Table I-1-7 Year-to-year balance of trade

[Unit: million dollars]

| Year \ Item | Exports (FOB) | Imports (CIF) | Trade balance |
|---|---|---|---|
| 1985 | 854 | 708 | 146 |
| 1986 | 1,088 | 870 | 218 |
| 1987 | 1,182 | 1,142 | 40 |
| 1988 | 1,405 | 1,177 | 228 |
| 1989 | 1,599 | 1,203 | 396 |
| 1990 | 1,693 | 1,343 | 350 |
| 1991 (Jan.-May) | 563 | 607 | -44 |

Source: Central Bank of Uruguay

(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, U.S.A., the former West Germany, the former U.S.S.R., 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 70% 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. The present government took over the system of duties on imports passed on by the former government.

**Table I-1-8** shows changes in customs duty rates. Lower rates chiefly apply to raw materials and higher ones to finished goods. About 200 items including garments enjoy government protection from imports. The government is adjusting which items are protected in coordination with the World Bank in order to reduce the number of items to 100.

200 items
- 100 items are to be eliminated from the protected list.
- 100 items will continue to be protected, while the standard duty rate will come under review.

**Table I-1-8 Changes in tariff rates**

| Year & month | Tariff rate |
|---|---|
| The former government | 10 - 40 % |
| 1990. Apr. | 15 - 40 % |
| 1991. Sept. | 15 - 30 % |
| 1992 | 15 - 20 % (program) |
| 1994 | 15 % unity (program) |

**Table I-1-9** illustrates the example of how tariff rate with 40% affects the domestic price of an imported item whose price abroad is 50 dollars.

Case a): the item is not under tariff protection.
Case b): the item is under tariff protection.

In the event of a protected item, it is taxed at a high rate, like a product a valued at 100 dollars even though its actual free-market price is only 50 dollars. Quantitative import controls are scheduled to be abolished so that domestic products can become more competitive internationally.

Table I-1-9 An example of import tariff application

[unit: dollars]

| Classification | Foreign price | | Import tariff | | Domestic price |
|---|---|---|---|---|---|
| a) Item not under tariff protection | 50 | + | 20 | = | 70 |
| b) Item under tariff protection | 50 | + | 40 * | = | 90 |
| | * (40% tariff is imposed assuming price abroad as 100 dollar) | | | | |

Sources: Central Bank of Uruguay and other data

## (4) Structure of foreign trade

According to Uruguayan trade statistics (CENCI), the total value of exports in 1990 wa 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 (Fig. I-1-4). 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).

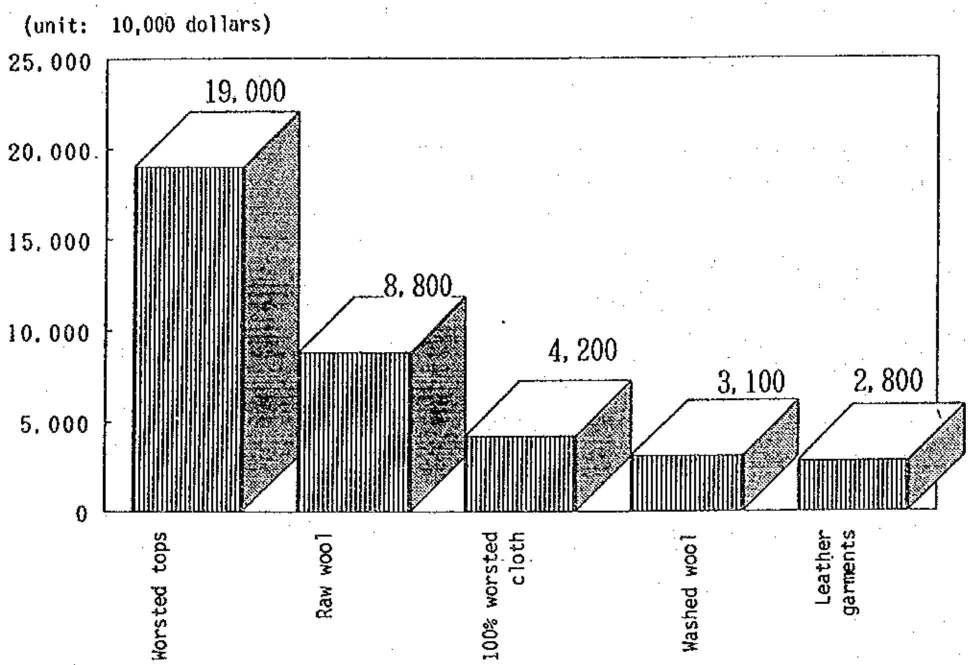


**Fig. I-1-4 Important export items**

Source: CENCI, Importacion-Exportacion (1990)

The value of exported garments fell from 107.5 million dollars in 1989 to 89.9 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.

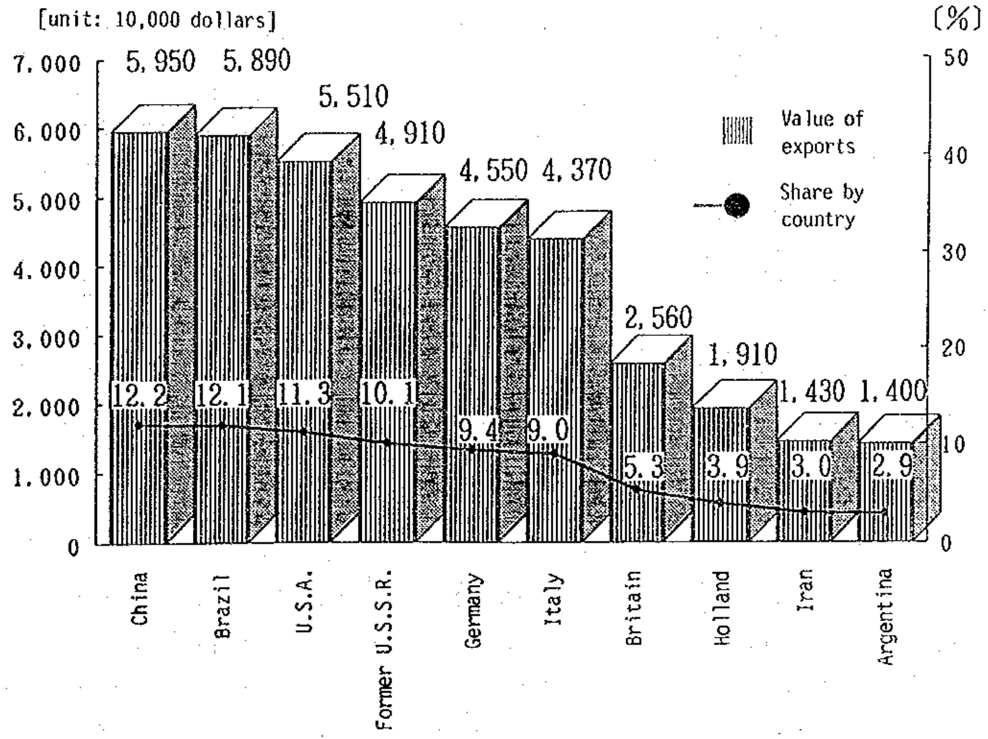


**Fig. I-1-5 Value of garment exports and share by country**

Source: CENCI, Importacion-Exportacion (1990)

The chief export items classified by country are as follows. Exports related to garments including leather and fur products amount to a little over 100 million dollars.

Table I-1-10  Chief export items classified by country

| Country | Item | Amount (10,000 dollars) |
|---|---|---|
| U.S.A. | Textile | 5,500 |
| | Leather and fur | 4,500 |
| | Food | 2,000 |
| Germany | Textile | 4,500 |
| | Animal | 4,000 |
| | Leather and fur | 3,600 |
| Italy | Textile | 4,300 |
| | Animal | 2,000 |
| | Leather and fur | 610 |
| China | Textile | 5,900 |
| Brazil | Animal | 13,900 |
| | Plant | 12,600 |
| | Chemicals | 6,800 |
| | Textile | 1,800 |

Source: CENCI, Importacion-Exportacion (1990)

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 lows retail price. Such secondhand clothing is rising in popularity among people in lower income brackets, resulting in increasing imports.

### 1-2-5 Public finance and the money market

#### (1) Public finance

##### 1) Central government

From the later part of the 1970s to the early part of the 1980s, the central government of Uruguay managed to keep its budget relatively in balance, but in 1982 the budget deficit grew to an amount equivalent to 8.7% of the GDP, due to the fall-off in economic activity at that time. When th IMF furnished Uruguay with stand-by credit in 1983, the IMF made it a condition of financing that the budget deficit should be reduced to 2% of GDP in 1983 and below 1% in 1984.

However, the actual 1983 deficit was 4%, and no less than 5% in 1984, which resulted in incurring the mistrust of the IMF. The budget deficit shrank significantly, to 2.8% and 1.2% of GDP in 1985 and 1986 respectively, as revenue increased 90% or more over each previous year.

Although the deficit was low again in 1987, at 1.3% of GDP, it rose to 1.9% in 1988 due to such unfavorable factors as losses by the pension system and the housing bank, high international interest rates, and capital expenditure.

Table I-1-11 National finances of central government

[unit: billion new pesos
(million dollars)]

| Item \ Year | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|
| Expenditure | 55.5 (989.3) | 91.4 (901.4) | 161.2 (1,060.5) | 293.0 (1,292.5) | 510.7 (1,421.0) | 917.3 (1,514.7) | 1,746.2 (1,491.1) |
| Revenue | 39.8 (709.4) | 76.8 (757.4) | 149.9 (986.2) | 270.9 (1,195.0) | 456.7 (1,270.7) | 753.6 (1,244.4) | 1,738.7 (1,484.7) |
| Balance | -15.7 (-279.9) | -14.6 (-144.0) | -11.3 (-74.3) | -22.1 (-97.5) | -54.0 (-150.3) | -163.7 (-270.3) | -7.5 (-6.4) |
| GDP rate (%) | 5.3 | 2.8 | 1.2 | 1.3 | 1.9 | 3.2 | 0.1 |

Source: Made based on data from Central Bank of Uruguay

2) Total public sector

The total public sector financial deficit in 1982 reached 18.3% of GDP, but fell to 4.0% by 1987 due to factors including improvement in the financial condition of state enterprises. The deficit increased slightly in 1988 to 4.7%.

The total public sector financial deficit in 1989 and 1990 was as follows. (Table I-1-12)

Table I-1-12 Total public sector financial deficit

| Agency \ Year / Unit | 1989 million pesos | 1989 million dollars | 1989 GDP rate [%] | 1990 million pesos | 1990 million dollars | 1990 GDP rate [%] |
|---|---|---|---|---|---|---|
| Central government | 170,121 | 281.0 | 3.3 | -18,749 | -16.0 | -0.2 |
| State enterprises | -19,922 | -32.9 | -0.4 | -91,065 | -77.0 | -0.9 |
| Central bank | 161,449 | 266.6 | 3.2 | 347,041 | 296.4 | 3.6 |
| Total | 311,648 | 514.7 | 6.1 | 237,227 | 202.6 | 2.5 |

Source: Central Bank of Uruguay

(2) Taxation system

The following is a general outline of the system of taxation in Uruguay, drawn from the "Uruguayan economic portrait" put out by the Ministry of Economy and Finance, and a hearing held at the concerned organization.

1) Varieties of tax

a) Consumption taxes

(i) Value added tax: IVA

The value added tax (IVA) is levied on the flow of goods and services transacted within the country, as well as on imports.

The tax is applied at all marketing stages, with a basic rate of 22% (up to December, 1992) and a rate of 12% for certain staple consumption items such as bread, food oil, salt, sugar, medicine, etc. Some goods (milk, etc.) and services (passenger transport, etc.) are exempted from this tax.

While imports are treated as domestic market sales, exports are taxed at a zero rate (they are reimbursed for tax paid on the purchase of goods, raw materials, and services involved in their production). Tax credit is immediately available on the purchase of capital goods.

(ii) Excise taxes: IMESI

Excise taxes are specific consumption taxes levied on the sale of selected consumer goods, either imported or locally manufactured.

A wide range of rates currently apply to such items as fuel, liquor and wine, tobacco, cigarettes and cigars, cosmetics and perfume, motorcycles and scooters, mopeds and electric appliances.

b) Wealth taxes:

(i) Net worth tax (Impuesto al Patrimonio)

A new worth tax is levied annually on all property, productive or otherwise, located in the country.

It is calculated on the net worth (adjusted assets minus liabilities) of individuals and corporations.

Certain financial assets such as public sector bonds and securities are exempt from this tax.

Rates vary from 0.8% to 3.4%; assets are often valued at reference prices. There is a minimum taxable net worth bracket for individuals. Some industries (mining and manufacturing) are exempted in proportion to their distance from Montevideo.

(ii) Real estate tax (Contribucion Inmobiliaria)

A real estate tax is collected at the local level. Urban real estate in Montevideo is subject to a municipal tax ranging from 0.84% to 1.6275% on its appraised value. Lower rates apply in the countryside.

c) Income tax: Impuesto a la Renta

(i) Farms may elect either a straight net income tax (IRA) at a 30% rate, or an agricultural activity tax (IMAGRO) at an equal rate applied to imputed income from land ownership.

With less sophisticated accounting procedures, the latter (IMAGRO) is usually selected. IMAGRO allows certain statutory deductions from estimated revenues.

(ii) The corporate income tax (IRIC), applied to industrial and commercial activities, imposes a 30% rate on net income derived from regular profit-oriented operations.

IRIC is also withheld from payments from abroad accruing from licensing of patents and trademarks, and from profit or dividend remittances.

(iii) Interest on bank deposits held by non-residents is exempt from all taxes. However, uninscribed bank deposits are unable to get this exemption.

(iv) There has been no personal income tax in Uruguay since 1974. Death, inheritance and gift taxes were also abolished at that time.

While inheritance tax in name has faded away, a substantial effective inheritance tax remains because of the existence of a real estate transfer tax.

d) Taxes on foreign trade

(i) There is a minimum 10% tariff on imports and a maximum rate of 30% (for categories of goods produced locally), which includes a customs duty (IMADUNI), except in the case of capital goods and specific items approved by the government.

(ii) Under the temporary admission or draw-back system, imports pay no taxes.

This system, however, is supposed to be abolished by January 1996 when Uruguay joins MERCOSUR.

(iii) Some export taxes still apply to exports of unprocessed agricultural commodities (beef, wool and hides) at a maximum legal rate of 5%.

(iv) Banco de la Republica collects a 0.5% fee on exports and a 1% fee on imports.

The breakdown of Uruguayan tax revenues is shown in Table I-1-13 and Fig. I-1-6.

Table I-1-13 Tax revenue by category

[Unit: million peso]

| Breakdown / Amount / Year | 1983 | | 1984 | | 1989 | |
|---|---|---|---|---|---|---|
| | Amount | Proportionate contribution [%] | Amount | Proportionate contribution [%] | Amount | Proportionate contribution [%] |
| Income tax | 3,147 | 13.3 | 11,375 | 8.5 | 57,655 | 8.3 |
| Value added tax (IVA) | 9,718 | 41.1 | 55,957 | 42.0 | 337,192 | 48.7 |
| Taxes on fuel | 3,609 | 15.2 | 19,522 | 14.7 | 95,122 | 13.8 |
| Capital levy | 2,074 | 8.7 | 9,829 | 7.4 | 56,522 | 8.2 |
| Taxes on foreign trade | 4,582 | 19.3 | 23,563 | 17.7 | 98,158 | 14.2 |
| Others | 575 | 2.4 | 12,923 | 9.7 | 46,953 | 6.8 |
| Total | 23,705 | 100 | 133,169 | 100 | 691,632 | 100 |

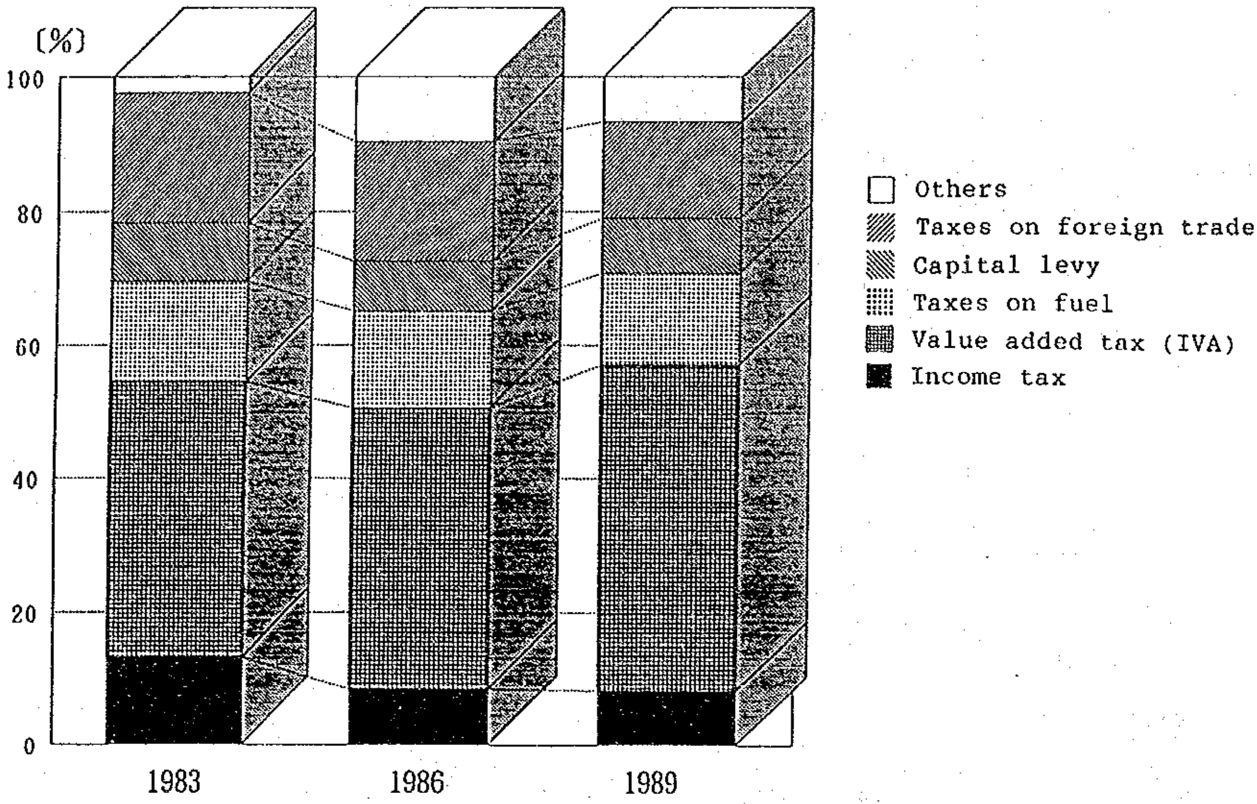


Fig. I-1-6 Proportionate contribution of tax revenue sources

(3) Social security

The Uruguayan government has been promoting social security policies since the beginning of the century, and Uruguay is now considered quite advanced in terms of its social security program. As a result, employers and employees pay high social security charges.

The burden of social security charges is 16% of net wages for employees and 22.5% of net wages for employers, the total of both being 38.5% of net wages.

(4) Money market

The Uruguayan monetary system has the following characteristics.

1) There is no exchange control.

2) There are no restrictions on the inflow or outflow of capital.
3) There are no restrictions on interest.

The banking system consists of Banco Central del Uruguay, Banco de la Republica Oriental del Uruguay (BROU), Banco Hipotecario del Uruguay (BHU), private commercial banks, financial companies and exchange houses.

Four of the forty private commercial banks are under control of BHU and most of the rest operate under joint management with foreign banks. In recent years, Uruguay has rapidly increased the money supply, in excess of the target amounts that were mutually agreed upon with the IMF.

The money supply reached 194.6 billion pesos in 1988, an increase of 64% over the preceding year and more than 50% in excess the target.

The figure for 1989 increased 67% from the previous year, which accelerated inflation.

Furthermore, the figure for 1990 rose 112.7% over the preceding year because the Banco Central's foreign currency reserves increased sharply owing to the inflow of money from Argentina and Brazil.

**Fig.** I-1-7 shows trends in the money supply.

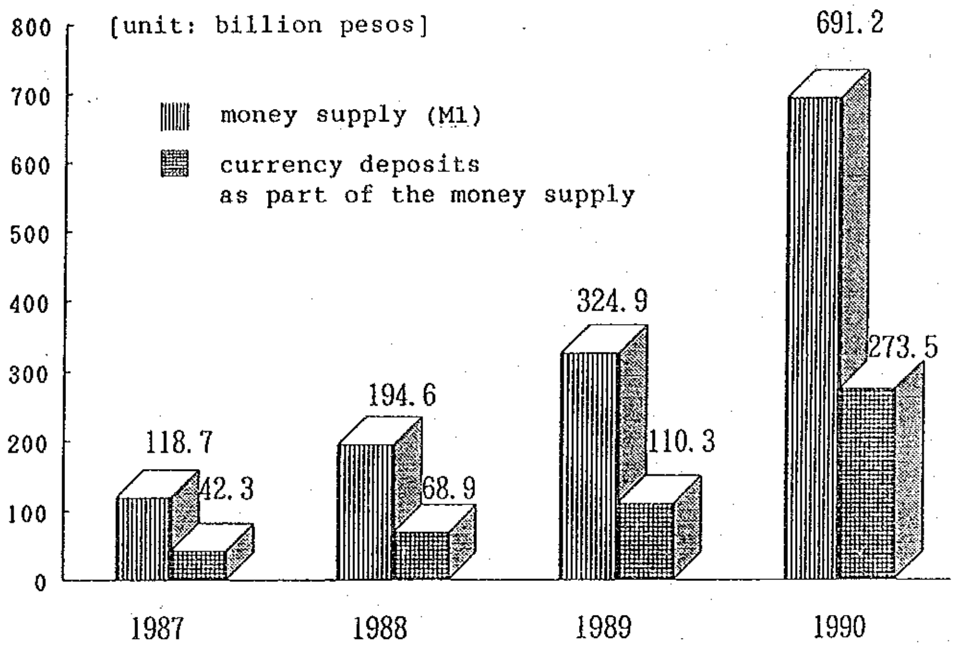


**Fig. I-1-7 Trends in the money supply**

Sources: IMF, International money statistics, Central Bank of Uruguay

Remarks: M1 = cash currency + deposit currency

## 1-2-6 Relations with foreign countries

(1) Following the transition to civilian government in 1985, Uruguay maintained such traditional keynotes of its foreign policy as promotion of economic and social integration of Latin American countries and close ties with the group of free nations. At the same time it has made efforts to improve its international image, diversify its diplomatic relations, and establish diplomatic relations with communist countries.

(2) The promotion of economic and social integration of Latin american countries has been the most important foreign policy issue for Uruguay.

Uruguay has placed especially great emphasis on its relationships with Argentina and Brazil, and participated in the MERCOSUR agreement in March 1991, in which these two countries and Paraguay also take part. Moreover, Uruguay has also joined OAS, ALADI, SELA, and La Plata so far.

(3) As for relations with communist countries, former foreign minister of the Soviet Union Mr. Shevardnadze and chairman of the Hungarian Executive Council Mr. Nemeto visited Uruguay in 1987, and ex-President Sanghinetti paid a visit to the U.S.S.R. in 1988.

Uruguay broke off diplomatic relations with Taiwan in February 1988 and established diplomatic relations with the People's Republic of China.

(4) A ministerial-level GATT conference was held at Punta del Este in 1986 which led foreign countries to acknowledge that Uruguay had the capability to hold a big meeting.

The former foreign minister Iglesias (1985 - 1988, the present Governor of IDB) carried out vigorous diplomacy through personal visits to many countries such as the U.S.A. and various European countries in order to improve the image of Uruguay.

(5) President Lacalle, who was inaugurated in March 1990, has declared clearly that the foreign policy of his government would stress economic and political issues in South America.

Uruguay's industry and trade are subject to the influence of Argentina and Brazil, due to their close geographic proximity, so the participation of Uruguay in MERCOSUR has great significance as those two countries hold the initiative in that organization.

### 1-2-7 Mercado Comun Del Sur (MERCOSUR)

(1) Overview

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 Comun 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. (Table I-1-14 and Fig. I-1-8)

**Table I-1-14 Rate of reduction of internal trade tariff rates**

(Cumulative percentage)

[Unit : %]

| | 1991 | | | 1992 | | 1993 | | 1994 | | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mar. | Jun. | Dec. | Jun. | Dec. | Jun. | Dec. | Jun. | Dec. | Dec. |
| Argentina Brazil | | 47 | 54 | 61 | 68 | 75 | 82 | 89 | 100 | |
| Uruguay Paraguay | 10 | - | 20 | - | 40 | - | 60 | - | 80 | 100 |

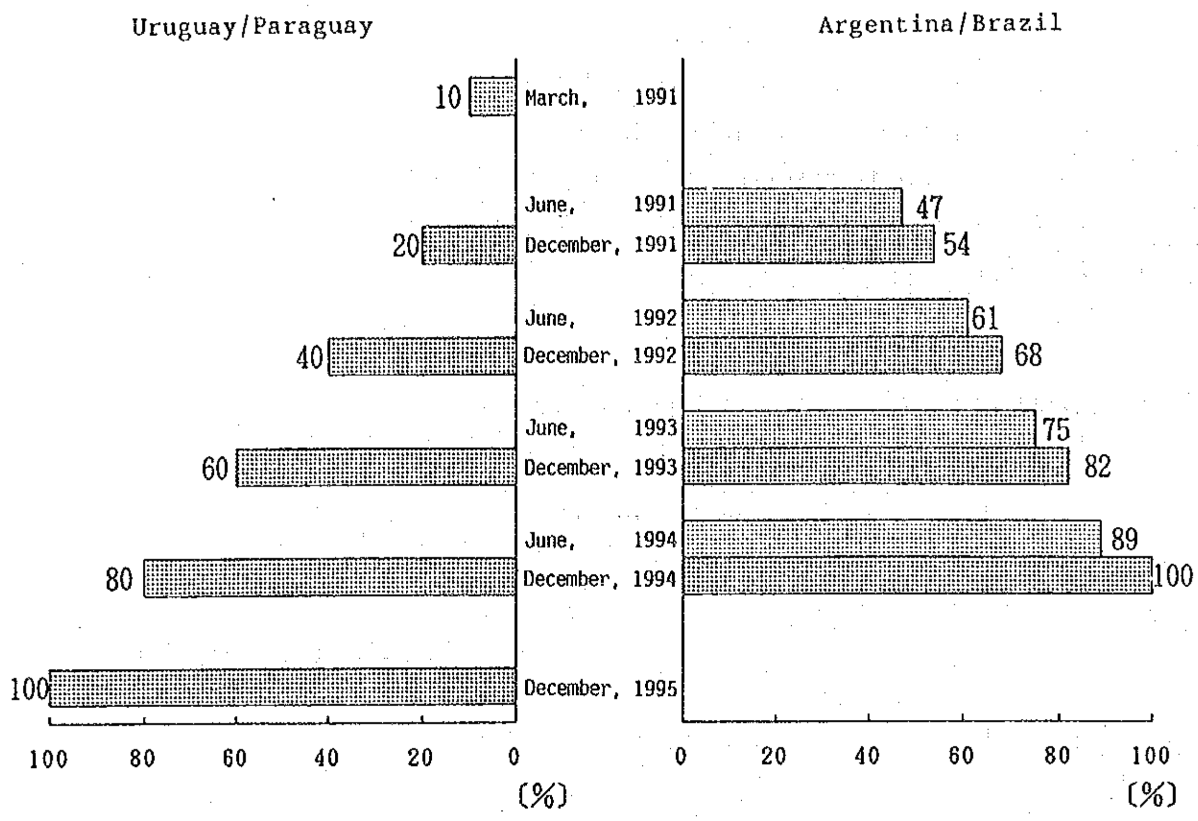


**Fig. I-1-8 Rate of tariff rate reduction**

5) Organization

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

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. 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. Secretaria Administrativa 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.

(2) Reaction with Uruguay to MERCOSUR

1) Evaluation of benefit

On the one hand there is a tendency to favor the creation of a common market encompassing a population of 185 million and having a GDP of US$ 415 billion, as compared to the current Uruguayan market of only 3 million population and US$ 8 billion GDP. On the other hand some argue that MERCOSUR poses a threat of fierce competition with Argentina and Brazil which might force Uruguay into a difficult situation involving bankruptcy of local businesses.

On the whole however, the argument is generally accepted that the implementation of MERCOSUR should be interpreted as an opportunity to ameliorate and reinforce Uruguayan industries.

2) Government responses

The government of Uruguay has organized the Comision Secretarial para el MERCOSUR to be in charge of implementing duty free import of capital goods (March 1991) and industrial policy planning intended to preserve and enhance the competitiveness of Uruguayan industries. This Comision is made up of representatives from the Chambers of Industry, Chambers of Commerce, the agriculture and live-stock farming industry, and labor organizations (PIT-CNT). The Comision is conducting hearings on pertinent industries with respect to various issues expected to arise during the period of transition until inauguration of MERCOSUR or thereafter, separately from policy planning, and is studying measures to reduce production costs within the area in which government has authority to intervene (social security charges, electricity charges etc.). For example, discounting of electricity charges for large consumers or discounts for fuel gas or fuel oil are being examined. Because the scope of various taxes and social security charges may be different from one MERCOSUR member country to another, those differences would have to be adjusted to begin with before examining the discount rates to apply (as of July, 1992).

3) Views taken by Uruguayan intellectuals toward MERCOSUR

* The key to the success of MERCOSUR will be whether member countries, in particular Brazil, can stabilize their currencies.

* Should MERCOSUR fail to be implemented at the beginning of 1995 (by Argentina and Brazil) and at the beginning of 1996 (by Uruguay and Paraguay), MERCOSUR will never have another chance to be implemented. The actions taken during the transitional period until 1995 are critical.

* Uruguay is in much the same situation as Switzerland with respect to liberalization of the money market. However it is not possible to comment on this aspect until details of MERCOSUR are made public.

* Many are not afraid that economy of Uruguay will be seriously hurt by a massive inflow of Brazilian and Argentine capital after the inauguration of MERCOSUR because Uruguay has not suffered from damage caused by Brazilian or Argentine capital during the past 20 years of money market liberalization.

* The probability of Bolivia or Chile joining MERCOSUR is remote because they are already members of the Andes Common Market.

* Uruguay must strengthen the competitiveness of its economy through a coordinated, cooperative effort between government and the private sector.

4) Views taken by the garment industry toward MERCOSUR

The views of the garment industry that came out in the hearing are as follows.

a) Woolen garments

* The expanded scale of the market may be advantageous to the industry. On the other hand, wages, social security costs and taxes are higher in Uruguay than in the other three nations. Uruguay may not be able to compete with Brazil. For example, social security costs in Uruguay are equivalent to 38.5% of net income including taxes which are shared by employers at 22.5% and employees at 16.0%. One way to survive would be to produce higher quality products with higher added values.

* Expansion of trade with countries where the currency is more stable than in MERCOSUR countries is desirable. However, Uruguayan products are not highly appreciated in European countries.

* Capital investment for plant renovation is being delayed because of uncertainty about the future of MERCOSUR. (There are however enterprises which are investing in plant innovation in order to shift emphasis from quantity to quality of products.)

* A need is felt to establish division of work between member nations of MERCOSUR after inauguration.

b) Denim garment industry

* Every business in the industry has indicated different views and responses.

* Companies are striving for survival on the premise that MERCOSUR will be implemented in 1995. Although it appears imperative for the industry to establish national brands and to acquire brand licenses in the countries within the MERCOSUR sphere, the low profile of local brands is damaging. Companies are more interested in design than in brands in order to gain sales strength through differentiated products.

* The industry is not optimistic about competition with Brazilian products in terms of price.

* Companies are very cautious about implementing any action which requires capital investment.

c) Knitwear industry

* Companies in the industry appear relatively optimistic though nothing is very clear cut at present. This is because they are confident about the quality of their products. Although Argentine knitwear has a certain advantage by virtue of its light gauge, it is primarily for local consumption and Argentine manufacturers are less experienced at export. The industry feels that the average wage in Argentina is higher than in Uruguay, making Uruguayan industry more cost competitive.

* Because Uruguayan knitwear has already made good penetration into the Brazilian market, the industry feels that Uruguayan knitwear is more competitive than Uruguayan denim garments.

## 1-3 Other General Aspects of the Social Environment

### 1-3-1 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.

The later three years of secondary education are called the "preparatory curriculum" which is divided into an academic course leading to admission to university and technical courses leading to admission to vocational training schools (UTU and so on). UTU consists of various technical schools, with about 100 government operated higher education and vocational training campuses distributed throughout the country with about 150,000 students and 8,000 teachers and staff. Universidad de la Republica is the sole university but it has 10 colleges (literature, law, economics, medicine, engineering, architecture, chemistry, agriculture and veterinary medicine) with more than 35,000 students. Other higher education institutions include a three year normal school in addition to UTU as mentioned earlier. No admission examination exists and all applicants may be admitted by virtue of having acquired the requisite units. The tuition of all public schools is free.

### 1-3-2 Labor

(1) Rate of unemployment

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% (Table I-1-15).

Table I-1-15 Trends in unemployment rate

[unit : %]

| Year | Overall | Male | Female |
|---|---|---|---|
| 1986 | 9.21 | 6.67 | 12.56 |
| 1987 1) | 9.35 | 7.43 | 11.98 |
| 1988 | 8.89 | 7.15 | 11.22 |
| 1989 | 7.99 | 5.94 | 10.69 |
| 1990 | 9.72 | 7.55 | 12.49 |
| 1991 2) | 10.27 | 7.58 | 13.84 |

Remarks 1) Average over October - December, 1987 - 1990.
2) Average over February - April, 1991

Source : Uruguay Bureau of Statistics

(2) Net wages

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 (Fig. I-1-9).

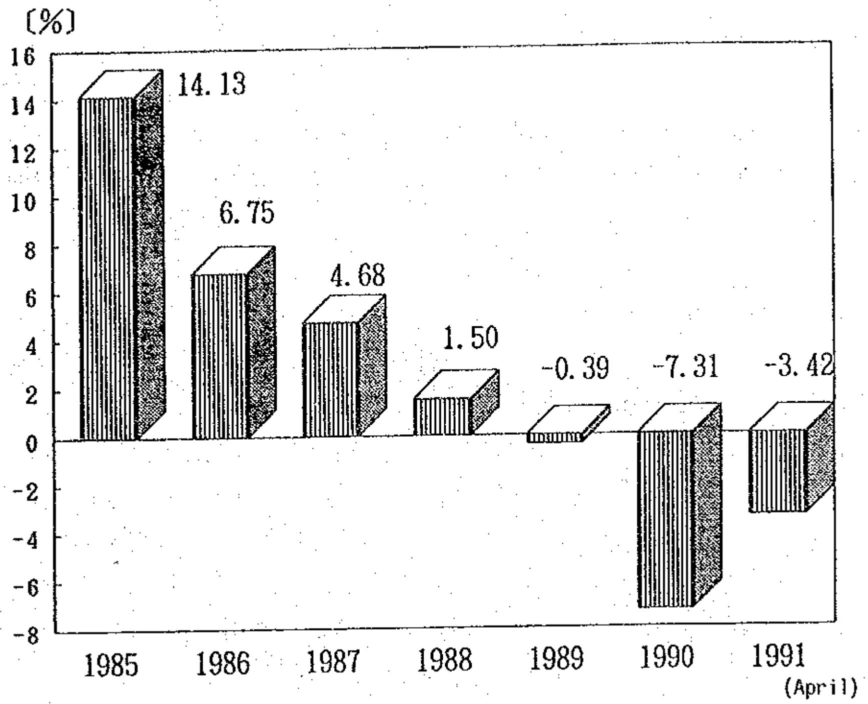


Fig. I-1-9 Rate of increase of net wages

Remarks : Comparison of yearly averages. Figure for 1991 is a comparison with the same period of the previous year.

Source : Uruguay Bureau of Statistics

### 1-3-3 Infrastructure

Fifty percent of the population and 80% of industrial activity are concentrated in the capital city of Montevideo, which is the largest external trading port in Uruguay. As a result, the majority of transportation demand is concentrated in the Montevideo district and the transportation network is built to radiate from Montevideo.

The transportation system consists of road, railway, marine, river and air transport systems which handle 90% of passenger transportation and 70% of freight transportation.

(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 Administration 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 until it was nationalized in 1984. 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 buses except for long distance travel.

(3) Marine and river transportation

The principal harbors are Salto, Paysandu, 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. Carasco International Airport is equipped with a 2700 m long, 45 m wide runway, and handled 818,000 passengers during 1986.

Carlos A Curbelo International Airport handled 32,000 passengers traveling to and from Buenos Aires during 1986.

The state owned Primers Lineas Uruguayas de Navegacion Aerea (PLUNA) handles international flights and Transportes Aeros Militares Uruguayos (TAMU) handles domestic flights.

(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).

# Chapter 2 Economic and Industrial Policies

As of now, no national policy such as a five year plan has been made public by the government of Uruguay. Neither has it taken any administrative action based on industrial economic analysis toward Uruguayan industry in general, beyond the extent of macro-economic policy. Accordingly, there exists no governmental policy nor administrative action targeting a specific segment of Uruguayan industry including the garment industry.

Although the Ministry of Industry, Punto Industrial Uruguayo (PIU) and Camara Industrial de la Vestimenta (CIV) appear to agree with one another on the importance of cooperation between the government and private sector, the Ministry of Industry is prevented from taking any concrete action due to its limited budget. In this regard, the Ministry of Economy and Finance, which is in control of national budget appropriation, is considered to be the de-facto decision making government institution.

## 2-1 Economic Policy

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.

Major policies of the Lacalle administration are as follows.

(1) Maintenance of a free and open economic system

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.

(2) Countermeasure of deficit financing

Deficit financing by the public sector which amounted to 18.3% of GDP in 1982 was steadily decreased to 4.0% of GDP in 1987. However, it rebounded to 4.7% in 1988. The public sector deficit was 6.6% of GDP in 1989 due to reduced tax revenue because of the staggering economy and the increased budget deficit of the central government.

The Lacalle administration, since taking power in March 1990, 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 reduce drastically and the deficit of the public sector as a whole has been reduced to 2.5% of GDP.

* In March 1990, a tax increase bill was promulgated whose measures included increasing the value added tax (IVA) rate, creating a real estate acquisition tax and increasing commercial and industrial income tax rates.

* In April 1990, a uniform 15% cut was made in all expenditure.

* 8,000 pesos per child were provided during the five months beginning in July and ending in November of 1990 to households with income less than 4 times the minimum wage.

* In August 1990, a bill to encourage early retirement of public servants and to limit filling of vacancies by 50% was enacted.

* In September 1990, a law to provide for the progressive nullification of preferential treatment applicable to indigenous products to be procured by the government was promulgated.

* Extension of the period during which the value added tax rate is to be increased, creation of an automobile traffic tax (imposed on the ownership or acquisition of motor cars with diesel engines) as well as creation of a corporation foundation tax were incorporated into the 1990 - 1994 national budget law for implementation from January 1991 onward.

* President Lacalle, in his speech addressed to the congress, expressed his intention to submit for approval a tax reform bill.

(3) Amendment of pension system

The Lacalle administration is intending to balance the social security finance system by securing additional revenue by increasing the installments to be paid by employers as well as by employees, and through other means.

* Immediately after coming into power, the administration began to review draft amendments to the pension system law.

* The tax reform bill promulgated in March 1990 includes provisions to increase the installment rate to be paid by employers into the social security pension fund to 3.5 points and to increase the wage tax paid into that fund by employees to 3.5 - 7 points. However, the 1990 - 1994 budget law provides for a gradual decrease from January 1991 to return these taxes to their original level within 1992.

(4) Privatization of state owned enterprises

Following the trend in other Latin American countries, the following state owned enterprises in Uruguay are being privatized.

1) Private sector capital has been introduced into Telephone and Telegram Corporation (ANTEL), Uruguayan Airlines (PLUNA) and Harbor Services. Fishery Public Corporation (ILPE) was disorganized.

2) Monopolies of state owned enterprises have been abrogated as follows.

* The monopoly of the National Insurance Bank (automobile third party liability insurance) was abrogated in December 1990.

* The monopoly of the National Fuel Corporation (ANCAP) was abrogated in April 1991.

* A plenary session of the congress began deliberation of a draft privatization bill in June 1991.

(5) Labor issues

The Uruguayan government is reducing its intervention in private sector wage negotiations while enacting various rules and regulations to regulate labor disputes.

The major task of the Ministry of Labor is to reconcile labor disputes between management and labor unions and to propose possible solutions to such disputes. Emphasis is placed on efforts to prevent labor disputes from developing into strikes.

Because the rate of unemployment in Uruguay has been lower than other Latin American countries, no department dedicated to unemployment issues exists. Creation of a new department exclusively responsible for unemployment issues is being contemplated.

* Conclusion of a long-term labor relations agreement in the private sector is being encouraged.

* A bill was submitted for deliberation by the congress in December 1990 which provides for the obligation of secret balloting in establishing the right to strike, and which grants employers the right to lock-out.

(6) Reconstruction of private banks

The Lacalle administration is encouraging privatization of banks that had fallen into financial difficult and are under the control of the government. In August 1990, Banco Commercial, one of three private banks that had been the recipients of government assistance, was sold off to a foreign bank.

(7) Bank deposits in foreign currency

There is no foreign exchange control in Uruguay and foreign currencies can be sold or bought freely, not only for capital trading or commercial trading, but also for daily private household use. As a result, the proportion of bank deposits in foreign currencies is relatively high, as much as 89.9% of total bank deposit balances as of April 1991.

Breakdown of bank deposits:
Foreign currencies deposits: 4,663 million dollar (89.9%)
Uruguayan currency deposits: 524 million dollar (10.1%)
(Source : Central Bank, as of Apr. 1991)

## 2-2 Promotion of Industries

(1) Regimen Promocional para Inversores Industriales, Law No. 14,178

This law establishes a system of tax exemptions for the construction of new industrial plants and the extension of existing industrial plants, as approved by the government (enacted in 1974). Some of its details follow.

* Provided that the plant does not compete with local industries, the import of initially required equipment is exempt from all taxes including value added tax.

* Import of equipment for a plant which will compete with local industry is exempt from taxes only when the government recognizes a need to import after examining the individual case.

* Operational profits are exempt from corporate tax when reinvested into a plant identified by the government as contributing to the national interest.

* Long term loans up to 10 years are to be made available from the investment fund for development either in US$ or in pesos.

These legal provisions have been partially amended as will be described in Section 2-4.

(2) Administrative institutions and system

Applications are to be submitted to Unidad Asesora de Promocion Industrial of the Ministry of Industry for benefits and financing under the Regiment Promocional para Inversores Industrial. If approved, the application is identified as a project contributing to the national interest.

* Details of the project (to determine whether it meets ministry requirements for approval)

* Invoice of plant and equipment to be imported (Centro Nacional de Politica y Desarrollo Industrial shall review whether or not the project applied for is in competition with local industries)

* In case financing is needed, a bank letter promising credit.

## 2-3 Foreign Investment Policy

(1) Fundamental regulations concerning foreign investment (based on Law No.14,179 dated March 28, 1974, and Ordinance No.808 dated October 10, 1974, to define detailed implementation rules thereof)

1) Definition of foreign investment

Foreign investment is understood to mean all capital inflow from overseas having a certain value and right to transfer profit therefrom. Foreign investment may be in any form of foreign currency, machinery, patent rights, processing technology, trademarks or any other forms which foreign investors may be interested in under the judgment of the administrative authority. Only individuals or corporations residing outside of Uruguay are eligible for benefits under this system.

2) Approval

Foreign investment in any field pertinent to economic development will be approved so long as it is compatible with the national interest.

Those kinds of foreign investments listed below are subject to the clear and well founded approval of the government.

* Electricity, oil, coal, basic petrochemistry, nuclear energy, mining of strategic minerals, agriculture and livestock raising, slaughtering, banking, railways, telecommunication, radio broadcasting, newspapers, television broadcasting, and any areas of business defined by law to come under the jurisdiction of state owned enterprises.

Applications for approval must be presented to Unidad Asesora de Inversiones Extranjeras (UAIE) for comment.

Benefits granted under the above-mentioned law can be in addition to those granted under the Regiment Promocional pare Inversores Industriales described under heading 2-2.

3) Remittance of profit and transfer of capital

The government warrants remittance of profits and transfer of capital at the rates and under the terms and conditions defined by the pertinent agreement. Foreign capital invested in Uruguay is not permitted to be transferred overseas within three years beginning with the date of the pertinent investment contract.

Profits that have not been remitted within two years are understood to have been formally included in the capital stock retroactively, as of the date generated.

4) Financing

A foreign capital corporation is understood to be a corporation more than 50% of whose capital stock is owned by foreign capital and which has a legal right of decision. A foreign capital corporation is not allowed to borrow medium or long-term funds with a term exceeding one year within Uruguay. Such loans are subject to approval by the UAIE. In addition, a foreign capital corporation is required to obtain the approval of the government to use loans by international financing institutions to the government.

Every foreign capital corporation is required to file information as required by the UAIE and to file an application for approval to the Ministry of Economy and Finance.

The UAIE is positioned within the Bureau of Budget and Planning and examines the applications submitted.

The government issues a Presidential Order whenever a UAIE proposal has been approved in order to announce its approval to investors.

The UAIE prepares a draft investment contract for negotiation with foreign investors. The signed contract must be registered with the special registry of the Central Bank of Uruguay.

The UAIE is supposed to complete its examination to determine whether or not to approve the application within 30 days from the date of collection of all relevant information.

About 60 days are required for the UAIE to complete all procedures after the submission of an application.

(2) General conditions applicable to foreign investment

* Foreign investors enjoy the same legal treatment as local investors. No special permission is required for foreign investors to found a corporation, export or import, make bank deposits or borrow in any currency, or apply for industrial promotion measures or preferential treatment.

* The foreign currency market is completely free and open.

* Transfer of capital and remittance of profits are unrestrained.

* No personal income tax exists. Confidentiality is strictly maintained for the protection of the financing system. There is practically no governmental price control for any kind of commodity.

(3) Measures and system to promote investment

* Regimen Promocional para Inversores Industriales (Section 2-2)

* A special system treats some types of industry preferentially (fisheries, dairy products, mining, hotels).

* A system of tariff exemptions is available for importing raw materials needed for the manufacture of products to be exported. It involves a provisional import system (import conditional on re-export). In addition, rebate of indirect taxes and special export financing are available for exports.

* Medium and long-term credit lines are available for investment. Among others, the investment and financing fund and a promotional credit line from BROU that make loans available at low interest rates in either US$ or in pesos are well known.

* Short-term loans are freely available through various banking networks.

* In addition to these generally available systems, foreign investors are entitled to government protection in the form of a contract that warrants transfer of capital and remittance of profit (under the Foreign Capital Law of 1974).

* Free zones exist in ideal locations where storage, packing and processing are allowed for re-export. A tax exemption system applies to the movement of all commodities including plant and equipment needed for processing. (Section 2-4-(2) for the free zone details.)

(4) Actual state of foreign capital inflow

The accumulated foreign capital that has flowed into Uruguayan industries so far is estimated to be no less than 750 million dollar, out which about 50% is from the United States of America and Canada, 30% from Europe and 20% from other sources. Although inflow of foreign capital is welcome, it has declined significantly since the 1980s, primarily due to the small scale of the market and the unstable economy. This is clearly demonstrated by the fact that the General Electric company (GE) of the U.S.A. sold off 60% of its assets and Ford Motors also of the U.S.A. and Fiat of Italy have withdrawn from Uruguay.

## 2-4 Export Promotion

(1) Uruguay is implementing the following export promotion programs based on the Regimen Promotion para Inversores Industriales.

1) Exemption from import duty

Capital goods needed for an undertaking which has been identified by the government as contributing to export promotion and intermediary products imported under the provisional import system are exempt from import duty. In addition, all capital goods imported during the period beginning in March 1991 and ending at the end of June 1992 are also exempted.

Import duty as of October 1991 was as follows:

A) Raw materials not manufactured in Uruguay and general capital goods: 10%
B) Intermediate products: 15% - 20%
C) Completed products: 30 %

Import duty comprises import surcharge, unified import duty, handling tax, and consular commission, all of which are summed up and levied as a comprehensive import duty. Import duty generally applies to the CIF price.

2) Value added tax refund system

When a product manufactured in Uruguay is actually exported, this system provides for refunding of value added taxed charged for materials and so on. The Lacalle administration suspended the system in April 1990, in order to achieve reduction of the budget deficit, but was forced to restore it in July 1991 because of strong protest from financial circles.

However, the system is scheduled to be abrogated under provision of the Asuncion treaty in January 1996 when Uruguay will join MERCOSUR.

3) Export subsidy

A subsidy amounting to 12% of the FOB price of exported goods, intended to encourage export, is provided to exporters of products using Uruguayan wool. The subsidy used to be 22%, but that was found to be in violation of GATT and strongly opposed on the grounds that undue favor was being given to a single industry. This subsidy is supposed to progressively decrease to nil by the end of 1995.

<Remark> A 5% of FOB export tax is chargeable on the export of wool and meat on the bone.

4) Government financing

Government assisted financing is also available to exporters in the form of low interest rate, long term loans from Banco de la Republica Oriental del Uruguay (BROU). Banco Central del Uruguay, which is the currency issuing bank, is curtailing the money supply in order to suppress inflation and supply of funds is quite tight compared to this demand.

5) Exemption from corporate tax and capital tax

Businesses identified by the government as contributing to the promotion of exports are exempt from capital tax, and their profits are exempt from corporate tax.

(2) Free zones

1) State-operated free zone

Free zones are bonded processing areas which are intended to contribute to the promotion of exports, increase of job opportunities, and to the integration of the regional economy and fall under the jurisdiction of the Ministry of Economy and Finance.

As of October 1991, two state-operated free zones exist, one in Colonia and the other in Nueva Palmira, both alongside the La Plata river and separated from Montevideo by about 150km and by about 220km respectively.

The Free Zone Department of the Ministry of Economy and Finance is of an opinion that the management of the national free zone in Colinia should be commissioned to the private sector. Enterprises located within the free zone are entitled to apply for the privileges provided for under the Law to Promote Industries (No. 14,178), in addition to exemption from import duties, corporate taxes, wealth taxes and consumption taxes (value added taxes and commodity taxes).

Those enterprises which desire to utilize the free zone system would be allowed to established themselves after submitting a prospectus (including investment to be made and profit to be accrued) which must be found acceptable and to present no problem for Uruguay by the authorities concerned. Local enterprises, joint ventures with overseas corporations, and corporations wholly owned by overseas capital are all allowed to construct plants or warehouses. Originally, the free zone had primarily been intended for bonded warehouses. It was made available for manufacturing and processing plants as well by modification of the applicable law in 1987.

2) Privately-operated free zone

The Uruguayan government also plans to construct two privately-operated free zones, one in Montevideo and the other in Fray Bentos. Foundation work has already begun in Montevideo and acceptance of applications from enterprises desiring to locate in the zone is scheduled to commence in 1992.

a) Name of enterprise: Zone Franca de Montevideo S.A.
   Address : Avenue Arocena-1628, Montevideo

This privately-operated free zone is being constructed in the vicinity of carasco International Airport and some of the warehouses are already under commercial operation (as of July, 1992).

b) Principal facilities

. Sites and buildings for factories and warehouses.

. Office buildings and water treatment plants.

. Satellite communication tele-port, high, medium and low voltage electric power networks etc.

c) Principal services

. Custom clearance service, weighing service, inventory control service, round-the-clock security service, medical clinic, nursery, exhibition hall and so on.

d) Privileges

. Exemption of custom duties, corporate tax and so on.

. Joint use of public service facilities including tele-communication facilities, insurance service, fuel and so on.

. Export/import license and deposit money are not required.

. 100% of capital investment and profit thereof is repatriable.

- Employment of expatriate laborers up to 25% is allowed.

- Issue of country of origin certificates for products manufactured within the free zone.

e) Enterprises which have committed themselves or are considering launching (as of July, 1992):

- Argentina - Pharmaceutical manufacturer

- Italy - Synthetic fiber manufacturer (spinning and weaving, garments)

- Brazil - Household appliance manufacturer

- France - Cosmetics manufacturer

- U.S.A. - Feed production equipment manufacturer

- Uruguay - Swimsuit manufacturer

## 2-5 Research and Development Policy

The Laboratorio Technologico del Uruguay is the principal research and development institution in Uruguay. The National Quality Committee also acts to promote improvement of the quality of Uruguayan products.

### (1) Laboratorio Technologico del Uruguay (LATU)

An overview of LATU follows.
Address : Avenue Italia 6201, Montevideo

1) LATU was established in 1965 as an institution under the jurisdiction of the Ministry of Industry and Energy. Its mission covers a wide scope of activities including quality assurance services for export products, guidance to manufacturers on the standardization of export products, training employees of industries, and guidance related to improvement and upgrading of manufacturing facilities.

Its current staff numbers about 180, about one-half of whom are engineers. The LATU organization includes a technological department and a quality assurance department. The textile section is a part of the technological department.

2) Products for which quality assurance services are provided:

Dairy products, fruit, chemicals, textile related products, leather goods, meat products, paper and pulp products, plastics, biotechnology

### (2) National Quality Committee

The National Quality Committee (Comite Nacional de Calidad) was inaugurated in May 1991. It reports directly to the President. The committee is supposed to promote exports and consumer protection by improving the quality of, and unifying the standards applicable to and the markings to be attached to Uruguayan products. The chairman of the committee is an assistant to the president, who is in turn assisted by the director general of LATU and the director general of INIA (the National Livestock Farming Laboratory) as vice chairmen.

PART I has given a general overview of the country of Uruguay. Part II will examine the current state of affairs in the Uruguayan garment industry and summarize the results of a survey of third countries.

# PART II CURRENT STATE OF THE URUGUAYAN GARMENT INDUSTRY

## Chapter 1 Environment Surrounding the Garment Industry

### 1-1 Introduction of Textile Industry

#### 1-1-1 Chronology, Composition, Distinguishing Characteristics of Textile Industry

The wool industry in Uruguay, typical of wool producing countries around the world, prides itself on a long-standing history. Ever since the foundation of the country, the textile industry has always been one of the two main industries, together with meat production. Foreign trade statistics clearly show the importance of textiles. In 1990 textile exports amounted to 486.8 million US dollars, or 30% of the country's total export trade worth 1.7 billion US dollars. Within textile exports, 82% consists of non-clothing items, the majority of which is wool and textiles. Uruguayan wool is of thicker texture than Australian wool and is therefore best suited to produce low count yarn knits or carded wool fabrics.

The Uruguayan textile industry also encompasses cotton and synthetic fiber spinning and weaving. As the result of foreign exchange fluctuations in 1985, cotton imports increased and cotton textile manufacturers, who had focused on local markets, were forced into bankruptcy one after the other, a situation quite different from the wool industry. Since that time the Uruguayan cotton textile industry has been encouraged to restructure itself to become more export oriented.

The garment industry, which has been a late entry into the overall Uruguayan textile industry, is categorized into export oriented and local market oriented segments, the former assuming leadership of the industry. Camara Industrial de la Vestimenta (CIV) and Punto Industrial Uruguayo (PIU) are the overall leaders of the garment industry. Many export oriented manufacturers are engaged in processing on a fee basis in compliance with specifications designated by their clients. Only a few manufacturers are capable of their own export merchandising.

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.

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.

### 1-1-2 Wool Industry

According to information available from the International Wool Secretary (IWS), total world wool production in 1990 was 3.4 million tons, of which Australia accounted for 1.09 million tons (32.0% of world production), the ex-USSR 0.47 million tons (13.7%), New Zealand 0.32 million tons (9.4%), and China 0.25 million tons (7.4%), followed by Argentina and South Africa. 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 manufactures are obliged to import thin raw wool. This is largely due to Uruguay's mild climate and natural sheep breeding practices.

Australia, world renowned as the leading wool producing country, is trying hard to improve wool quality, for example by covering sheep with cloth so they produce thinner and softer wool. Against such competition thick Uruguayan wool is not capable of finding a market in advanced European and American countries where fine garments are preferred. It is exported primarily to The People's Republic of China, the former USSR, Czechoslovakia and similar countries.

It has become more and more apparent in recent years that "light and soft" garments are increasingly favored throughout the world and the world market for Uruguayan wool may be limited. It is therefore imperative for the Uruguayan wool industry to develop wool of thin texture that can be exported to European and American countries as well as to Japan.

### 1-1-3 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.

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.

Although local consumption was once as much as 6,000 tons per annum, it has declined sharply due to increased imports. The cotton textile industry has tried to cope with the situation by increasing exports but results have been disastrous with 40 enterprises declaring bankruptcy due to financial difficulties caused by sudden increases in capital investment and so on.

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).

### 1-1-4 Accessories and Subsidiary Materials Industry

Aside from quality of design and garment manufacture, accessories, such as buttons and fasteners, and subsidiary materials such as lining are important factors in elevating the added value of clothing products.

Buttons should not only function properly but also provide accent to the design. Likewise, the quality of lining material is closely linked with the perception of clothing value. Interlining is the material that constitutes the skeleton of a garment and as such must be of appropriate material and strength for the type of cloth and garment design. Shoulder padding must also be of appropriate material and shape for the type of garment.

As these 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.

Delay in the development of local production of accessories and subsidiary materials in developing Asian countries has made establishment of independent merchandising difficult. No designs, however good they may be, can be made into successful final products without the support of adequate and well-fitting accessories and subsidiary materials. Along these lines there do exist specialized button manufacturers of rather high standing in Uruguay who can provide lines of locally manufactured accessories and subsidiary materials. Taking buttons as an example, the range of variety and novelty of design of those made from synthetic chemical materials are almost comparable to those available in advanced countries. However, synthetic buttons cannot be used for every application. Other materials such as shell, wood, metal and stone are sometimes appropriate for use, leaving room for the Uruguayans to make further efforts towards improvement.

Similar trends exist also for other accessories and subsidiary materials. In Japan, the varieties of pads available may be as many as several hundred thousand; only with such diversity can garments be produced in a multitude of varieties.

In order to strengthen its own independent merchandising, it is considered 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

### 1-2-1 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 US dollars while about 12,000 workers were employed by the industry. The value of garment exports according to 1990 trade statistics is 140 million US dollars, a 16% increase from the previous year. If leather goods are excluded from this amount, garment exports totaled 89.9 million US dollars, a 16% decrease from the 107.5 million US dollars recorded the previous year.

Most exporting enterprises are involved in processing for a fee in compliance with the instructions of their clients. The number of enterprises that are capable of their own independent merchandising is still very limited. Manufacturers who employ their own designers and/or merchandisers are rather rare.

There exist cases where large scale enterprises have engaged outside experts with a comprehensive knowledge of merchandising and production management to try to improve the quality of their products. Some manufacturers of swimming suites, knit wear and leather goods are managing to export through their own merchandising activities.

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. The enterprises to which Uruguayan exports are shipped are either garment manufacturers or retailers. Garments of world renowned brands are also manufactured. Among others, "Levi's", "Lee" and "Wrangler" brand jeans are being manufactured, as well as sports wear bearing the European "Adidas" brand. 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.

The presence of fashion designers should be noted. At least four fashion designers are very active and patronized by upper class clientele. They are engaged in haute couture and/or high class pret-a-porter items. Some hold a fashion show every season. Their ties with the garment industry, however, are very weak.

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.

The two industrial organizations are active primarily in the allocation of export quotas or taxation related activities, and much less active in activities pertinent to the future of the industry or exchange of opinions concerning production and technology. The perception of cooperativeness among member enterprises is extremely low, making it difficult for them to work together to organize a joint export trade fair.

The Uruguayan garment industry is shifting its export focus to target South American countries, while exports to the United States of america have been decreasing. It is generally observed however, that the general trend after establishment of MERCOSUR is likely be the acceleration of competition with Brazil and Argentina, with the exception of certain woolen garment and knit wear manufacturers.

### 1-2-2 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.

Out of five enterprises visited during the second round of the field survey, all of them ship around 10% of their production for local consumption while exporting the rest. 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.

All enterprises are shifting emphasis from quantity of production to quality, targeting the middle class market. Although they know that Uruguayan exterior materials may not be as good as their counterparts in Argentina, they are confident of the quality of their garment products. The wool weaving industry is trying to use better materials to produce better quality exterior materials, but they are shipping only 10% of their cloth production for local consumption. Every wool weaving enterprise is export oriented and appears to be less concerned with the local garment industry. In terms of labor costs, Uruguay is handicapped relative to Brazil. In addition, industry in Uruguay is not equipped for mass production and the high tax rate also has an impact, raising production costs. Accordingly, many enterprises are of the opinion that targeting the middle class market where added value can be maximized is a reasonable course of action.

Many enterprises are locking at countries within the MERCOSUR sphere as their immediate export market. At the same time they appear to feel uncertain about MERCOSUR itself because of the absence of a definite government policy regarding MERCOSUR. Among other questions, they feel uncertain about government actions concerning currency issues and possible inflation. Under the circumstances, many enterprises hope to export to countries with stable currencies and are consequently seeking opportunities to penetrate the European market through agency arrangements. However, the Uruguayan garment industry is still regarded as underdeveloped by European consumers, thus Uruguayan manufacturers are prevented from entering the market, and find it difficult to fully penetrate even when they succeed in making an initial breakthrough. The reality is that Uruguayan garment manufacturers are considered by Europeans to be no more than processors.

Excellent fashion shows are being promoted in Uruguay by competent fashion designers and competent producers. Both the Uruguayan government and garment industry should cooperate to publicize and promote Uruguayan culture in order to find ways to increase added value. Uruguay's culture is closer to those of Europe and its level of education is generally higher than those of other countries within the MERCOSUR sphere. Joint promotional efforts by government and industry should pave the way for the manufacture and export of products of higher added value.

### 1-2-3 Outline of the denim garment industry

The denim garment industry in uruguay, targeted to OEM production for the United States of America, has almost completely lost its export market. The management of the industry is in a state of groping blindly in the dark for a new target.

What is to be manufactured, where can markets be found, whether to convert from jeans to, for example, production of lady's and children's clothing, whether present facilities can support such a conversion, how to deal with designers, engineers and operators--these are all questions that must be decided quickly so that immediate actions can be taken. In reality, however, the industry is simply seeking immediate orders without having a clear vision of its future.

Most existing Uruguayan garment manufacturing enterprises were initially founded around the time of World War II (in the 1940s) primarily to meet local demand. None of them are affiliated with the traditional Uruguayan wool or wool spinning and weaving industries, either in terms of capital participation or systematization of enterprises. Most of them are still private proprietorship enterprises.

Since they were founded during the 1940s and thereafter, those enterprises are now around 40 to 50 years old. 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. So far, they have been able to secure OEM contracts to manufacture denim garments from standard working cloth, but the feeling is that they have just barely managed to earn profits by taking advantage of the absence of competitors and by riding the current of the time. 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 within the last 10 - 15 years. 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.

For these reasons, many of the manufacturers have been forced into bankruptcy during last 2 or 3 years.

First of all, the local demand of the Uruguayan population of a little over 3 million could never support all of the existing denim garment manufacturers producing and selling so many licensed brands (Levi's, Lee, Adidas, Wrangler, HangTen).

In every country within the MERCOSUR sphere, there are either sales/production licensees or branch offices of the licensors, and Uruguayan licensees are not permitted to export into countries beyond the border of their licensed market.

It is considered advisable for the Uruguayan denim garment industry to restructure itself by terminating their current line of trade, or by progressively converting to denim garments for consumption through penetration of the retail end of the business, and diversity of goods, rather than to continue their current, small scale production business.

The time has come for the industry to decide which options to take. 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. Those which are capable of exercising product leadership in terms of design and fashion should be able to secure profitable export business. Certain enterprises are found to have succeeded in converting to small quantity/large variety production from conventional single item/mass production, in recruiting personnel competent in product development including designers and/or patterners, or in penetrating the retail business in order to secure increased disposable income.

As most of these enterprises are of private propreitor-ship, the owners often act as managers and technical directors without the assistance of competent and professional middle management and technical personnel. The current environment does not allow the recruitment and training of such personnel. As is often seen in Central and South American countries, antagonistic relations between management and labor are not uncommon. Laborers have no sense of contributing to the enterprise and tend to regard their employment as no more than a means of livelihood. So far, more weight has been placed on securing cheap labor so as to produce cheaper than competitors, than on differentiating oneself from the others by producing products of higher added value. More than a few enterprises are now realizing that they will not be able to survive without the assistance of competent middle management personnel, particularly in the areas of sales and production technology.

The structure of denim garment manufacturing businesses with respect to important brand policies may be categorized as follows into four types.

1) Enterprises that hold OEM manufacturing and sales rights within uruguay as the licensee of international brands

These enterprises are the licensees of such international brands as Levi's Lee, Wrangler, HangTen and Adidas, with the right to sell both wholesale and retail. With respect to export, their rights correspond to OEM manufacturing rights.

2) Enterprises that manufacture and export on the basis of orders

They are subcontracted by the brand holding licensor to manufacture and supply, on an OEM basis, to both the local market and for export. As orders from the United States of America have been reduced drastically, many of these enterprises have already terminated production or restructured themselves as sewing factories or subcontractors in other areas of the textile industry. Manufacture and export without the support of an international brand is almost impossible.

3) Enterprises with their own independent or similar brands who are engaged in the manufacture and sale of small lot, high added value, differentiated products.

The number of enterprises falling into this category is rather limited. They have developed their own planning and sales channels for survival. Although their brands are not well known to the general public, those brands are penetrating the peripheral areas of the jeans market such as accessories (shoes, socks, belts, bags and so on), and their brand images are being enhanced.

Although they are prevented from directly exporting to retailers in Brazil or Argentina because of the presence of other licensees or branches of the licensors, their own brands are not subject to such restrictions. However, they find it difficult to maintain an appropriate price level for such sales.

4) Local brands

They are priced extremely low to satisfy the local demand for ordinary work clothes.

### 1-2-4 Overview of the knit wear industry

The history and management policies of Uruguayan knit wear enterprises vary from one to another, hence product lines are also particular to each enterprise. Nevertheless, knot 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. That differentiation is becoming less applicable due to the fact that 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. Certain enterprises are operating directly controlled shops in Montevideo and Punta del Este primarily for sales to foreigners. Their export market is primarily the United States of America, but with slight differences from one manufacturer to another. Certain enterprises are increasing their exports to the United States of America, while others are decreasing their exports to that country. Other export markets are Argentina followed by countries within the MERCOSUR sphere, other Central and South American countries such as Chile and Mexico, and European countries. Hand knit manufacturers are exporting to Japan. Hand knit garment F.O.B. prices are 4 - 5 times higher than those of machine knot garments.

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.

Certain manufacturers use acrylic fiber for low priced items. Although synthetic fiber blended yarn is used relatively often elsewhere, its use is not yet common in Uruguay. The alpaca used comes from Peru while the cotton used comes from Peru, Paraguay and Brazil. Acrylic material is mostly imported from Germany.

Although most of the 14 knit wear manufacturers surveyed during the first field survey (July, 1991) predicted sluggish sales for the year, annual sales as confirmed during the second field survey three months later actually showed a slight improvement from the previous year for machine knit items; sales either slightly increased or remained much the same as the previous year. Sales of hand knit items are expected to increase from the previous year. These results could be due to model enterprises either proving competitive in the United States market, or successfully increasing exports to other countries in Central and South America to offset decreased sales in the United States market.

Other manufacturers were found to be unable to meet their production orders due to the retirement of employees, in particular due to the short supply of proficient technicians and other types of personnel urgently needed by these enterprises. The problem appears common, not only in the knit wear industry but also throughout the cloth weaving industry. Apart from low wages, labor management practices may be questionable.

## 1-3 The Retail Trade

### 1-3-1 Overview

Except for Punta del Este, a resort town briefly crowded with tourists during the summer season (December through February), retail trade is concentrated in Montevideo. The retail market in Montevideo is divided into a typical group of specialty stores located in the city center and an in-shop type shopping mall of international style that opened 2 yeas ago in an affluent suburban residential area.

Stores in the city center line July the 18th boulevard, avenue with relatively long approaches and whose visual impression creates a sales image clearly identified with stylish dressing. As retail shops in Uruguay are closed in the afternoon on Saturdays, Sundays and holidays, a traditional business practice, still common, is to offer extensive window shopping opportunities to as many consumers as possible in order to increase demand.

Clothing stores located in the shopping mall sell famous European and American brands. Retail shops located in the urban shopping arcade are of a diverse variety and display their goods well.

The number of customers is disproportionately small, compared to the number of retail shops. In the amusement quarter, window shoppers outnumber actual shoppers. This is considered to be due to the relatively high retail prices. While the other consumers' price level is about 1/10 that of Japan, garment prices are from 1/2 to 1/3 in comparison with those in Japan, thus limiting actual demand.

Many citizens seen in the street are dressed casually in jeans and the like, and many jeans shops can be found in the amusement quarter. Middle or lower class citizens are found to favor durability over fashion in their clothes, thus making the urban atmosphere somewhat sober. Substantial differences were found between the tastes of the upper class and those of the middle and lower classes. Fashion shows for the upper class are regularly held every season.

The reasons why the general public in Uruguay seems to favor durability over fashion in clothing may be that clothes are relatively high-priced and there are no fashion-oriented mass media organs. Magazines sold by street corner kiosks or magazine shops are mostly imported from Brazil or Mexico and do not encourage demand for fashionable garments.

The layout and displays of retail stores are strongly influenced by the Buenos Aires retail industry with European taste. The new-type shopping arcade located in center is a copy of a prototype in Europe, so it is assumed that Europe is the source of information relative to retail ship displays and merchandise assortment.

Many clothing shops can be found in every corner of the city. Garments such as party dresses are made by tailors from cloth brought in by customers. Though it is not possible to say decisively, it appears that order made clothes are purchased in Uruguay not only by upper class citizens but also by the middle and lower classes as well.

On the other hand, Punta del Este, known as one of the leading resort towns in South America, looks almost like a Mediterranean resort town during the season of December through February, with every street crowded. Exclusive retail shops line both sides of the street offering goods at prices 30 - 40% higher than Montevideo. Purchases are made only by residents of affluent vacation home districts.

It can thus be concluded that garment consumption in Uruguay is characterized by the existence of two groups of consumers with distinct behavior: on the one hand the upper class trends to purchase clothes much the same as those favored in Europe and North America, while on the other the middle and lower class general public favors durability over fashion. Although per capita GNP in Uruguay is higher than in Argentina, the Uruguayan general public's style of dress is plainer than prevails in Buenos Aires, perhaps due to difference in national characteristics.

The distribution system is primarily one of direct relations between manufacturers and retailers, without the intervention of wholesalers. Direct sales channels are well organized and are of a vertical nature as represented by retail shops which in many cases are directly controlled by manufacturers or part of a group of enterprises. The garment industry regularly sponsors exhibits in every season of the year, but those shows are individually organized and sponsored rather than joint trade fairs. A sluggish trend could be identified due to the influence of the recession in the United States of America and pressure from acute inflation of up to 130% (annual rate for 1990).

While exports from Uruguay are required to bear country of origin marks and labels showing quality and handling instructions, no such marks or labels were found on the products targeted for local consumption.

### 1-3-2 Within the city of Montevideo

(1) Specialty stores

For illustration, some typical stores are described.

An old establishment specializing in ladies' pret a porter clothing manufactures all its goods in its own factory. Merchandising is handled by the eldest son of the owner who studied in Yew York and Paris. The store's concept is feminine elegance with a European flair. It carries a full line of items with emphasis on jackets and suits.

Skirts include basics with some pleated, suit-in and jacket-in fine-gauge designs, while knit wear and blouses include simple basics as well as some embroidered items. Items actively promoted are casual coats, blousons and half coats as well as winter coats to ward off the cold, all of which are varied in detail and arranged in a rich display appropriate to the urban shopping environment. The basic colors are black, red and beige, but purple and other colors are also represented.

Another store specializing in men's clothing carries a full line of items for all ages. The store caters to the middle class with casual jeans and everyday clothing. Its merchandising is centered around import brand jeans and includes jackets, slacks, suites, shirts, etc., targeting the broad demand.

The basic line is made from 14 ounce stone washed denim, in five pocket straight and boot-cut silhouettes.

The best selling items are blousons with fake fur lining and parkas.

Another store specializes in men's general heavy clothing. They manufacture all their own goods including ready made as well as bespoke items. jackets and suits are the merchandising mainstay, while wool blousons, slacks, and coats are also carried.

The materials used are shell-fabrics including a very heavy velour type tweed. The interlining used is much harder than that used in Japan, resulting in clothes with a strongly practical character. Slacks are detailed as either no tuck or one tuck with plain cuffs. Bespoke costs 25% extra and takes 10 days.

(2) The Shopping mall

Shopping mall stores tend to carry all-ages men's or lady's goods, with the exception of jeans shops catering to the young. This is assumed to be in order to avoid risk during slow periods and to allow consumers to make safe selections.

Prices are set rather high. When compared with the urban specialty stores, goods made from domestic shell-fabrics are priced about 80% higher and those made from imported shell-fabrics are sometimes priced 150% higher.

Several stores worthy of notice were found, both men's and lady's.

Remarkable for knit wear is a shop run by a hand knit enterprise. Sweaters made from material of excellent feel are on display, such as is seldom found in Japanese knit wear stores where woven fabric takes up most of the space and knit wear is shrinking except for high gauge inner wear. Hand knit garments made of hand-spun, kettle-dyed, 100% pure new wool are displayed very pleasingly. Goods are directly sold by the manufacturing enterprise which was founded in 1968 as a women's union and in 1989 won the French gold medal. There are diverse motifs including geometrical patterns, deformed flower patterns, ecology themes and animals. Retail prices are 159 - 265 thousand pesos (about US$ 80 - 133) for a pullover depending on whether only the front is patterned, or the entire garment, and the degree of added value.

On the general clothing market, in the midst of the steady consumption activity, imported items bearing national brands are noticeable. Competitive factors including quality, price, shop location, and sales power do not seem to have been taken adequately into account. Similarly to Japan where most large scale national brands are obliged to restructure themselves, it is believed that Uruguay will enter such a transitional stage in the not too distant future.

In the jeans market, which appears to be saturated, efforts are being made to promote value added items including detail variations such as accessories and attachments, and embroidery (appearing very escalated) to replace basic products. Results of these efforts in the limited market would be worth notice.

### 1-3-3 Punta del Este

(1) Fashion

Punta del Este appeared to lack bustle in the period prior to the arrival of the regular season. When Punta del Este fashion as of October, 1991 is analyzed, items for the young worth notice are: jeans, short pants (plain and pattern), denim short pants, denim mini-skirts and spats in the category of bottoms; and print T-shirts, (logo and design), marine border T-shirts, tank tops, bear tops, and polo-shirts in tops.

For adults we saw cotton pants, comfortable denim, Bermuda pants, and denim culottes in bottoms; and piece dyed plain color polo-shirts, yarn dyed mercerized cotton single jersey polo and knit shirts, and cut saw in tops. Also worthy of notice were plain color, striped and print cloth shirts often combined with a swing top for men or with a summer sweater for women.

The strong influence of California west coast and European resort styles is noticeable in both young and adult fashion. Some young people are found to be wearing simple T-shirts, showing a strong North American influence. The colors are white and navy blue as the base, but also including vivid blue, opera pink, and green which harmonize well with the bright whitish rows of stores and houses on the streets which may remind one of a Mediterranean scene.

(2) Shopping district

The group of stores facing GORLERO avenue which runs through the city from north to south comprises independent shops and a small shopping mall. Leather goods shops, knit wear shops, children's wear shops, household articles shops and realtors are noticeable. Many shops specializing in general clothing are branch stores of Montevideo, Positos or Carasco. There are also boutiques under direct control of designers and stores under direct control of manufacturers. One distinguishing feature may be that use of imported materials and direct import sales are common except for knit wear and leather goods.

Those carrying full lines of lady's clothing make up their displays with items like single jersey knit cut saw garments made of high count yarn dyed mercerized cotton from France, U.K.(Pringle), Italy, and Australia, and Georgette crepe, organdy print blouses, and shirt dress as the main attraction. The colors are mostly vivid colors of strong contrast.

Pierre Cardin runs two shops each for men's wear and for women's wear. Women's wear is directly imported from Pierre Cardin in France, Germany and Italy.

The men's wear of Saint Laurrent and Pierre Cardin is mostly sewn in Uruguay using imported materials. Another shop carrying a full line of men's wear sells garments from suits to boating clothing including a small quantity of yacht wear.

Those especially targeting upper class villa clientele carry small quantities of regular yacht wear directly imported from Italy. Another shop specializes in party dresses made mostly of lame with spangles: a very clear concept. Apart from apparel, there are shops specializing in yacht and cruiser furniture and copper household articles.

The season starts in mid-December. January and February are the busiest months.

## 1-4 Other Related Industries

The garment industry in Uruguay includes nucleus enterprises which are highly export oriented and manufacture in compliance with the specifications of their clients. They do not engage in their own independent product development nor in their own sales promotions including fashion events. In contrast, designers and upper class specialty shops organize their own fashion shows to publicize their products and often organize charity fashion shows as a part of regional volunteer activities.

There are four schools for the education and training of show producers, event promoters and fashion models. Many students are from upper income bracket families who are given education in basic skills. There are 20 professional fashion models in Uruguay, some of whom have appeared in Paris collections. Unfortunately, there are no more than 20 fashion shows a year in Uruguay and these fashion models are obliged to have second jobs.

The number of enterprises that sponsor event promotions is limited. One of them is recognized as world class and has good connections in political and business circles as is needed to promote international events. Certain enterprises order sales promotion giveaways and novelties from this company. There has been no instance of ordering an event plan.

## 1-5 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 Diseno Industrial (CDI).

### 1-5-1 Universidad del Trabajo del Uruguay (UTU)

(1) Overviews

Address : Convention 1209, Apto 201, Montevideo

1) This is a national educational institution founded in 1979 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.

2) School course and standard ages

- 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 Paysandâ.

3) Number of students and target of education (As of July, 1991)

**Table** II-1-1 shows the number of students and target of education.

**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

(2) Dress and ornament course

1) Though primary and middle courses have been available for some time, the upper course was only initiated in 1989 and no student has yet been graduated.

2) Content of educational curriculum

The content of UTU's educational curriculum is shown in **Table** II-1-2.

Table II-1-2 Content of educational curriculum

| Primary course | Middle course | Upper course |
|---|---|---|
| Exercise I (Cutting & Sewing, elementary) Technique (Materials machine construction elementary) Drawing | Exercise II Technique II Office work of enterprise, Prevention of labor hazard, Design, Computer, Mathematics, Physics, English, etc. | Tailoring of clothing, Exercise of leather and fur, Exercise of knitting, Textile technique, Design, Quality control, Maintenance, Work analysis, Safety, Laboar law and regulations, Management control, etc. |

Source : UTU information

3) Upper course

The number of students is 20 in the first year, 6 in the second year, and 2 in the third year, totaling 28, out of which there are only 3 made students. Those holding a middle course diploma can be admitted without examination. The curriculum of the upper course is as shown in Table II-1-3.

Table II-1-3 Upper course curriculum

| Curriculum | 1st year | 2nd year | 3rd year | 4th year |
|---|---|---|---|---|
| Tailoring | 8 | 8 | 5 | |
| Leather, fur | 5 | 5 | 3 | |
| Textile | 4 | 4 | 3 | |
| Overall | | | | 8 |
| Spinning/weaving technique | 2 | 2 | 2 | 2 |
| Design | 2 | 2 | 2 | 2 |
| Quality control | | | 2 | 2 |
| Maintenance | | | 2 | |
| Work study | | | 2 | 2 |
| Safety | 2 | | | |
| Labor law/regulation | | | 2 | 2 |
| Management control, organization of enterprise | | | 2 | 2 |
| English | 2 | 2 | 2 | 2 |
| Information | | | | 3 |
| Mathematics | 3 | 3 | 3 | |
| Physics | 2 | 2 | | |
| Chemistry | 2 | 2 | 2 | |
| Geometry, economics | | 2 | | |
| Human studies | 4 | 4 | 4 | |
| Sociology (Optional) | | | | 4 |
| Weekly hours | 36 | 36 | 36 | 29 |

Source : UTU information

The curriculum has been prepared by including garment related texts used in neighboring countries such as Brazil and Argentina, with reference to German or Italian texts and by incorporating the comments and requests of the garment and knit industries.

Practice facilities include no more than 10 sewing machines, a hand flat knitting machine, design rules and the factories of cooperating enterprises.

4) Special characteristics of UTU

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 [SENAY] 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.

The number of dropouts is higher in the lower grades: the 20 students currently left in the first year is what remains of the 40 students who were originally admitted. The most common reason for dropping out is to start working as soon as some elementary skills have been acquired. Under the circumstances, a system that allows students to work while continuing to study is considered quite meaningful.

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.

5) 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.

**1-5-2 Centro de Diseno Industrial (CDI)**

Address : Migerete 1825, Montevideo

(1) Particulars of foundation and current status

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 US 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