the contents of study
- (5) Collection of information by visiting pertinent institutions
- (6) Preparation and signing of the minutes of meeting

(3) The first analysis in Japan (September, 1991)

Results of the first field study and information collected were analyzed and problems were extracted by the first analysis in Japan. By applying the characteristic factor chart technique (the so called "fish bone technique"), promotion of the Uruguayan garment industry, in particular ways and means of promoting export, was examined.

Also, a study of the marketability of Uruguayan garment products was carried out in Japan with emphasis on a hearing of domestic importers.

At the end of the first analysis in Japan, an inception report (II) stating the results of analysis in Japan, results of the market study in Japan (interim report), third country study specifications, and objectives and contents of the second field study was prepared.

[Items of study]

- (1) Analysis of the results of field study and information collected
- (2) Extraction of problems
- (3) Preparation of third country study specifications
- (4) Study of ways and means of export promotion
- (5) Preparation of inception report (II)

(4) The second field study (October 3 - November 9, 1991)

The inception report (II) was explained to the Uruguayan counterpart, along with consultation, prior to carrying out detailed study of 14 model enterprises under the second field study. The detailed study of model companies encompassed

factory inspections and detailed hearings of and consultations with executives. The following points were emphasized.

- (1) Is there demand in the international marketplace for commodities that can be manufactured by existing machinery, labor and technological capacity? In other words, do Uruguayan products have acceptable value as commodities?
- (2) Are existing machinery, labor and technological capacity (including manufacturing experience) capable of manufacturing commodities in demand in the international marketplace?
- (3) Can production systems compatible with manufacturing commodities in demand in the international marketplace be established, even where existing machinery, labor and technological capacity are not sufficient (including planning capacity for designer brands, marketing capacity, etc.)?

In addition to the detailed study of model enterprises, information and materials were collected from and opinions were exchanged with the MERCOSUR Domestic Committee, Free Zone Department of the Ministry of Economy and Finance, Laboratorio Tecnológico del Uruguay (LATU), Ministry of Labor, Ministry of Medium and Small Scale Enterprises and others.

At the end of the second field study, a progress report stating the results of the detailed study of model enterprises and indicating problems was prepared.

Prior to the second field study, four study group members (Messrs. Wada, Fujikake, Fukunaga, Masano) carried out a study on the quality and design of garment products and the state of garment retail shops in Brazil (Sao Paulo), as well

as views taken in Brazil toward Uruguay.

[Items of study]

- (1) Explanation of and discussion on inception report (II)
 - (2) Exchange of information through visits to concerned institutions
 - (3) Detailed study of model enterprises
 - (4) Collection of additional information
 - (5) Preparation of progress report
 - (6) Discussion on the results of field study and analytical methods adopted in Japan
 - (7) Preparation and signing of the minutes of meeting
- (5) The second analysis in Japan

During the second analysis in Japan, problems were extracted from the results of the second field study and through analysis of collected information. Twelve reform measures and five action program points (draft) were selected and an interim report was prepared. Ranking of reform measures within implementation periods was determined and proposed. Results of the third country market study were reflected in the contents of the interim report.

[Items of study]

- (1) Analysis of the results of the second field study
- (2) Clarification of problems (preparation of action program)
- (3) Preparation of interim report

(6) Supplementary field study (June 29 - July 13, 1992)

During the supplementary field study, the interim report was explained to the Uruguayan counterpart and the direction of 12 reform measures and 5 action program points was agreed upon by the Uruguayan counterpart.

Also, a supplementary study concerning export promotion of the garment industry was carried out in conjunction with the Uruguayan counterpart by visiting LATU, UTU, the Industrial Design Center, the Technology and Production Center of the Ministry of Industry, Energy and Mining, the Consumer Protection Center under the jurisdiction of the Ministry of Economy and Finance, the MERCOSUR Domestic Committee, the Instituto Uruguayo de Normas Tecnicas (UNIT) and the Montevideo Free Zone Corporation.

[Items of study]

- (1) Explanation of and discussion on the interim report
 - (2) Collection of additional information as required
 - (3) Preparation and signing of the minutes of meeting
- (7) The third analysis in Japan

During the third analysis in Japan, each problem and reform measure was re-examined, collected information was analyzed, and a draft final report was prepared by modifying and adding to the contents of the interim report.

[Items of study]

- (1) Re-examination of problems
- (2) Examination of reform measures

- (3) Summary of the third country study results and Japanese market study results
- (4) Preparation and dispatch of the draft final report
- (8) Explanation of and discussion on a draft final report
 - (1) Explanation of and discussion on the draft final report
 - (2) Preparation and signing of the minutes of meeting
- (9) Submission of a final report

5. STUDY SCHEDULE

The study was carried out in accordance with the study schedule, beginning in June 1991 and ending in November 1992 as shown hereunder.

Study schedule

Item	Year	1991												1992											
	Month	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12					
(1) Preliminary study in Japan		[Bar from June to July 1991]																							
(2) The first field study														[Bar from July to August 1991]											
(3) The first analysis in Japan		[Bar from August to October 1991]																							
(4) The second field study														[Bar from October to November 1991]											
(5) The second analysis in Japan														[Bar from November 1991 to February 1992]											
(6) The supplementary field study														[Bar in July 1992]											
(7) The third analysis in Japan														[Bar in August 1992]											
(8) The draft final report														[Bar in October 1992]											
(9) Submission of the final report														[Triangle in November 1992]											

6. STUDY TEAM MEMBERS

The study team was made up by the persons listed below.

Mayuki TAKENO	Group leader, summarization
Satoru MASANO	Export, industry, promotion plan (I)
Hideaki TAKAHASHI	Export, industry, promotion plan (II)
Shigeaki FUKUNAGA	Management and control of enterprise A (Woolen textile)
Satoru FUJIKAKE	Management and control of enterprise B (Knit)
Hiroshi HIRAKAWA	Management and control of enterprise C (Denim)
Kunio SHIMAZAKI	Production technology A (Woolen textile)
Hiraki WADA	Production technology B (Knit)
Makoto WAKIMOTO	Production technology C (Denim)
Youichi MIYAMURA	Market study

PART I AN OVERVIEW OF THE ORIENTAL REPUBLIC OF URUGUAY

Chapter 1 Present Situation

1-1 General Features

(1) History and national characteristics

It is reported that the country or territory of the Oriental Republic of Uruguay (hereinafter referred to as "Uruguay") was discovered in 1516 by Juan Diaz de Solis, a Spaniard who landed at a beach located about 110 km east of Montevideo. He was later killed by the native Chaluá tribe. Magellan visited Montevideo in 1520.

Up to the end of the 16th century, the eastern area of the Rio de Uruguay, which description gave rise to the name of the country, was not conquered or colonized because the Chaluá tribe fiercely resisted rule by foreign countries. In the early part of the 17th century, however, the rich natural resources of the area came to the attention of Fernando Aliace, the appointed Governor-General of Rio de la Plata, who entered from the Paraguay district. Grazing oxen and horses that he established in the area rapidly proliferated due to the favorable surroundings. Many gauchos (cowboys) came over to the area from Argentina and a great number of merchants also visited to purchase hides. Spaniards began to settle in the area in 1624 when the rich livestock resources became known. From that time to the early part of the 19th century, a scramble for the area repeatedly took place among Spain, England, Argentina and Portugal. The English occupation period in 1806 was very short--only two months. However, the English armed forces stayed in the area for some time, so that a lot of Englishmen had a chance to enter the area with commodities made in England. These collected commodities, which were delivered

to the Argentina district through this area, led Montevideo to prosperity. The English influence infused at that time still remains in Uruguay.

(2) Population

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.

(3) Natural environment

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) temperatures average about 23 degrees centigrade. (It is very rare for the mercury to break 40 degrees centigrade.)

1-2 Politics and Economy

1-2-1 Administrative structure

The following is a description of the Uruguayan administrative structure.

(1) Form of government -- the constitution

The constitution of the first republic was established on July 18th, 1830. Since then several amendments and revisions have been made. The existing constitution is the one that was revised in 1967. A domestic and republican form of government; democratic sovereignty; mutual independence of the legislative, executive and judicial bodies; freedom of speech and religion; guarantee of human rights and so forth are all provided for in the constitution.

(2) Administration

The central government consists of the following ministries. Each minister is nominated by the president. The term of the president is five years and the next presidential election is supposed to take place in November 1994.

The following ministries existed as of November 1991.

President

Ministry of Economy & Finance

Ministry of Defense

Ministry of Foreign Affairs

Ministry of Interior

Ministry of Agriculture & Fishing

Ministry of Education & Culture

Ministry of Industry & Energy & Mining (To be referred to hereinafter as the Ministry of Industry)

Ministry of Labor & Social Welfare

Ministry of Public Health
Ministry of Tourism
Ministry of Transport & Public Works
Ministry of Housing & Environment

(3) Legislature

The Assembly is separated into upper and lower houses. The upper house is composed of 30 senators. To be eligible to become a senator, a Uruguayan must be at least 30 years of age and have been a naturalized citizen for at least seven years. The lower house is composed of 99 members. Like senators, their term of office is five years. To be eligible to become a lower house member a Uruguayan must be at least 25 years of age and have been a naturalized citizen for at least five years. The members of both houses are selected under a system of proportional representation. Every Uruguayan who is 18 years of age or over has the right to vote. Women's suffrage was granted in 1932.

(4) Judiciary

The judiciary in Uruguay is composed of the Supreme Court, courts of intermediate appeal, courts of first instance, and summary courts. Military courts also exist in addition to the above civil courts. Furthermore, there exists a court of administrative litigation consisting of five judges appointed by the Supreme Court which has jurisdiction over illegal acts performed by the central government, provincial governments or public corporations.

1-2-2 Economic trends

Uruguayan economic trends are as follows.

(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 (Fig. I-1-1).

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.

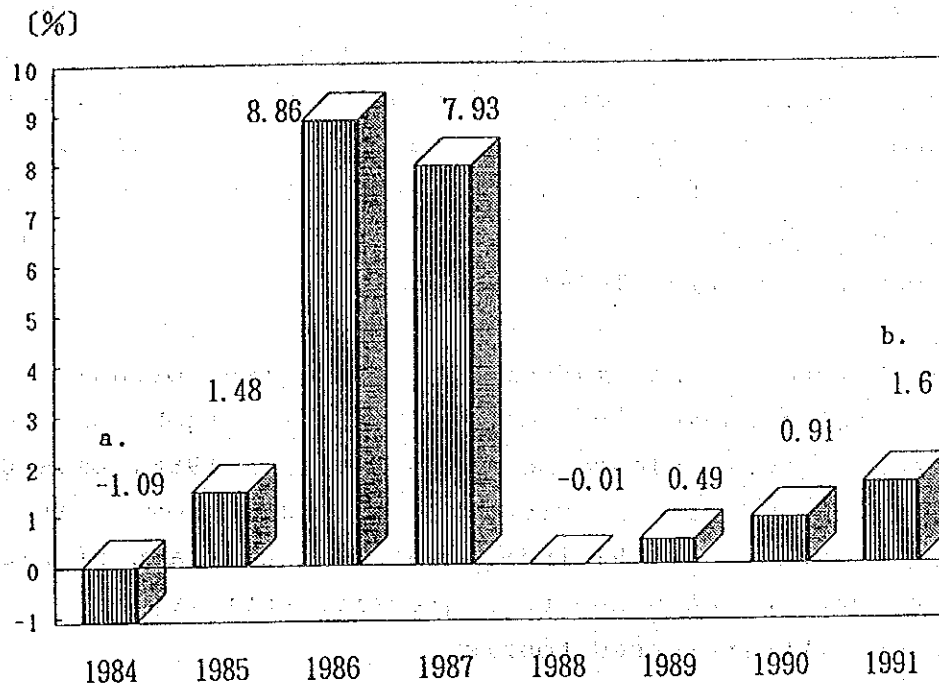


Fig. I-1-1 Economic growth rate

(Remarks)

- a. Figures from 1984 onwards show rate of increase of real GDP over its value in 1983.
- b. The figure for 1991 shows the percentage increase over the same period of the previous year.

Source: Central Bank of Uruguay

(2) Inflation rate

The inflation rate rose by 83.03% in 1985, 70.65% in 1986, 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. The inflation rate (= rate of increase of consumer price index) in the past is shown in Fig. I-1-2.

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.

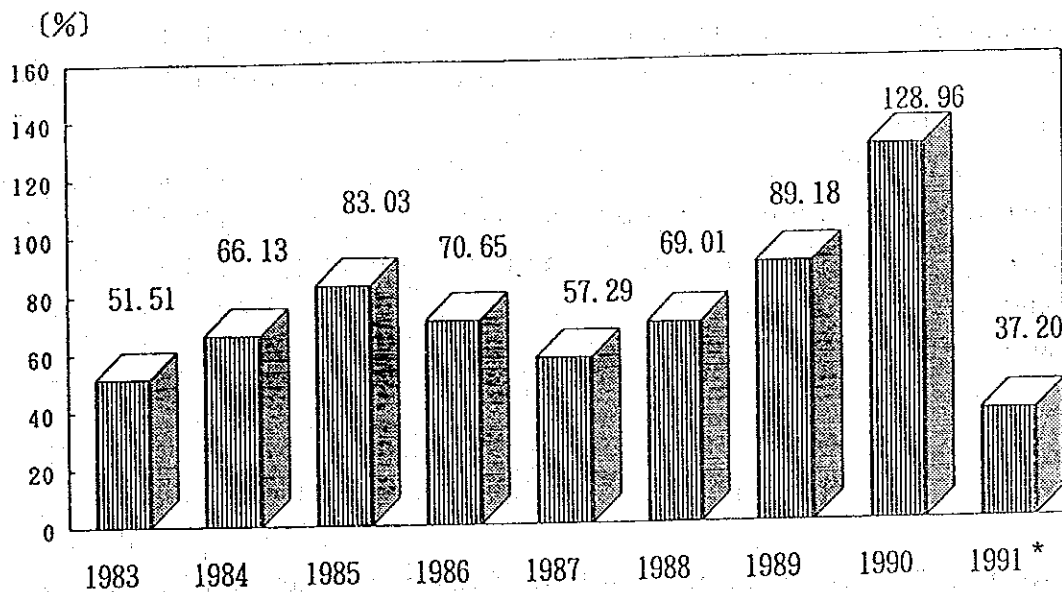


Fig. I-1-2 Rate of increase of consumer price index

(Remarks)

* Increase in consumer price index from January to June 1991

Source: Statistics Bureau of Uruguay

Table I-1-1 Changes in exchange rate

[Unit: New Pesos/Dollar]

1986	1987	1988	1989	1990	1991 (Aug. 26th)
152.0	226.7	359.4	605.5	1,171.1	2,124.0

Source: The Economist Intelligence Unit, 1991

(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, dollars refers to U.S. dollars.

Table I-1-2 Comparison based on data from the World Bank Atlas (1990)

	GNP (million dollars)	Population (1,000)	GNP per capita (\$)
Uruguay	8,069	3,077	2,620
Brazil	375,146	147,294	2,550
Argentina	68,780	31,883	2,160
Mexico	170,053	85,440	1,990
Japan	2,920,310	123,045	23,730
U.S.A.	5,465,100	249,970	21,863
Germany	1,691,510	78,620	21,515
Spain	376,880	39,160	9,624

Sources: The World Bank Atlas 1990; white paper on investment issued by JETRO 1992

(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.

(5) Foreign exchange reserves

Because of the favorable balances recorded in international accounts, the foreign currency reserves of the Central Bank of Uruguay that had once dropped rather low recovered to 116.9 million dollars, and the total foreign currency reserves of Uruguay also rose to 488 million dollars by the end of 1986.

The total amount of foreign currency reserves fluctuates according to the appraised value of the gold that Uruguay retains, although the IMF values one troy ounce of gold at 35 SDR.

(6) External debt burden

1) Outline

The balance of external debt as of the end of 1990 was 7,382.6 million dollars (an increase of 5.6% from the end of the preceding year). The total is classified into national debt of 4,472 million dollars (an increase of 3.7% from the end of the preceding year) and private one of 2,910.6 million dollars (an increase of 8.6%). Deposits by non-residents is included in the external debt. When the 2,202.1 million dollars on deposit (national debt 338 million dollars, private one 1,846.1 million dollars) is excluded, the balance of external debt becomes 5,180.5 million dollars which shows only an increase of 0.1% from the previous year, that is, there is no actual increase in comparison with the preceding year.

The characteristics of Uruguay's national external debt is as follows (as of the end of 1990):

- * There is much indebtedness to international banking organizations such as the World Bank and IDB (16.5% of total national external debt) but less to foreign governments and public entities (0.4% of total national external debt).
- * Liabilities to private banks and public bonds (foreign currency based) account respectively for 37.9% and 30.0% of total national external debt.

With regard to Uruguayan liabilities to foreign governments and public entities, there is no debt subject to rescheduling negotiation in the Paris Club at present. Repayment to foreign private banks mainly consists of interest payments and is being carried out without a hitch. Uruguay has never failed to properly make repayment of government bonds. Table I-1-3 shows changes in the balance of external debt.

Table I-1-3 The balance of external debt

[unit: million dollars]

	End of 1987	End of 1988	End of 1989	End of 1990
National debt	4,227.6	4,239.2	4,313.0	4,472.0
Deposits of non-residents	182.9	218.1	295.1	338.0
Private debt	1,659.9	2,091.3	2,680.6	2,910.6
Deposits of non-residents	718.4	1,013.6	1,523.8	1,864.1
Total	5,887.5	6,330.5	6,993.6	7,382.6
Deposits of non-residents	901.3	1,231.7	1,818.9	2,202.1
Balance	4,986.2	5,098.8	5,174.7	5,180.5

Source: Central Bank of Uruguay

2) The Brady Plan

The Sanguinetti government signed two agreements on rescheduling in July 1986 and March 1988. In accordance with these agreements, it was possible for Uruguay to put off reimbursement of the principal until 1991 onward, but Uruguay still had to pay more than 300 million dollars per year in interest payments.

Accordingly, the government expects the Brady plan to achieve its aim of reducing the principal and interest burden of external debt. The former political power, the Sanguinetti government, has continued negotiations with foreign private bank group since July 1989 in order to bring about application for the Brady Plan. The present government reached an agreement with the bank group in October 1990. Measures to reduce liabilities consist of the following three varieties.

- 1) Cash buy back of liabilities
- 2) Reduction of interest
- 3) Rescheduling of existing liabilities and new loans

Replies of private bank group to the above proposed measures were submitted by December 1990. The final signatures were applied to the liability reduction measure package by the Uruguayan government and the foreign private bank group in January 1991. The outcome made it possible for Uruguay to cut its interest payments by about 40 million dollars per annum.

In December 1990, the IMF board of directors approved the prospectus on IMF stand-by credit, which was a precondition for application for the Brady Plan. The total amount of IMF stand-by credit was 94.8 million SDR (127.1 million dollars) and the term was 15 months. The first loan of 12.1 million dollars (= 9 million SDR) was made.

However, subsequent loans were suspended because the actual results of the Uruguayan economy did not meet the figures mentioned in the prospectus.

(Remarks: The conversion rate from SDR to dollars is 1SDR = 1.3408 dollars, the rate in April 1991.)

The government of Uruguay has sold off gold as the need arose during negotiations over liabilities.

- * The government implemented swap transactions with a condition of repurchase five times from April 1990 to June 1991.
- * The government sold 150,000 troy ounces of gold in order to raise funds that were necessary as a means of reducing liabilities.

1-2-3 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 (Fig. I-1-3).

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

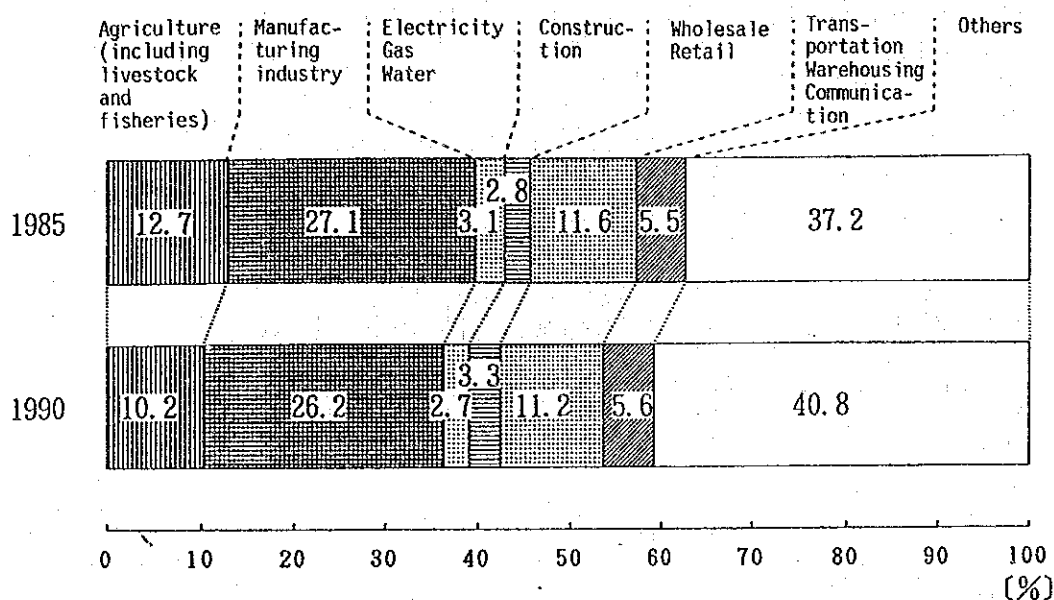


Fig. I-1-3 Share of GDP by industry

Source: Central Bank of Uruguay

(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. Quantities of livestock products produced, quantities of meat exported, and quantities of principal grains produced are shown in tables I-1-4, I-1-5 and I-1-6 respectively.

Table I-1-4 Quantities of livestock products produced

[Unit: tons]

Item	Year							
	1983	1984	1985	1986	1987	1988	1989	1990
Beef (1,000 tons)	431	298	336	358	279	329	364	335
Milk (1,000 liter)	840	836	894	930	985	960	975	N.A.
Wool (1,000 tons)	82	82	71	87	92	89	83	96

Source: Central Bank of Uruguay

Table I-1-5 Quantities of meat exported

[Unit: tons]

Item	Year							
	1983	1984	1985	1986	1987	1988	1989	1990
Beef	220,493	135,426	126,004	175,941	86,978	128,047	172,048	185,454
Mutton	10,714	5,355	5,120	21,105	4,403	8,054	17,934	22,698
Total	231,207	140,781	131,124	197,046	91,381	136,101	189,982	208,152

Source: Central Bank of Uruguay

Table I-1-6 Quantities of principal grains produced

[Unit: 1,000 tons]

Item	Year					
	1979-1981	1985	1986	1987	1988	1989
Sugar cane	397	586	637	600	495	599
Wheat	377	349	246	232	308	414
Rice	289	421	394	355	381	537
Beets	402	177	283	246	256	142
Sorghum	112	152	105	90	121	79
Corn	126	108	76	104	118	60
Barley	71	113	80	62	124	204
Soybeans	46	22	35	63	72	39

Source: Above table is based on data from the FAO and Central Bank of Uruguay

(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, all of which have some capability to export. The government has followed an open competition policy under which duties on imports were reduced in September 1991.

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.

Financial, 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.

Punta del Este, one of the most famous resort areas in South America, is a lively place with many tourists visiting every year. It is particularly crowded during the summer season from December to February. The number of foreigners visiting Uruguay in these three months represents approximately 50% of the total visitors each year. Punta del Este, located 142 km east of Montevideo, is also famous as the site of a ministerial level GATT conference in September 1986.

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 only to wool as an export commodity.

The total number of foreign visitors to Uruguay in 1989 was about 1,042 thousand, among which Argentines (members of the MERCOSUR family) numbered 820 thousand, Brazilians 110 thousand, and Paraguayans 10 thousand.

1-2-4 Foreign trade

Trends in Uruguay's foreign trade are as follows.

(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 to 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.