trainees. The project was agreed upon during a visit of the Uruguayan president to Italy. A basic design study was conducted during the year prior to foundation of the institution. On the basis of the report submitted as the result of the study, specifications of equipment to be provided and the program of technical cooperation were established. The Uruguayan government agreed to bear the cost of replenishing consumable items and the cost of maintenance and control of facilities.

(2) Qualification for admission, subjects of examination, and subjects of study

1) Qualification for admission

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

2) Subjects covered by admission examination

The subjects covered by the admission examination are design image drawing, history and mathematics. The examination spans several days, each day covering one subject.

One hundred students applied for admission in 1990, out of which 25 were admitted. Those applying for the garment course decreased while those applying for the industrial course increased in 1991.

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

As of 1992 and onward, the term of study and course have been modified as follows.

Up to 1991 - Basic subjects for 2 years, specialized subject of study for 1 year - 3 year term of study.

Since 1992 - Basic subjects for 1 year, specialized subject of study for 3 years 4 year term of study.

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

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

Eleven candidate graduates (two from the garment course) out of 18 stayed in Italy as trainees during a three month period beginning in February and ending in April 1992. They were dispersed to various parts of Italy in order to seek out the best opportunities for their individual specialties. Seven candidate graduates who did not stay in Italy made up the training by a correspondence course. As of July 1992, those 18 candidate graduates are working on graduation theses and are expected to graduate in August 1992.

3) Subjects of study (1992)

<Basic subjects of study> 1st year	Design, creation I, drafting I, sketching, symbology, cultural history I, work methodology, mathematics, physics, psychology, graphic atelier
<Industrial design course> 2nd year	Design, creation II, drafting II, sketching, cultural history II, initiation of information processing, science and technology, theory and technology of communication, technology (raw materials), graphics, ceramics and woodwork atelier.
3rd year	Design, creation III, drafting III, history of design industry, technology II, marketing science, computer graphics I, photography, graphics,ceramics and woodwork atelier
4th year	Design, creation IV, laws and regulations on products, management science, technology III, history of design, cost and profitability, computer graphics II, graduation thesis, photography and video, graphics, ceramics and wood atelier
<Textile/garment course> 2nd year	Design and creation (textile), design and creation (print pattern), cartography, history (textile), initiation of information processing, science and technology, theory and technology of communication (raw material), modern art, textile atelier
3rd year	Design and creation (textile), design and creation (fashion), design and creation (print pattern), history (fashion), accessories, textile technology, cutting and modeling, marketing, graphic computer, fashion and sociology, print fabric, silk screen, knit and sewing atelier
4th year	Design and creation (fashion), history of fashion, cutting and modeling, cost and profitability, fashion show and collection, management science, computer graphics, product fashion, fashion illustration, laws and regulations on products, graduation thesis, print fabric, silk screen, knit and sewing atelier

1-5-3 Development of human resources for the garment industry

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

Both institutions are waiting for the graduation of students from the advanced course of Universidad de Trabajo del Uruguay (UTU) and are providing cooperation and certain

needed equipment for on-site practice.

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

1-6 Product Quality Measures and Activities

1-6-1 Product quality activities sponsored by the Uruguayan government

As mentioned earlier in Part I, Chapter 2-5, LATU is providing quality assurance services for export products. Its service for meat products has been identified as meeting international standards. Although textile related products are included in the scope of its services, so far its services have actually been applied only to yarn and not to garments. although the textile division of LATU is staffed by 3 engineers who run it, outside specialists are hired and dispatched to businesses in order to provide technical guidance. The cost of dispatching these specialists is shared equally by LATU and the businesses. Relatively large scale businesses are taking advantage of the program, the content of which is as follows.

- Carrying out the quality control program

- Assistance in handling claims

- Use of facilities whose cost is beyond the reach of private sector enterprises

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

1-6-2 Standards, product markings

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

Instituto Uruguayo de Normas Tecnicas (UNIT) is a private sector institution that is also involved in standards and

product marking.

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

UNIT's principal areas of activity are as follows:

- Standard related work

- Collection and dissemination of standard related information

- Disseminating information on quality control programs (seminars, technical guidance)

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

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

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

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

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

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

Both CIV and PIU recognize a need to provide markings on products for local consumption. CIV has begun to take actions in cooperation with LATU to enforce the marking of products for local consumption. It is considered very important to provide markings that lead to upgrading, the promotion of exports and to the protection of local consumers.

Chapter 2 Present Status of Garment Industry

2-1 State of Activities of Industrial Associations

2-1-1 Textile industry related industrial associations belonging to Camara Industrial uruguayo

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

(1) Asociacion de Fabricantes de Botones, Herrajes y Accesorios para Cueros y Confecciones

(2) Asociacion de Fabricantes de Fibras Sinteticas y Artificiales

(3) Asociacion de Fabricantes de Prendas de Tejido de Punto

(4) Asociacion de Fabricantes de Prendas para la Industria

(5) Asociacion de Industrias Textiles del Uruguay

* Sector Fabricantes de Filamentos y Fibras Sinteticas Artificiales
* Sector Fabricas de Medias, Calcetines y Zoquetes
* Sector Hilanderias y Tejedurias de Lana
* Sector Hilanderias, Tejedurias y Terminacion de Algodon, Seda y Fibras Sinteticas y Artificiales
* Sector Peinadurias de Lana
* Sector Varios (Cintas, Elasticos, Hilos, Cordones, etc.)
* Sector Tejidos de punto y Malleria en General

(6) Asociacion de Lavadeeros de Lanas

(7) Camara Industrial de la Vestimenta

2-1-2 Relations between Camara Industrial and each Asociacion de Industrias

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

2-1-3 Asociacions de Industrias related to textiles

Each Asociacion de Industrias which registers its membership in Camara Industrial del Uruguay is positioned as summarized in Table II-2-1.

Table II-2-1 Positioning of each Asociacion de Industrias related to textile

Distinguishing feature	Asociacion
- Asociacion with largest number of members	Camara Industrial de la vestimenta (CIV) or Asociacion de Industrias Textiles del Uruguay
- Asociacion with largest number of member enterprises	CIV
- Asociacion with largest sales	Asociacion de Industrias Textiles del Uruguay
- Asociacion with largest exports	- Ditto -
- Asociacion with strongest right to speak	- Ditto -

2-1-4 Overview of Camara Industrial de la Vestimenta (CIV)

(1) Foundation, number of member enterprises,number of employees

1) The chamber was founded in August, 1964.

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

As shown in Fig. II-2-1, illustrating breakdown by size, the number of enterprises with 50 - 100 employees is the largest.

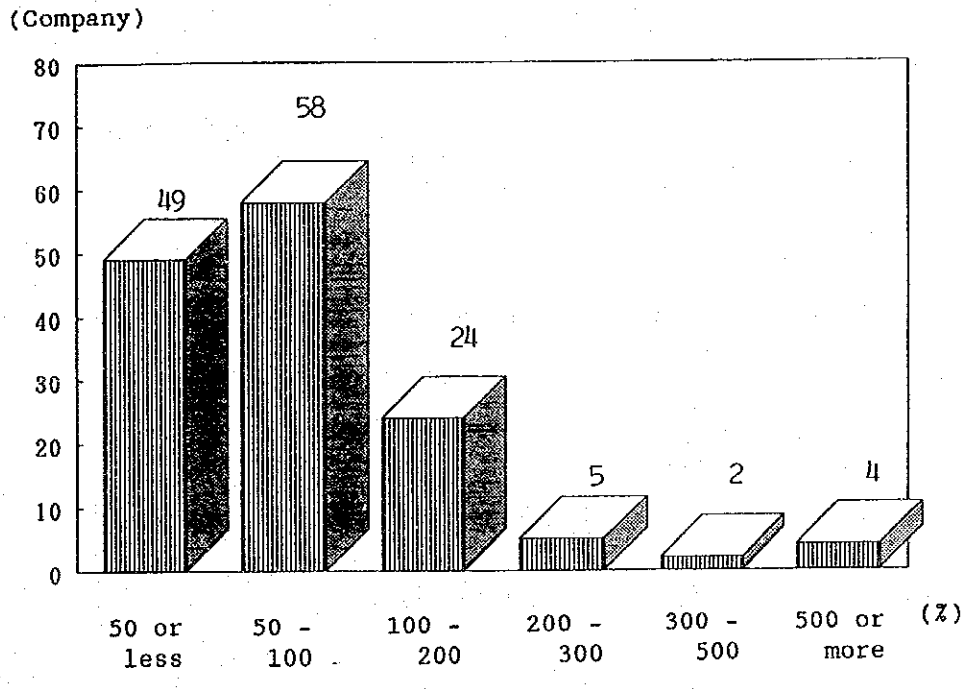


Fig. II-2-1 Number of employees of member enterprises

Source : Hearing Records of CIV

3) The total of number of employees of member enterprises is about 8,500. When the employees of non-member enterprises are included, the total is about 10,000

4) Level of exports by members of CIV

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

(2) Details of activities

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

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

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

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

4) Assistance to members enterprises in settling labor disputes

2-1-5 Punto Industrial Uruguayo (PIU)

(1) Foundation, number of member enterprises, number of employees, exports

1) PIU was founded in 1973. Prior to that, it had existed as one of members in Sector Hilanderias y Tejedurias de Lana.

2) At the time of foundation, 17 companies, equal to 50% of the

existing knitwear manufacturers, joined. As of now, 65 enterprises out of the existing 95 companies participate. These 65 members cover almost 100% of exports and 80% of the total production of knitwear.

3) About 26 large scale companies out of 65

a) Sales

As shown in Fig. II-2-2, 11 companies are recording sales per year of more than US$ 800 thousand while 9 companies have annual sales of US$ 250 - 800 thousand and 9 companies have annual sales of less than US$ 250 thousand.

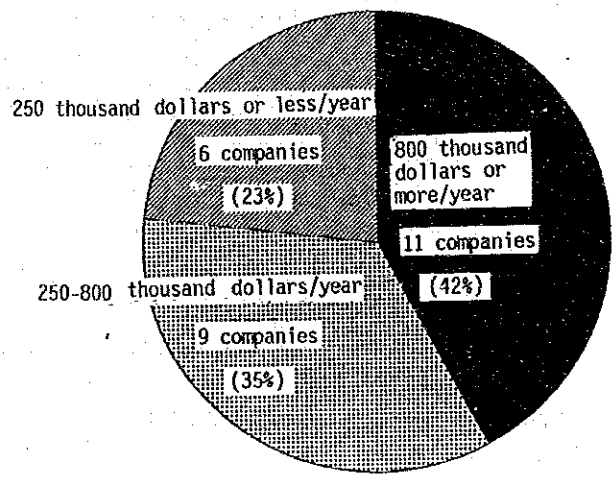


Fig. II-2-2 Annual sales of the 26 large scale companies

Source : Information provided by PIU

b) About 70% of total knitwear exports are made by these 26 companies; they also manufacture 72% of products consumed locally (20 companies are export oriented, 6 are local market oriented).

c) Twenty out of these 26 companies manufacture woolen products, one enterprise manufactures cotton products and 5 manufacture synthetic fiber products.

d) These 26 companies employ about 6,000 people.

Breakdown: 4,000 - work at home
2,000 - work in a factory

4) Exports by member companies of PIU (1990)

Table II-2-2 shows the breakdown of exports by member companies of PIU.

Table II-2-2 Exports

[Unit : 10 thousand US$]

Breakdown	Hand knit	Wool	350
		Cotton	210
		Others	40
		Sub-total	600
	Machine knit	Wool	800
		Cotton	50
		Others	50
		Sub-total	900
Total of export		Approx.	1,500

Source : PIU information

(2) Activities

1) Coordinating export quotas under bilateral trade agreements (with Argentina, Brazil, Chile and Mexico)

2) Collecting and summarizing statistical information

3) Assisting in the settling of labor disputes

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

4) Providing information pertinent to technological innovation and personnel development

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

2-2 Management Organization

2-2-1 Model companies

(1) Particulars of model company selection

This study was undertaken with the intention of surveying in detail the current state of the garment and knitting industries in Uruguay. Because it may not be practically possible to survey the more than 200 member companies of both associations, 14 model companies (5 wool textile garment manufacturers, 4 denim garment manufacturers, 5 knitwear manufacturers) were selected through screening for detailed survey. The method of survey shall be covered in the next section and summarized in the summary of materials.

(2) Overview of model companies

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

The average number of employees of the 14 model companies surveyed this time is 330 (maximum 900, minimum 58), representing the top ranking companies in the industry (Table II-2-3).

Table II-2-3 Number of employees of model companies

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

Source : Field survey

An outline of the model companies is shown in Table II-2-4.

Analysis of management strategy, labor relations, personnel development, quality control, and inspection and production control was made by way of comparison with indexes applicable to industries structured to produce high added value. The analysis therefore may not be applicable to uruguayan industries for immediate implementation. It may be set forth as a target to be achieved step by step through the joint efforts of management and labor.

Table II-2-4 Outline of model companies

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

Source : Field survey

2-2-2 Management strategy

The management strategies being followed currently are various. The more complex the market and related technology innovations, the more management comes under pressure to adjust its management concept and consider innovations in production systems and production control. When viewed from a management stand point, the needs presented by these complex trends may be summarized as the following 3 steps.

(1) Forecasting of future market trends and early steering

(2) Planning of corresponding management strategy

(3) Improvement of internal efficiency

How the Uruguayan garment industry has tried to implement these 3 steps shall be analyzed in this section.

(1) Forecasting future market trends and early steering

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

Even now, Uruguayan companies are still positioning themselves as mere processing subcontractors dependent upon inquiries from overseas buyers. Some managers were found to believe that "voluntary market survey and market development are not necessary." They also interpret the loss of the US market as a transitional phenomenon (a business cycle fluctuation) and believe that "the US market will recover to a high level within 1 or 2 years time." No serious thinking nor concrete measures to try to comprehend market trends and renovate their course of management can be sensed.

Companies engaged in systematic market research are limited to only a very few; many forecast market trends merely on the basis of past records. Few instances of establishing a system or taking active measures to incorporate market information into management decisions could be seen. Company presidents and other managers travel abroad several times a year in order to follow trends in overseas fashions, but are limited by the extent of their own sense in these matters, and tend not to pay much attention to the state of international political or economic affairs. The channels of communication for exchange of information within the industry are limited to only personal connections. No official institution actively assists the industry in this respect. It appears that most managers of individual companies devote their efforts only to sales activities

thinking that they are developing markets for their products. The reason may be that the cost of market research exceeds by far what can be absorbed by a single enterprise.

There were few instances seen of a company introducing a new line of products into the market or creating a new line of fashion.

(2) Sales strategy

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

1) Development of new markets for an existing line of products

2) Activation of an existing market for a new line of products

3) Exploration of new markets by introducing a new line of products

The era when the market would wait open-mouthed for products has long passed. Companies are now obliged to identify potential needs of consumers and how they can take advantage of such needs within the limit of their resources, in order to survive the fierce competition. Accordingly, production facilities, production capacity and processing capability must be thoroughly analyzed in order to identify the strengths and weaknesses of the enterprise. Such analysis must be made objectively on the basis of factual data, instead of being made subjectively by managers on the basis of their personal feelings. Again, the conditions found were not particularly encouraging. The current state of the industry has not yet advanced even to the level of section (1) above. Significant fluctuations in the market are anticipated as the result of implementation of MERCOSUR, but no study has yet been made of the proper actions to take.

MERCOSUR could mean the enlargement of the market from Uruguay's population of 3 million to a combined population of almost 200 million. Competing industries in Argentina and Brazil are believed to be significant more developed and better prepared. Uruguayan industries will be confronted with enormous competition when MERCOSUR is implemented. In the current state of affairs, the Uruguayan industry still lacks a firm sales strategy.

(3) Improvement of internal efficiency

No serious plans to improve the internal efficiency of a company can possibly be made when the company has no firm sales strategy. Internal improvement efforts including capital investment, selection of new equipment, arrangement of equipment and so on will very likely be delayed. Measures for improvement of quality and productivity, and personnel development will have to be planned independently from capital investment and for immediate implementation. Nevertheless, many companies appear to believe that "efficiency is directly linked to the capacity of facilities," and tend to delay actions to solve problems which require urgent attention.

For instance, enormous stockpiles of yarn in factory warehouses and piles of surplus semi-finished products beside the lines in factories were seen. There are also many cases where operators are used simply to push the starting button of automatic equipment, the operation of which they subsequently watch, cases of inefficient, crossing flow of materials and operators, and cases of inefficient utilization of equipment.

There exist many problems to be solved such as improvement of existing process layout, the attitude of management towards production, improvement of equipment operation systems and so on. Efforts in these areas could be very rewarding in terms not only of quality but also of

production costs. Again, management does not seem to be paying much attention. Even when these problems are recognized, no technical resources are available for the implementation of improvements.

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

2-2-3 Labor relations

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

1) summarizing opinions of general employees and presenting demands to management, and

2) coaching employees in general on how to carry out their responsibilities within the company.

Very few labor unions are considered to be capable of meeting both of these responsibilities which are somewhat contradictory and in opposition. To begin with, there are no documented rules such as employees' service regulations.

Both management and labor are not fully mature in their approach to labor relations.

Consequently, the mandatory minimum wage is used as the starting point for structuring wage systems. (The mandatory minimum wage, as of July 1991, was about 90 US$ per month.)

Employees in general have very little desire to participate in management, thus resulting in high resignation rates, high rates of absenteeism, and high product rejection rates. **Table II-2-5** summarizes resignation rates and rates of absenteeism at several companies surveyed. One enterprise located in a rural region is enthusiastic in its efforts to educate employees and has been rewarded for its efforts with the smooth conduct of employment and retirement affairs. In contrast, most companies are plagued by personnel management problems. Because of high rotation rates and short durations of employment, employees may not accumulate sufficient skills to perform their jobs proficiently. As a result, their poor performance can fuel mistrust by management.

Table II-2-5 Rates of absenteeism and resignation

[Unit: %]

Company	Absentee rate	Resignation rate	Remarks
A	12	20	
B	10	25 - 30	One half is voluntary
C	7	30 - 40	
D	7	35	One half of resignations result from marriage
E	6 - 9	30	
F	---	30 - 35	
G	8 - 10	3 - 5	Max. 5%
H	Bad	20 - 25	May discourage worker morale
I	2 - 4		Contract is renewed every 3 - 4 months.

Source : Field survey materials

2-2-4 Personnel development

Although personnel development is indispensable for the improvement of labor relations, it cannot be achieved by individual companies alone, the reason being that people potentially capable of becoming middle managers, or even proficient sewing laborers, are definitely in acutely short supply in Uruguay as a whole. Classified ads in newspapers rarely draw responses. Time and money spend in developing employees within a company would never be rewarded because such efforts would only encourage other companies to headhunt those talents. Every company is eager to recruit appropriately skilled employees from outside sources and desists as much as possible from developing them internally. Some may wish to have appropriate legal actions enforced to prevent such headhunting. On the other hand, considering the employee's interests, it can't be denied that they are always willing and ready to move anywhere for better compensation whenever the results of their efforts at self edification and skill development are recognized.

As a consequence, the more an enterprise tries to develop personnel internally, the more likely it is to lose those employees. Management is well aware of this dilemma. No manager denies the need to develop skilled personnel, but they feel they are prevented from taking any initiative in this direction.

It is said that the situation in other industries may not be as extreme as in the garment industry. Uruguayans in general are said to be industrious and to hold a sense of commitment to the company. The earlier mentioned immaturity of both management and labor in labor relations may account for this phenomenon.

The answer may be found in a system to jointly establish an outside educational institution, as was done a few years ago. Several manufacturers actually cooperated to establish such an institution by contributing equipment and other items as needed, but without success. Although reasons for the failure have never been made clear, it is assumed that it may have been due to problems in contribution of operating funds, treatment of graduates and absence of management personnel from their companies, none of which is easy to solve. The support and assistance of public institutions may serve to encourage managers to send their employees to such an institution.

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

1) Learning techniques, skills and knowledge particular to the garment industry.

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

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

3) Understanding methods of controlling productivity and what to look for in order to improve the work place. As is often

said, work places hold many potential problems which may bring rewards if dealt with properly. Developing eyes capable of identifying such problems is important. Once identified, having the wisdom and tenacity needed to solve the problem is just as important, but in any case, the "eyes" to identify must come first.

In conclusion, it may be said that the garment industry in Uruguay has good potential, though at present it is faced with many problems to solve.

2-2-5 Quality control and inspection

The importance of quality control was touched upon in the preceding section. It is far more important however that quality control is actually implemented and firmly exercised. To take the natural course of simply screening products by inspection after manufacturing is contrary to the principles of quality control because the cost of rejected products is not recoverable. Efforts must be focused on producing quality during manufacturing in order to yield 100% good products.

Instances of Uruguayan garment manufacturers dealing with production from such a point of view are quite rare. Many manufacturers are satisfied with conducting a 100% inspection of their products at an intermediate stage and then the packaging stage to maintain a certain quality level in shipments.

They seem to interpret such an inspection system as a quality control activity. It is very likely that none of them has full and accurate knowledge of rejection rates. The actual levels of rejection are as high as 5 - 8% at the finished product stage and 10 - 25% at the intermediate stage. No information is recorded with respect to man-hours spent on correction and readjustment; such man-hours certainly contribute to increased production costs. Of course, inspection is an important and indispensable part of

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

1) Judgment of acceptance or rejection based on reasonable inspection standards

2) Process improvement achieved through timely feedback of inspection information

3) Prevention of difficulties in processes, as a routine part of overall quality assurance program

Actual inspection activities are very much dependent upon the skill of individual inspectors, partly due to the esthetic and sensuous factors involved. Nevertheless, no program of education and training of inspectors was seen. No inspection standards, limit samples nor inspection jigs were identified as readily available to inspectors.

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

Although the need exists for acceptance and rejection inspection standards to be coordinated between plural inspectors, no such program of coordination was seen. As a result, the inspection procedure often ends up being simply a trivial rechecking of certain dimensions. In other words, the inspection procedure involves committing the most competent workers to a simple check and confirmation procedure. The current situation is believed to contribute to the "dependence upon inspection" and "stagnation of quality consciousness" prevalent among workers.

2-2-6 Production control and productivity

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

Several manufacturers are using computers for the control of day to day production scheduling and delivery scheduling. In most instances the computers are being used simply to replace ledger systems; very few are used to track the speed or progress of production. Order acceptance is very often dependent on the intuition and experience of managers, with respect to correlation with internal load capacity and production in progress. Subcontracting is often utilized as a temporary by-pass solution when there is too much work, as the result of the inexact order acceptance system. However, there is not sufficient control of the subcontracting system, such as guidance in production scheduling or assistance in upgrading the production capability of subcontractors. The urgency of delivery may result in sacrificing product quality. Poor quality work by subcontractors can sometimes delay delivery.

For the most part, plant and equipment were found to be antiquated with the exception of 2 or 3 companies. This situation is considered to be due to the absence of long term business planning and hesitation by management in making capital investment or perhaps a lack of funds. Some managers explained it away as the result of poor profit margins in the past.

In certain cases it was found that the enterprise should have been able to renovate its production line during a past period of good business. Deficiencies in plant and equipment are often compensated for by manpower. Though antiquated plant and equipment may require an intensive maintenance and repair program, no concrete actions were identified in this regard. About one half of the 14 companies surveyed have their own repair and maintenance facilities in one way or another, and one half have a periodic maintenance program.

Many highly rewarding possibilities of making improvements with very little capital investment were identified in the areas of peripheral equipment, the space between adjacent pieces of equipment, and overall plant layout and arrangement. Management is often too busy to identify such possibilities and there is no mechanism that allows operators on the plant floor to point them out. As the result, everything is simply left as it is, unimproved. If not accustomed to improvement, no one can identify an opportunity to improve. It suspected that the garment industry in Uruguay is chronically plagued by insensitivity to improvement. Yet, a company located in a rural region contracted a German consultant to improve its production line. It was rather surprising to find that production line neatly rearranged.

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

1) To clarify the actual state of processes and production

2) To assist in stabilizing processes and production

3) To assist in process improvement and facilitation of production

4) To assist in education (conveyance of will) and understanding

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

2-2-7 Financial control

Financial information is often kept confidential and analysis is limited to the extent of collected information. (**Table II-2-4** and **Table II-2-5.**)

(1) The amount of capitalization varies from one enterprise to another, perhaps under the influence of the high inflation rate. In cases where owned capital has been unsupplemented since initial pay-up, what is needed to make up the deficit is borrowed capital, which will lower the proportion of owned capital. Accordingly, indexes, turnover of capital, lock-up of capital, and capital to earnings ratios cannot be the subject of comparison.

(2) Analyzing stability on the basis of liquid capital, the ratio of liquid assets to liquid liabilities tends to be small, indicating instability in the management of these companies. Out of 9 companies surveyed,most of them, except for 1 or 2, have rather low indexes. The simple mean value of this index for th 4 wool garment manufacturers and 3 denim manufacturers is a low 119.7%.

The mean value for the Japanese textile industry is 172.1% while the mean value for the Japanese garment industry is 164.7%. This means that the Uruguayan garment industry is very much in debt. Exactly who the lenders are is not known. It is possible that the lender is often the owner of the household proprietorship enterprise himself.

(3) Looking at product potential from the viewpoint of gross profit ration (turnover versus turnover gross profit), the simple average for the above mentioned 7 companies is 39.4% which is rather high (max. 56.4%, min. 26.9%, R=26.9%).

(4) Looking at earning ratios using the metric of business profits to total capital, the mean value is again fairly high. The simple mean of 6 out of 7 of these companies is 21.5% (max. 33.6%, min. 6.7%, R=26.9%). The other company is in deficit and hence was excluded.

(5) The simple mean of the business profit to turnover ratio, for these 7 companies, is 18.6% (max. 226T, min. 8%, R=18%) which is higher than the average in Japan.

(6) Gauging productivity from total turnover profit (gross profit) per day per employee, the simple mean for these 7 companies is 47.7 thousand N$ (max. 119.6 thousand N$, min. 13 thousand N$) which, considering the value of Uruguayan currency, really can't be said to be that low.

In summary, it may be said that the Uruguayan garment industry in general is in satisfactory condition as far as turnover and profitability are concerned, but its financial standing is not quite satisfactory. It must be kept in mind, however, that the figures quoted above only apply to selected model companies. It is suspected that the remaining small scale companies are not capable of earning similarly high profits.

Table II-2-6 Financial analysis (B/S, P/L)

Company	Number of employees	Number of working days	Total capital	Owned capital	Liquid liabilities	Liquid assets	Fixed assets	Net turnover	Prime cost	Gross profit	Business profit	Working profit
A	480	282	516.5	163.5	350.2	297.1	219.4	335.7	188.9	146.8	68.5	- 56.8
B	227	244	282.3	19.3	220.4	243.1	39.3	295.0	182.8	112.2	73.5	6.5
C	750	256	1,135.2	50.4	873.3	277.7	857.5	442.5	317.6	124.9	75.6	20.5
D	474	185	303.5	80.3	149.5	225.8	77.6	930.2	405.6	524.6	74.7	74.7
E	176	236	213.6	156.6	57.1	141.9	71.7	276.4	133.6	142.7	71.9	36.4
F	281	242	195.6	46.3	117.4	136.6	59.5	254.5	163.9	90.6	55.8	6.7
G	158	304	233.8	60.2	168.3	160.1	73.8	284.1	207.8	76.4	42.3	33.7
H	58	240	57.7	36.7	14.5	45.3	12.4					
I	63		80.5	13.0	67.5	47.4	33.0					

Source : Field survey

Table II-2-7 Financial analysis

Company	Business profit /Total capital	Working profit /Total capital	Working profit /Owned capital	Business profit /Turnover	Business profit /Number of employees	Working profit /Number of employees	Liquid assets /Liquid liabilities	Fixed assets /Owned capital	Owned capital /Total capital	Working profit /Turnover	Gross profit /Turnover	Gross profit [US$] /Number of employees	Gross profit [US$] /Total man-day
A	13.3	-	-	20.4	US$1,426	-	84.8	134.2	31.6	-	43.7	3,085.5	10.85
B	26.0	1.4	33.7	24.9	3,243	US$286.5	110.2	203.4	6.8	2.2	38.0	4,942.5	20.25
C	6.7	2.1	40.7	17.1	1,009	273.5	31.8	1,703	4.4	4.6	28.2	1,665.5	6.5
D	24.6	24.6	93.0	8.0	1,576	1,576.0	151.0	96.6	26.5	8.0	56.4	11,068.0	59.85
E	33.6	17.0	23.3	26.0	4,083	2,068.0	248.6	45.8	73.3	13.2	51.6	8,111.0	34.35
F	28.5	3.4	14.4	19.0	1,986	236.5	116.4	128.4	23.7	2.6	30.9	4,645.5	19.2
G	18.1	38.8	56.0	14.9	2,674	2,133.0	95.1	122.5	25.7	11.9	26.9	4,829.0	15.9

Source : Field survey

2-3 Product Planning Power

2-3-1 Merchandising

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

There is a strong trend towards oversupply on the world garment market, and the level of competition is becoming more and more fierce. Under the circumstances,it is imperative for survival to comprehend the needs of consumers before one's competitors, and to plan, manufacture and sell products corresponding to those needs.

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

2-3-2 Creators

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

contracts with in-house and independent designers and endeavor to establish their own original planning under their own brands. However, in-house designers often number no more than one, who is often under concurrent contract with other manufacturers. Most subcontracted garment manufacturers have no in-house designer.

Certain subcontracted garment manufacturers are of the opinion that "Buyers are supposed to be accurately informed of market trends and fashion trends. It is impossible and meaningless for Uruguayan garment manufacturers, who are poorly provided with fashion news sources, to independently establish fashion planning without having fashion centers." This view seems to prevail among Uruguayan garment manufacturers in general.

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

2-3-3 Intelligence gathering

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

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

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

Efforts at cost reduction are important in terms of price. There is a tendency for middle quality level products to be over-priced.

There do exist some rather exceptional companies that are engaged in earnest in identification of target consumer segments, development of intelligence analysis and planning policy, product composition schemes and analysis of clothing fashion. However, even those companies appear to lack a clear material composition scheme and fashion concept. According to analyses made by those companies, the 35 - 40 year old age group has a higher disposable income but the 18 - 23 year old age group actually buys the most frequently, depending of course upon the particular product.

Generally speaking, the president or a senior manager at each company is in charge of intelligence gathering, which consists of taking 1 - 4 trips abroad to Europe, the USA, Brazil or Argentina every year, in conjunction with sales promotion activities. Companies that are willing to send design staff overseas are very rare.

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

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

2-3-4 Brands

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

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

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

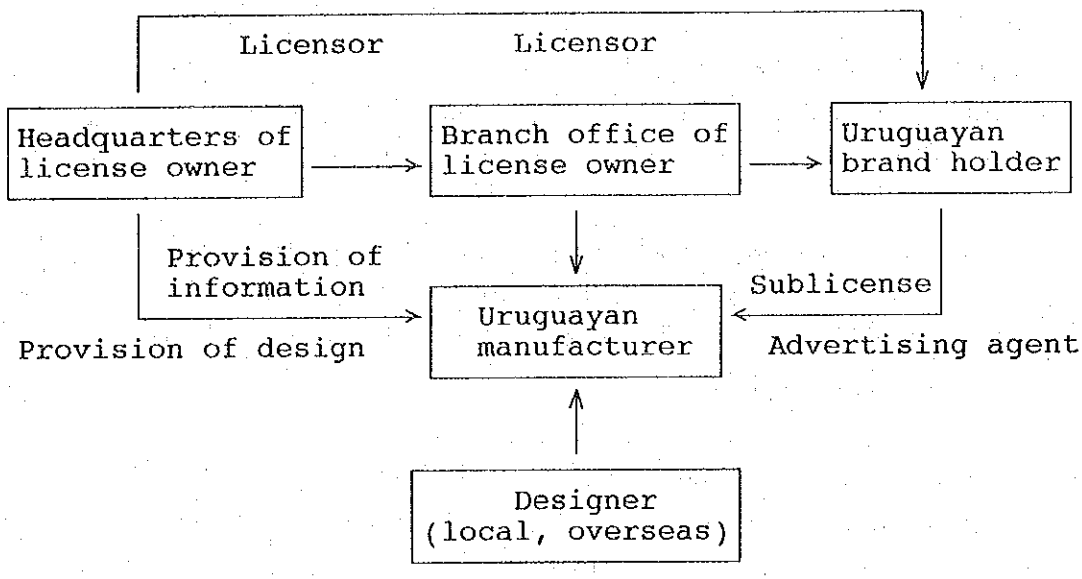
On the other hand, many denim garment manufacturers are licensed by well known overseas brands and are granted the right to sell in Uruguay in exchange for payment of royalties. (Fig. II-2-3)

Products bearing well known brand names can be sold at prices higher than those of items of equivalent quality that don't bear such brands.

For example, about 20 brands are categorized into the three grades of upper, middle and lower. Every jeans manufacturer seems to be targeting the upper and middle zones of the market with its product composition.

The lower end of the market is covered by manufacturers of low technical level and smaller scale, although the size of this part of the market is larger. This market segment is expected to be seriously affected by the implementation of MERCOSUR.

Fig. II-2-3 Licensing system of Uruguayan garment industry



Source : Field survey

2-3-5 System of distribution

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

1) Within Uruguay

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

2) Outside Uruguay

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

2-3-6 Prototype sample ratio

The ratio of prototype samples produced to designs actually commercially manufactured over 1 to 2 seasons is shown in Table II-2-8.

Table II-2-8 Prototype sample ratio

Industry	Prototype sample ratio
Wool garments	About 58%
Denim garments	" 65%
Knitwear	
Hand knits	" 87%
Machine knits	" 66%

Source : Field survey

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

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

2-4 Product Manufacturing Potential

2-4-1 Product manufacturing potential of wool garment industry

(1) Quality, technology, delivery of materials

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

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

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

(2) Facilities

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

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

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

(3) Labor

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

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

Some companies were found to have detailed knowledge of the family circumstances of every laborer, enabling them to implement more effective labor management.

Although there is a mandatory minimum wage system, no system exists to assure periodic raises. The only raises are linked to inflation. Bonuses are not linked to incentives.

The absence of any influence of performance on the wage system results in a loss of the will to work.

(4) Management

Views taken by management with respect to 1) conversion to a converter system, 2) mergers and acquisitions, 3) brand thinking and 4) appeals to the government are as follows.

1) Conversion to a converter system

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

2) Mergers and acquisitions

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

3) Brands

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

other to promote Uruguayan brands.

4) Appeals to the government

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

2-4-2 Product manufacturing potential of denim garment industry

The facilities of the Uruguayan denim garment industry are generally antiquated. Production is slow and productivity is not high enough. However, product quality is reasonably acceptable and maintains an average level.

Denim garments were originally developed as work clothes. Their quality requirements are primarily along the lines of durable practicality: they should not tear easily, should be tough enough to withstand repeated washing and should have strong stitching that doesn't come loose. They are not required to have the sophisticated design or high quality manufacture that may be demanded of fine men's or women's clothing. Manufacture of jeans is relatively simple, without a need for complicated and difficult sewing.

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

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

(1) Denim and subsidiary materials

Two large scale companies manufacture cotton denim material at the rate of about 330,000m/month. Production has been flat during the last 5 years while local consumption has decreased to as low as less than 100,000m/month, so the balance is all for export. The decrease in local consumption has been due partly to decreased jeans production as well as to pressure from low priced or dumped imports from Brazil, Southeast Asia and Taiwan. About 70% of denim material manufactured in Uruguay is of 14 - 15 ounce/square yard weight, while 20% is of 10 - 20 ounce/square yard weight. The balance is thin denim cloth used to manufacture work shirts.

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

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

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

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

(2) Mechanical facilities

The denim garment manufacturing process has been well analyzed to enable limited variety, large lot, mass production (linear production by the so called "bundle system"). The system is designed so that operators repeat simple operations taking no longer than 1 minute. Existing mechanical production facilities, process design and plant layout are all in compliance with the above-mentioned production system which now, however, requires renovation to allow small lot, large variety production to meet market requirements. While certain machinery will become unnecessary, other new equipment will have to be installed. The garment manufacturing process may become more complex. For example, sewing machines dedicated to cut pocket sewing, sleeve sewing and button hole darning may be needed while additional by-pass sewing machines may have to be added to absorb increased processes. On the other hand, more than one half of existing rivet machines will become unnecessary and stand idle in the center of the production line. The plant layout designed to be optimal for the previous production system may become useless. Whether each sewing machine is necessary or unnecessary may vary from one item to the next. For now, the original plant layout designed for bundle production of jeans has been left unchanged and manufacture of jumpers, jeans jackets and pants, children's clothing and women's coats is carried out very inefficiently by threading items through the existing machines in no particular order.

Sewing machines that have been hurriedly procured are of different manufacture and performance and are not consistent with one other. The overall plant layout has not been arranged to ensure high productivity. Efforts are continuing to rearrange machines to match small lot, large variety production. No computer controlled sewing machine of the latest design was seen in any of the plants surveyed.

Under the circumstances,which are that future prospects

are highly uncertain, production using the existing machines that can barely maintain an acceptable level of quality is given priority at the sacrifice of productivity.

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

Taking a typical pair of five pocket standard jeans for example, a Japanese plant designed for vertical production performs all tasks from acceptance of material cloth rolls up through shipment including cloth spreading, cutting, marking, sewing (washing including stone washing is subcontracted), finish, inspection and packaging with 100 employees, including plant administration staff, working 7.5 hours per day and can manufacture up to 3,000 pieces/day. Such high productivity has been made possible not just by ordinary labor and energy saving devices, but also by applying computer control to processes that used to require a high skill level on the part of operators. The corresponding figure in Uruguay would be less than 2,000 pieces/day.

At a similar Uruguayan plant all tasks beginning with pattern making up through cloth cutting are performed manually. Not all plants in Japan use CAD/CAM automation for the complete sequence of steps in the following process, but medium scale garment manufacturing plants tend to automate most of the work covered by steps 1 - 5. The more the plant is engaged in small lot, large variety production, the more technicians such as designers, patterners and graders are needed. An automated system can make up for a shortage of those technicians.

1) Pattern making
2) Grading
3) Seam allowance
4) Marking
5) Pattern cutting
6) Cloth cutting

In Uruguay LATU is equipped with one CAD sample system. However, it will be a long time before that system is used in actual production.

Computer controlled sewing machines have made possible automatic machine operation for uniform production without the former need for highly experienced and proficient sewing machine operators.

The use of various attachments, one sewing machine can be made versatile enough for many types of work.

(3) Technology and skill of operators

It is necessary to establish a clear understanding of what is meant by technology and skill in the garment industry.

In this instance technology means the comprehensive capital of intellectual products and capability beginning with the ability to design creative models and including pattern making, grading, preparation of process design instruction manuals, education, training and control of garment manufacturing technicians, machine operating technique including dewing machines and machine maintenance technique. Operator skill refers to tasks including cloth spreading, cutting, sewing, inspection and packaging which are performed in conformity to the given instructions.

Insofar as tailoring of men's and women's clothing is concerned, current production technique in Uruguay including

design is as good as is available in Europe.

On the other hand, technology and skill are not satisfactory in the field of ready made garments. The fault commonly lies in production technology and production skill.

The major difference in production technology between tailored and ready made garments is whether or not the processes of fitting and adjustment are included.

In the case of tailoring, emphasis is placed on how well the tailored suit or dress can be finished to the satisfaction of the purchaser. The techniques of padding, basting for manipulation and so on are used freely. While the interior is fit to the purchaser's body as closely as possible, the exterior is finished to satisfy his or her fashion sense.

By contrast, in the case of ready made garments total coordination of technique is required to manufacture a single model of garment in more than 30 odd sizes within the allowable error tolerance (in Japan within + - 0.5cm of the designated measurements). Consumers then choose from the available items those that fit best.

Manufacture of ready made garments requires techniques not required for tailoring. The number of technicians versed in such techniques can be limited in the case of large lot, single item production. However, in the case of small lot, large variety production, the number of tasks increases in proportion to the number of models, resulting in an acute shortage of technicians. The Uruguayan jeans industry is now confronted with the problems posed by small lot, large variety production. The required skills cannot easily be found among the general population of sewing operators.

There also exists an absolute shortage of middle managers and technicians. The same situation prevailed in Japan some ten years ago. Only after lengthy and concentrated efforts

involving enormous costs to incorporate CAD/CAM systems, was it possible to satisfy the labor demand of all techniques except for some demanding particular sensuous skills.

The shortage of competent personnel is still serious in Japan when it comes to production floor control including production control, quality control and so on. The shortage of engineers and technicians capable of machine maintenance and repair is even more serious.

It used to be possible to meet the needs of large lot, single item production with a small number of technicians. But the shift to small lot, large variety production requires the same amount of work as before, multiplied by the larger number of models. Without serious efforts to secure additional technicians, the expanded need can never be met.

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

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

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

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

2-4-3 Product manufacturing potential of knitwear industry

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

Knitwear has begun to find it more and more difficult to compete in terms of price with the products of NIES countries that have been developing rapidly in recent years. Some knitwear companies visited complained about recent decreases in exports to the USA and appeared uncertain about how to deal with the current situation. The foundation of the industry may not be as solid as one might hope. Under the circumstances, unless the Uruguayan government, PIU and the knitwear industry cooperate with one other to take firm and effective action as appropriate for the promotion of exports, one might fear that Uruguayan knitwear could lose its existing export market rather than expanding it.

The time has come when garments must have not only functionality and practicality, but also a sense of fashion, higher quality and a higher degree of sensibility (appeal to the senses). From this point of view, a prerequisite for the successful manufacture of garments should be how well the

country of origin or place of production meets the following needs, and how well it balances these needs.

① Multifarious raw materials

② Multifarious accessories

③ Excellent production facilities

④ Excellent human resources

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

(1) Productivity

When we posed the question "What are the problems of the industry?" to several managers at the companies visited, the following answers were given.

[Productivity related]

. Difficult to extend/renovate production facilities
. Technological resources are insufficient
. High rate of rejects

[Labor related]

. Labor shortages (in particular female workers)
. Aging of employees
. Low job consciousness

Because these problems are though to impede productivity at their companies, the managers were serious about

rectifying them.

These are all very important problems that require sustained day-to-day efforts to remedy. Renovation of existing factories into high technology facilities should be undertaken as soon as possible. Although, financially, it may not be easy to do so under the current circumstances, it is strongly recommended to replace the existing antiquated knitting machines with state-of-the-art computer controlled horizontal knitting of machines that can be operated by a single operator would increase drastically with immediate and direct rewards in higher productivity and reduced production costs. Far reaching effects including speed up of composition work, reduced rejection rates, and indirect employee moral enhancement effects can be expected.

(2) Facilities

Although the situation differs somewhat from one enterprise to another, it was felt that facilities are generally rather antiquated, just as in the other garment industries. Managers are very conscious of the problem and are studying information gathered from overseas markets. They are eager to renovate. The described requests they wish to make of the government with respect to easing such renovation, and expressed a strong expectation that cooperation and assistance would be offered by Japan, in view of the financial restrictions they face.

Three points are suggested for consideration with respect to the facilities of knitwear enterprises, including the model companies, and in particular for machine knit companies. In addition to the obtainment of the fund for their renovation, improvement of the skill of operators and reinforcement of production control systems must be implemented in advance. It is also considered important that knitting machine manufacturers or their local agents should strengthen after service facilities including provision of

technical guidance and maintenance, and prompt supply of spare parts.

1) High-tech renovation of mechanical facilities

It can particularly be said of the knitting machines which are the mainstay of knitwear production that mechanical facilities in general are significantly antiquated and outdated. The recent development of state-of-the-art computer controlled horizontal knitting machines has made it possible to diversify knitting locations, to upgrade product quality, to enhance individuality of products, and to significantly reduce patterning time through coordination with the design system. a 30% reduction of cut loss by fashioning is one noticeable benefit, particularly when using fine quality materials. The number of computer controlled knitting machines of this type currently installed and operating in Uruguay represents about 20% of all the knitting machines employed by the industry. The balance is made up of older models including some computer controlled horizontal knitting machines installed some time ago. This may explain the low productivity mentioned earlier.

Similarly, the home use knitting machines currently in use (mostly Japanese Silver and Brother brands) or home use sewing machines (mostly Japanese origin) are old designs. Replacement with high technology machines is quite tardy when compared to the NIES countries.

The new high technology machines are designed to improve performance and provide additional functions while improving the productivity and product quality of unskilled operators within a short period of time. (Table II-2-9)

Table II-2-9 Comparison list between conventional mechanical flat knitting machine and computer controlled knitting machine

Type of knitting machine	Conventional mechanical flat knitting machine	Original computer controlled knitting machine	Current computer controlled horizontal knitting machine
Age	Early 1975	Mid - end 1975	After 1988
Control system	Punch card	Paper tape	Magnetic memory (FD: floppy disk)
Jacquard system	Steel card	Paper tape	- Ditto -
Max. pattern range	100 x 2 (forward & back-ward)	256 x 256 memory	1024 x 1024 memory
Use	Not recoverable, partly recoverable	Not recoverable to be disposed of	Recoverable, duplicative
Switch-over time	Abt. 1 week	3 - 4 hours	15 min. - 1 hr.
Remarks			

Source : Foundation of Machinery Promotion Association; Economic Survey Institution Report on the survey of technological development of textile machinery in Japan (II), 1992

2) Introducing knitting machines appropriate to actual demand

The knitting machines currently in use are primarily large models of the 90 inch width class better suited to mass production. This type of knitting machine is effective for large orders. However, they are not well suited to the large variety, small lot production for which there is actual demand.

For example, in Japan use of medium sized computer controlled horizontal knitting machines capable of automatic patterning or scheduled knitting is quite common. Their use corresponds with the philosophy of producing the product needed, at the time needed, in the quantity needed without production losses; this way of thinking may profitable be referred to in Uruguay.

3) Diversification of gauge

The gauge of installed knitting machines is centered around middle gauge (5 - 8 gauge) without significant differences between manufacturers (except for full fashion knitting machines). This gives the impression that uruguayan knitwear is of homogenous quality except for designs. Manufacturers must have targeted town sweaters for the autumn and winter seasons, a product segment that is not expected to grow. An increase in installation of fine gauge (high gauge) knitting machines capable of producing diverse, individualized products of various gauges would be more effective.

4) Subsidizing the installation of state-of-the-art machinery

Certain quarters may be concerned with the introduction of modern, high-tech mechanical facilities because of a fear of increased unemployment. Nevertheless, improving productivity and/or quality is a prerequisite for the survival of the Uruguayan knitwear industry. It is therefore imperative to import machines of excellence.

The field survey showed that the German Stoll and Universal companies hold extremely high shares of the installed machinery base while the penetration of Japanese products is minimal. Nevertheless, managers of knitwear companies manifested strong interest in Japanese knitting machines (for home use) and a desire to acquire them. The absence of a credit system for Japanese products, as has already been arranged with Germany and Italy, is a stumbling block. The attention of the foreign and Uruguayan governments is strongly desired in order to conclude an inter-government agreement. Apart from the question of which machine is better than the other, the current state of knitting companies prevents them from making meaningful capital investment, thus aggravating their competitive disadvantage. It is therefore strongly desired that the proposition for the required subsidy be given favorable

administrative consideration.

For reference, the credit line proposed by Germany and Italy is shown in Table II-2-10.

Table II-2-10 The credit line proposed by Germany and Italy

	Germany	Italy
Source of credit	KREDITANSTALT FUR WIEDERAUFBAU	MEDIOCREDITO CENTRAL
Objective	Capital investment by small scale companies	Import of Italian products/technology
Total fund	900 million DM	30 million US$
Amount of loan	100% of CIF price	100% of CIF price
Interest rate	4 - 5%/year	2.75%/year
Repayment term	Max. 10 years	Max. 12 years
Grace period	Max. 3 years	Max. 3 years
Remarks	Total fund has been used	Total fund has been used (50% : for textile, medicine, 50% : for marble, granite)

Source : Central Bank of Uruguay

(3) Production process

There exists no fundamental difference between the knitwear production processes used in Japan and in Uruguay. The layout of machines was different from one machine knitting enterprise to another. Some companies are extremely well organized while others are rather untidy. The latter are usually companies where machines are over-packed into a limited space, resulting in an unreasonable flow of production or haulage, with random piling up of materials and semi-finished products. The model companies were found to have moved into new quarters or to be extending their existing plants, demonstrating a strong will to improve the production process. In the case of hand knitwear, the companies are only in charge of administration and jobs given to outside workers, inspection and mending (repair) of finished products after acceptance, without running their own

production lines. Knitting is wholly dependent upon work performed at home or in separate group work locations. Problems with the production process are rather difficult to determine.

(4) Technique

Uruguayan knitting companies have a collective history of 30 to 40 years. The technique accumulated during that period must be evaluated accordingly. Understandably, so long as they continue to produce their current line of products, they will have the fewest production problems. However, it must be questioned whether they will be left unencumbered to dwell in the regions where they have expertise without being challenged to acquire new techniques. Unless they manage to cultivate new techniques enabling them to bring out competitive lines of diverse new products, they will never be able to supply products that meet the evolving needs of consumers, particularly on overseas markets.

1) Confidence in the production of traditional sweaters

Insofar as machine knit items are concerned, although there are differences between men's and women's wear, most products give the impression of using the same low count yarn, the same gauge and the same Jacquard pattern. Manufacturers have been using Uruguay origin wool to produce sweaters for many years and they are quite confident about their production technique. Managers appear to believe that they can survive if they can manage to go one step ahead of or to copy European design trends.

On the other hand, hand knits are favored by consumers because of their warm and rustic feeling; their limited production is also a source of commercial strength. The problem is the decreasing number of professional hand knitters.

2) Acceleration of the development of new line of products

As previously mentioned, the material used to produce knitwear is predominantly domestically produced wool. Imported cotton, alpaca and angola as well as synthetic fibers are also used. The use of mixed yarn (of different types of fiber), which is quite common in Japan, or alternately twisted or fancy yarn is rather rare. This seems to indicate a deviation from the current global trend towards soft and light materials. The need for technology to develop new lines of products, as well as perception reform, is considered more and more necessary.

In addition, development of women's dress items and research into associated manufacturing techniques are challenges that should be accepted.

In any event, the industry is now being urged to shed its self-image of being mere subcontractors. They are being challenged to reform themselves and develop the capability to introduce new lines of products through overhaul of their product development programs.

(5) Quality control

All knitting companies are well aware of the need for quality control programs. Those exporting to Japan are particularly quality control conscious. The penalty to be paid for any faults discovered after export shipment is too great a risk for them. It is only natural for managers to be serious about reducing product rejection rates. Certain companies are enforcing intermediate size checks repeatedly and vigorously.

Actually identified rejection rates, according to hearings, are 3% that can be mended or repaired, and less than 2% that must be disposed of, for both hand knits and machine knits. An overall 5% rejection rate is much less

than similar rates for knitwear exported by NIES and ASEAN countries, thus indicating the very high level of quality control programs in Uruguay.

1) Re-establishment of quality control system

Current low rejection rates are the fruit of strengthened inspection at the final stage of production enforced by every enterprise at the cost of a considerable number of inspection and mending staff. Because most of the faults in knitwear are repairable, strengthening efforts to repair them does serve to reduce the rejection rate. However, screening of acceptable and unacceptable products in the final stage of production without enforcing intermediate checks is not considered to be an appropriate quality control program. Such a program will continue to be plagued by problems of delay in delivery, disturbances in production processes, labor shortages and increased production costs. An appropriate and proper quality control program is one that firmly establishes an internal system of quality control and promotes that system thoroughly. In that respect, every enterprise needs to implement a quality control program and Punto Industrial Uruguayo must take the lead in the quality control promotion campaign.

2) Establishment of in-house standards and norms

Nothing was noticed during the field survey to indicate firm establishment of in-house standards regarding notifying workers of the care that must be taken in order to prevent claims, or the standards that apply to size checks. This phenomenon is considered a feature of production in conformity with contracted specifications and according to the instructions of the client. However, it should be kept in mind that standard and norms are the basis of a quality control program irrespective of whether production is subcontracted or individually planned. A joint effort by the industry to organize a project team within Punto Industrial

de Uruguayo to promote the establishment of appropriate standards and norms may be suggested for consideration, if the absence of dedicated specialists at each company proves to prevent the establishment of such standards applicable to size, quality, knitting, sewing, and inspection.

Chapter 3 The Market for Garment Products

3-1 Trends in the Global Garment Market

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

Examining the garment market, one feature worthy of notice is the existence of "manufacture and retail" chain stores, the so called "factory boutiques." The most representative examples are The Limited and The Gap of the U.S.A. The Italian firm Beneton is developing world wide chains. Similar chain stores are developing quickly in Japan, as represented by the Aoyama men's suit chain which has taken a 20% share of the market in Japan.

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

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

New consumer markets are also emerging in Asia. Hong Kong, Singapore and Taiwan, where per capita GNP has exceeded the 10,000 US$ level, are rising in prominence with

increasing local demand. Foreign capital is flowing into the retail segment of those countries' economies.

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

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

3-2 Brazil

(1) Current state of Brazilian garment industry

1) Problems of Brazilian garment industry

Up until July 1990, imports into Brazil were subject to diverse restrictive measures intended to protect local industries. By virtue of that protection, the constitution of the Brazilian garment industry was weakened.

The following problems have been identified in the Brazilian garment industry.

a) Renovation of plant and equipment is overdue.

The problem is the result not just of the former import restrictions on machinery, but also of import tariff barriers that continue to exist even after the removal of import restrictions which prevent capital investment in high technology machines.

b) Quality of raw materials is poor while their cost is high.

The quality of raw materials is so poor as to be far below internationally acceptable levels. Cotton yarn is internationally competitive while other materials must be imported at higher cost.

c) Quality of dying is poor.

Dying techniques are inferior and the quality of dyes is poor. Fastness and uniformity (lot to lot fluctuations) are not acceptable.

d) Competent personnel are in short supply.

- The textile engineering department of FAY University has spinning and weaving courses but not garment related courses. However, the university is testing quality of textile products.

- Nationally supported professional schools (SENAI) have been established in various parts of the country. The level of textile and garment courses is thought to be generally higher than those offered by UTU in Uruguay, as demonstrated by the fact that UTU teachers are being sent to SENAI for training.

e) Association of Brazilian garment manufacturers

Though an association of garment makers does exist, it is said that the association lacks unity.

f) Fashion sense is lacking.

Though there are fashion designers in Brazil, the industry has no internationally recognized brands. Fashion in Brazil is derivative of European fashion, modified to suit Brazilian taste. Argentina and Uruguay are ahead of Brazil in terms of a sense of fashion.

As previously mentioned, Brazil's problems are more or less the same as those of Uruguay.

2) Consumption trends

a) The following two consumption trends can be recognized in Brazil.

The Brazilian market is subject to business fluctuation cycles with a 2 - 3 year period. The income of most (70 - 80%) of the population lies below the level of twice the

minimum wage (about 70 US$/month). Life in Brazil in general is not easy. Low price items such as T-shirts and polo shirts are being purchased by installment payment which accrues a high interest rate of 30 - 40%.

By contrast, the richest 3 - 4% of the population spends extravagantly to purchase surprisingly luxurious items which can not be supplied from Uruguay. The lifestyle of the rich is replete with such accouterments as villas, yachts, and plantations. They spend far more than the minimum monthly wage for a weekend dinner out in a restaurant. Brazilian retailers visit fashion fairs in Europe or Japan to purchase small lot--sometimes even hand carried--items to meet the demand of their wealthy clients. European fashion is very familiar to them. The rich are Europhiles and they can never be fashion leaders for the general public.

b) Observations made in Sao Paulo (Approx. 200 young persons)

Observations made in the vicinity of the shopping center is Sao Paulo during October, 1991 showed that jeans predominate for popular wear as bottoms, while T-shirts are the top of choice.

Bottoms	: Jeans	90%		
	Sweats	5%		
	Others	5%		
Tops	: T-shirts	40%	(white-base, logo print	80%)
			(Plain	20%)
	Cotton cloth shirts	30%	(Plain without pattern	60%)
			(Print	40%)
	Sweats	20%	(Logo without pattern	80%)
			(With hood	20%)
	Others	10%	(Jackets, sweaters	10%)

(2) Brazilian views towards Uruguay

The results of hearings on Brazilian views towards the Uruguayan garment industry, particularly the views of Brazilian garment makers relative to the implementation of MERCOSUR, towards Japanese garment makers and textile oriented Japanese trading firms are summarized as follows.

1) Uruguay is viewed as a country that has been dependent upon financial activities rather than manufacturing industries, like Panama in Central America. Until at least 10 years ago, Uruguay had been regarded as a country to which foreigners might prefer to retire to enjoy their remaining years. Uruguay is still not viewed as an industrialized country. Uruguay is a small country with a small market that is quite likely to be overwhelmed and absorbed by large countries such as Brazil and Argentina after the implementation of MERCOSUR.

2) With respect to economic prospects following the inauguration of MERCOSUR, Uruguay is seen as handicapped by its weak industrial infrastructure and poor industrial competitiveness, its small population and small local market so that it will be confronted by severe trails. The Uruguayan garment industry may eventually have to be absorbed by Brazil or Argentina after the inauguration of MERCOSUR. To be more concrete, certain Uruguayan wool garment items such as knitwear are considered excellent while Uruguayan cotton garment do not have the same competitive edge. (Brazil is more concerned with the potential threat of increased exports from Asia.)

3) Brazilian garments are primarily for local consumption and for export to North america and Europe, depending however on future trends in the Brazilian economy. In that regard, Uruguayan leather goods and knitwear (mostly sweaters) have the competitiveness over Brazilian counterparts in terms of quality and price, and may be able to survive even after the inauguration of MERCOSUR. Because the industrial power of

Brazil is foremost within the MERCOSUR sphere, other Uruguayan products are likely to face dire straits. A massive inflow into South America of Asian garments, with their competitive strengths in productivity, cost and wage levels, would threaten Uruguayan products. Under the current financial conditions, the Uruguayan industry will find it difficult to invest to renovate their production facilities. The demand for sweaters that keep out the cold is limited primarily to Uruguay, Argentina within MERCOSUR, and Peru outside MERCOSUR. The cold season in Brazil only lasts 2 months a year and Brazilian consumption of sweaters is not very large. Instead, Brazilian consumption of cotton garments is quite high, but is satisfied by local production.

Under these circumstances, it is imperative for the Uruguayan knitwear industry to shift the weight of its efforts to research and development of products for use in seasons other than the cold of winter, while continuing to upgrade is strengths in quality and the processes by which it produces wool garment products.

4) Hyper-inflationary trends continue in Brazil and Argentina and implementation of MERCOSUR in 1995 may be difficult under those circumstances.

(3) Summary

The current state of affairs in the Brazilian garment industry and the results of hearings thereinto may be summarized as follows.

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

expected to fall from 140 million pieces in 1989 to 80 million pieces in 1991.

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

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

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

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

3-3 Argentina

Argentina which had thrived as the colony of great Spanish empire is now plagued by rampant inflation and serious recession. Yet, vestige of glories in the past is present in abundance. Boutiques carrying each of top European brands and standing next to each other in the center of the capital city of Buenos Aires proudly exhibit top fashion articles as up to date as any European countries. Those exhibits, presentations and displays are exactly same as found in Europe. However, those who can pay for those articles are limited to handful of plutocrats. Those articles are flowers on the inaccessible heights to general public in Argentina who are content with the reasonable purchase of Argentine products of one rank lower or fashion off imports.

Table II-3-1 summarizes current export/import by Argentina textile industry.

Table II-3-1 Current export/import of textile products (1989)

Export/import / Item	Export		Import	
	Q'ty [ton]	Amount [10^3 US$]	Q'ty [ton]	Amount [10^3 US$]
Material	135,888	216,055	20,683	44,088
Wool top	7,990	37,559	---	---
Yarn	17,398	63,872	2,012	9,392
Fabric	14,189	62,161	3,108	16,190
Garment	7,493	70,908	378	2,616
Others	153	931	116	1,095
Total production	47,233	235,431	5,614	29,293
Total	183,111	451,486	26,297	73,381

Source : Federation de Industrias Textiles Argentina (F.I.T.A.)

3-3-1 Specially stores and department stores located in the city of Buenos Aires (on Florida Avenue)

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

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

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

3-3-2 Shopping malls

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

(1) Suburban malls

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

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

(2) Urban malls

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

There are some shops targeted to younger generations, but they are out of harmony with the concept of this shopping mall. The modern shopping arcade located in Montevideo has taken the concept of this shopping mall as its basis.

3-3-3 Overview of private sector manufacturers

(1) A knitting company

The business started with a few knitting machines and has developed into an enterprise comprising a knitting factory (vertically integrated from design up through knitting and finish) and cash wholesale and retail of its own products. Most of the items it wholesales are under its own brands and based on its own designs. The wholesale system is similar to cash wholesale (buyers visit the warehouse to select items, pay for them in cash at the register counter, and either hand carry them away or arrange for delivery consignment).

The factory is reached from the warehouse register counter through a side door. It is equipped with 21 gauge full fashion knitting machines, 14 gauge Jambel knitting machines and 14 gauge Shima Seiki knitting machines and Jacquard machines. With the exception of the Shima Seiki machines, all facilities are old and antiquated, but well maintained and operating smoothly. Unlike Uruguay, light gauge worsted is used extensively. Quality is rated as high or medium-high with emphasis placed on practicality rather than fashion. There are no particularly high-fashion items. There is a new linking machine for automatic stitching.

(2) A spinning factory

The spinning factory owned by the owner of the knitting factory is located in a distant suburb and operated as a sole proprietorship. The knitting factory just described was founded in order to utilize surplus yarn from this spinning factory. The factory imports lamb and angola for worsted spinning.

The plant was renovated quite recently and is equipped with state-of-the-art large doffer machines which are operating unattended. The plant is rated first class in terms of quality and productivity including spreading of raw wool, blending, preparation, and production of card spun twist yarn. Angola is blended extensively, perhaps because of local characteristics. Angola is mostly imported from Peru. Wool yarn and cotton yarn are also spun as needed. Machines are new and product is of medium quality. Light gauge 1/18 - 1/24 yarn is also spun. Argentine wool is merino wool characterized by a thin texture of high quality because of the cold climate. Argentine wool is though suitable for
producing a more expensive yarn than Uruguayan yarn.

Withdrawal of foreign capital from the Argentine wool weaving industry is considered to be due not only to the decrease in demand but also to the increase of production costs in Argentina. Sales of fine Argentine wool are said to be sluggish currently. Although the rate of local consumption is higher in Argentina than in Uruguay, the wool textile industry in Argentina, as part of traditional agriculture, appears not to be well coordinated with the downstream weaving and garment manufacturing industries, similar to the situation in Uruguay. People belonging to this traditional industry are said to be very wealthy.

(3) Quality of products

Garments manufactured in Argentina from wool, cotton and synthetic fiber, as well as knitwear including sweaters, are considered to be of acceptable quality to be sold on the international market. In terms of price however, Argentine products, much like Uruguayan products, are now exposed to instability under inflationary pressure and to fierce competition posed by low priced imports from Asian countries, in particular the NIES countries, which are progressively breaking into the Argentine market. Whether Argentine

originals can gain fashion recognition in Europe or the U.S.A. in terms of color, pattern and design is still questionable. Argentina is very likely to continue to be an OEM production base and is not capable of price competition with imports from Caribbean, Southeast Asian and NIES countries. Like other South American countries, Argentina is not immune to the general sluggishness of the garment industry.

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

3-4 American/European Markets

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

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

The survey was made in August and September of 1991. Three staff members collected and examined comprehensive data on the garment market from various sources in those three countries as well as from international institutions. Various materials relevant to the structure of and trends in the garment market were examined simultaneously.

Subsequently, on-site surveys including interview of specialists on the garment market and responsible government staff were carried out as needed to collect information on the wholesale and retail of garments.

Results of the garment market surveys in those three countries are summarized as follows.

3-4-1 The American market

(1) The garment market

The United States is the largest market for garment (in terms of value), and demand for clothing will remain strong for the remainder of the decade, particularly after the current economic recession is overcomes. In view of the enormous size of the U.S. garment market -- about $175 billion in garment sales annually -- no country with competitive products faces a market-size constraint to

significant exports to the United States. The greatest challenge for Uruguay, therefore, is to expand its currently small market share in the United States.

(2) Imports of garment products

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

(3) Garment distribution and sourcing structure

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

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

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

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

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

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

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

Uruguay's garment exporters should target those distribution channels that will offer maximum exposure to their products. This includes approaching major associated buying organizations and multi-functional garment firms.

Uruguay's manufacturers should begin to attend major garment trade shows, initially to collect competitiveness information (quality, cost, delivery, etc.) and establish contacts with major buyers. After about one year, Uruguayan representatives should set up booths to display a range of goods from large producers. These activities should be preceded by a judicious amount of advertising in one or more leading garment publications.

3-4-2 The German market

(1) The garment market

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

(2) Imports of garment products

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

(3) Garment distribution and sourcing structure

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

Over 60 percent of the clothing supply is sourced domestically, but this figure understates a considerable amount of overseas subcontracting arrangements which are expanding to take advantage of lower wages. Each of the retail segments organizes separate sourcing structures, which vary by segment and involve overseas buyers, agents, importers and purchasing syndicates.

(4) Constraints to growth of Uruguay's garment exports to Germany

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

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

(5) A strategy for promoting increase sales of Uruguayan garment in Germany

Denim jeans with designer labels, men's wool suits and jackets in the medium to low price range, and wool and cotton sweaters in the medium to high price range are identified as offering the greatest potential for Uruguay's manufacturers.

A phase promotional strategy involving participation at trade shows, direct mail campaigns, company visits and selective advertising is proposed. During the first phase, considerable attention should be given to educating manufacturers on the demands of the German garment market in terms of quality, price and delivery. Active promotional activities will seek to expand marketing relationships and product lines and developing a reputation as a reliable supplier among German wholesalers and retailers.

3-4-3 Spanish market

(1) Garment market

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

(2) Imports of garment products

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

(3) Garment distribution and sourcing structure

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

The garment sourcing pattern in Spain is dominated by vertical integration, i.e. retail groups manufacturing clothes in their own factories or buying exclusively from affiliated producers. Clothing imports are concentrated among a few large retailers, and is mainly arranged through importers, trading houses,and franchised companies.

(4) Contraints to growth of Uruguay's garment exports to Spain

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

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

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

(5) A strategy for promoting Uruguayan garment in Spain

Wool and cotton sweaters in the medium to high price range, denim jeans with designer labels, and men's wool garment in the moderate price range are identified as offering the greatest potential for Uruguay's manufacturers.

A promotional strategy involving participation at trade shows and company visits is proposed. Promotion should be targeted towards the few large retailers which are currently importing. Considerable attention should be given to making initial contacts and follow-up calls on prospective buyers, and educating manufacturers on the demands of the Spanish garment market in terms of quality, price and delivery. Considering the relatively poor attitude towards South American producers, it would be useful for Uruguayan

producers to differentiate themselves from the generic category of "South American producers" in marketing and promotion.

3-5 The Japanese Market

3-5-1 Market trends

(1) Market size

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

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

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

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

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

(2) Distribution

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

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

1) Current status of department stores

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

Every branch of large domestic department stores is refocusing its efforts in the direction of pricing policy. Pitching an entire strategically selected line of products is one approach. For example, a department store in Tokyo is promoting 650 items of women's clothing, representing 12 - 13% of total purchases, under the name "Best Price." At the

same time, the corresponding line of men's clothing comprises only 20 items centered around the "Private Brand" (PB) label, with total sales in the 4 - 5 billion Yen range.

2) Rate of digestion and vertical integration

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

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

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

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

3-5-2 Imports

(1) Past import records

The aggregate total of textile imports during 1989 was

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

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

(2) Imports from Uruguay

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

The level of standards that apply in Japan to garments is generally much higher than those in Europe or North America, owing to the background of different histories of garment industry development, and different specific national characteristics. In the case of Japan where ready made items have developed more quickly than order made items, consumers are generally accustomed to the notion of "fitting one's body to clothing." By contrast, European countries have a long history of order made clothing out of which the modern garment industry has developed. Consumers in general are more accustomed to the notion of "fitting clothing to one's body." One indicative example is that both socks in every pair sold in Japan must be of identical size, and no free

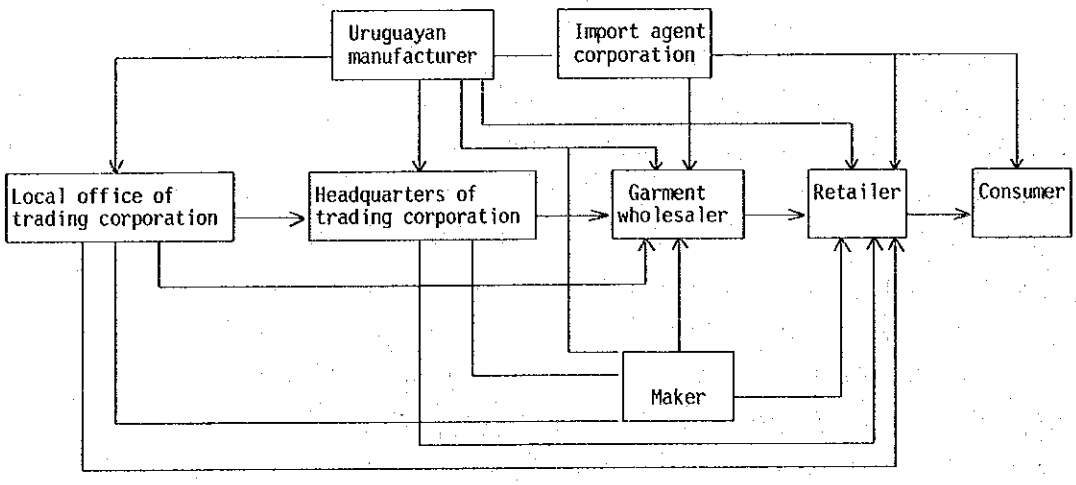
size socks are available. But in Europe or the U.S.A. the two members of a pair of socks may be slightly different, and free size socks are regularly sold.

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

A certain Japanese corporation is importing Uruguayan knitwear and we shall examine this corporation as a case study of how import of Uruguayan products is being handled.

Channels through which Uruguayan products are imported into Japan (including existing channels of import) may be summarized as shown in Fig. II-3-1.

Fig. II-3-1 Import channels for Uruguayan products



(Remarks) Maker : Maker associated with or trading with garment wholesaler
Retailer : Department store, mass sale store, or specialty retail store, etc.
Source : Various materials obtained at hearing survey in Japan

1) Example: Corporation A

Corporation A was founded in 1981 and has been importing Uruguayan knitwear since 9 years ago. The particulars are as follows.

As a part of a program to utilize the presence of a Brazilian representative office belonging to the parent corporation, a series of surveys was conducted with respect to exporting the locally manufactured products of South American countries to Japan. As a result, interesting items such as alpaca sweaters, hammocks, tapestries and fabricated metal objects were identified. Tapestries were carried by a catalogue sales network but without success due to the Japanese housing situation where wall areas are not big enough. At around the same time, Uruguayan knit products boomed in New York and 300 pieces of Uruguayan knitwear were imported for trial. Many problems including quality control, delivery etc. were identified and took a long time to be dealt with.

a) Submission of design plan

Corporation A was of the opinion that designating only the size to be imported would result in a very short product life in Japan. Corporation A contracted a Japanese designer and submitted a design plan targeted specifically to the Japanese consumer market to Uruguayan manufacturers.

b) Price

. Retail price is 4.5 times F.O.B. price
. Air freight is 3.5 US$/kg

c) Marking

. Use of the wool mark is subject to approval in Uruguay. If so requested by clients, the wool mark is attached.
. Quality and care labeling is supplied from Japan for attachment in Uruguay.
. Attachment of ID marking is mandatory.

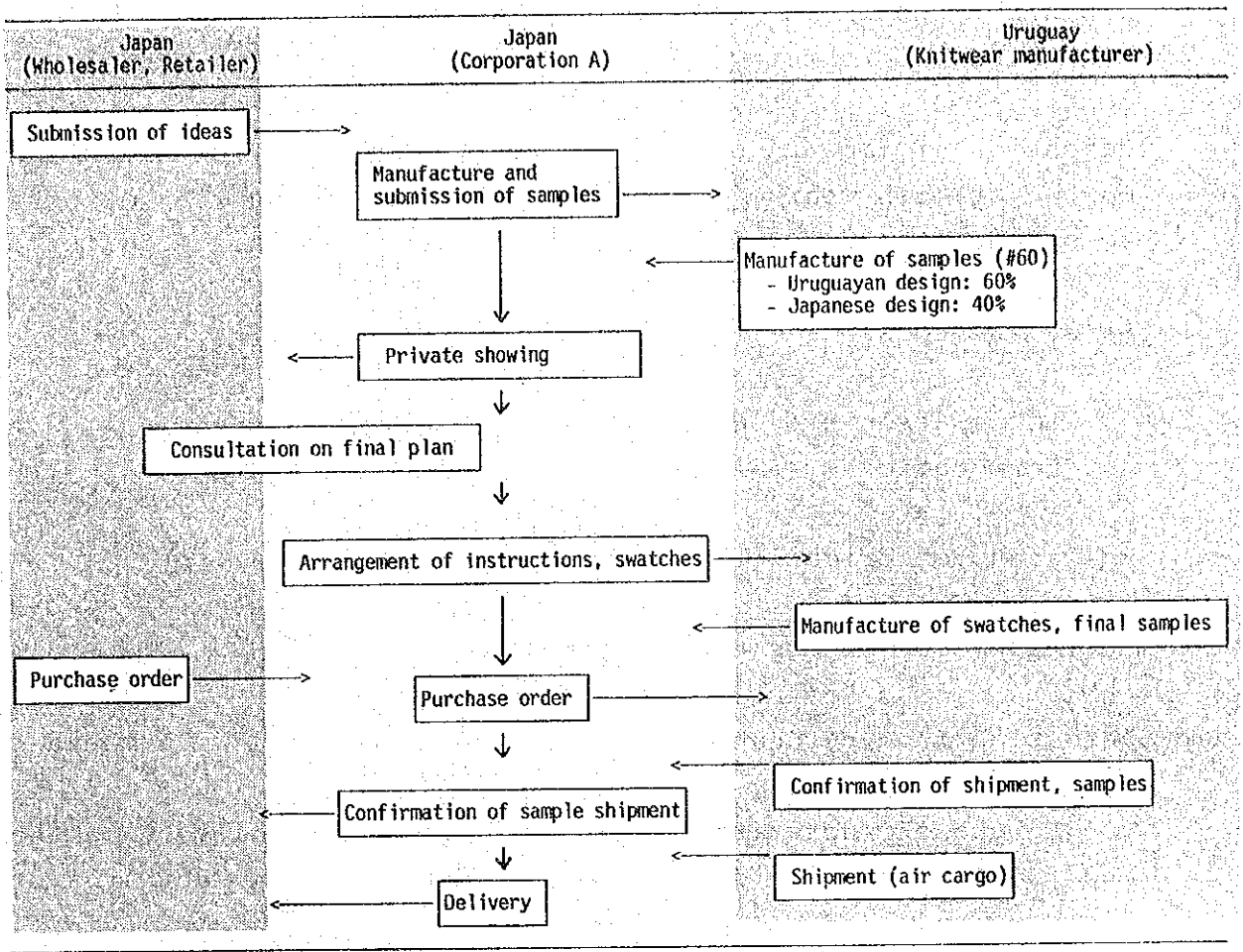
Each product must have ID marking attached for easy tracing if a fault is identified. Every knitter can be given feedback that is linked to incentives including wage raises.

d) A private 2 or 3 day showing is held during early November to display the products to appear in retail outlets in September or October of the next year. Direct mail is sent to retailers who are prepared to handle items priced at ¥30,000 and above. About 100 retailers normally attend the showing. Actual contracts are made with about 15 retailers.

e) Future policy

The line of products currently imported is specialized and favored by a limited clientele. The parent corporation (part of the chemical industry) will be solicited to develop new materials including wool with new functions. The sales pitch for new products will be targeted to sports related segments outside of the current clientele.

f) Corporation A's production process flow is as follows.



Source : Corporation a information

Fig. II-3-2 Corporation A's production process flow

2) Example: Corporation B

Corporation B was founded in 1987 and acts as an import agent for, as well as engaging in sale at its own risk of, Uruguayan garments. The principal items it handled are sweaters, cardigans, ruanas, capes, shawls, gloves, scarfs, hats, hand spun yarn and folk handicraft items. Purchases from Uruguay amount to about 170,000 US$ per year. Its sales channels are national network catalogue sales as well as well-known department stores and retail stores in Sapporo, Tokyo, Kawasaki, Yokohama, Osaka and Kyushu.

Comments made about items handled by Corporation B are that the colors,patterns and designs do not appeal to Japanese consumers, the products are heavy and their prices too high. Corporation B proposed to implement a system of test sales to retailers in order to improve the rate of digestion of imports at its own risk, and to advise clientele on the stylish wear of their products coinciding with efforts to enhance the recognition of Uruguayan garments.

a) Sales channels

Corporation B -> Garment maker -> Retail store
Corporation B ----------> Retail store

b) Ex-warehouse price is equal to 50% - 55% of retail price

c) Lot: 10 - 100 pieces per design

d) Lead time from purchase order until delivery is 3 - 4 months.

Purchase orders are made in April/May for delivery at the end of August. New catalogues are delivered in February of the next year.

3-5-3 Comments of Japanese corporations on Uruguayan products

Comments were solicited from garment related Japanese corporations (mass sales stores, department stores, wholesalers, pertinent industrial associations) by presenting comments gathered are summarized in the following.

(1) The country of Uruguay and Uruguayan products are barely known to consumers. Serious efforts to import and sell have been very limited.

(2) The knitwear samples are of a level of technique that can easily be duplicated in China where wages are very low. It is considered necessary to manufacture a line of products

that is differentiated as specific to Uruguay and can only be manufactured in Uruguay.

(3) Items of complex pattern and elaborate manufacture are suited for boutiques or for display.

(4) Positioning Uruguay as source of imports

The physical distance to Uruguay is not a handicap for Uruguayan products. Knitwear from the Shetlands, Fair Isle, Gueser and Alan which enjoy well established reputations in Japan is imported from equal distances.

(5) According to the Tokyo Metropolitan Textile Industry Testing Laboratory, the Association of Knitwork Inspectors and the Association of Department Stores in Japan, sample knitwear was found deficient in terms of balance, shoulder sewing, tension of dress hem and duff elasticity, as compared to similar products of Japanese make. (Table II-3-2.)

(6) Knitwear is no longer a class of garment oriented towards practicality. This type of product is sensitive to consumer taste and needs to be fashionable. The same applies to accessories including buttons which play an important role in enhancing the added value of fashion items Accessories used in current Uruguayan knitwear are not acceptable.

Table II-3-2 Evaluation of Uruguayan knitwear

Maker	Product	Knitting machine, gauge	Material, weight	Size	Purchase price	Quality problems
A	Men's sweater, Jacquard knit	7G	Wool - 100%, 780g	M	$25	(1) Margin to side stitch is too slim. Patterning yarn is missing. Patterning yarn must be as long as pattern. 5 - 10mm margin must be secured by either circular sewing or over-lock using 2 needles. (2) Shoulder sewing must be finished by inserting spin tape and using 2 needles. 10mm margin must be secured. (3) End of cuffs and skirt must be turned over by several mm and sewn up to prevent tumbling. (4) Balance of finish is unacceptable. Perhaps because no form frame was used? Finish of other products is similarly unacceptable.
	"	"	Wool - 100%, 480g	L	$22	(1) Same comment as above for side stitch. 3mm margin is not satisfactory-- it must be 5mm. (2) Shoulder sewing yarn broke when sleeve was pulled. Spin tape must be used. When worn, shoulders are stretched and drop; this is not liked in Japan. (3) Many knit steps (different loop length?) were noticed everywhere. Uneven tension? (4) Sewing pitch is coarse (11 stitches?). 13 stitches are needed. (5) Cuff and skirt elasticity are not acceptable. Improvement by way of increased yarn or finer pitch is needed. (6) Weave does not go through the skirt elastic part.
	"	12G				
	Men's vest, cable stitch	FF knitting machine? 15G (10G)	Wool - 100%, 280g	S	$17	(1) Shoulder sewing yarn broke when sleeve was pulled. Spin tape must be used. (2) Skirt elasticity is not acceptable. Number of yarn must be increased. (3) Finish is not well balanced between right and left. Tilted to left.
B	Women's sweater, inter-shear knit	Home knitting machine 5G	Alpaca - 100%, 610g	M	$97	(1) Button hole is too small. (Button diameter + button width is the criterion.) Button fixing yarn must be wound around. (2) Pattern on body front is collapsed. Very noticeable. (3) Shoulder pad wrapping thread is not neatly finished. (4) Buttons are not properly positioned? Front sides do not overlap properly when put on the body model. (5) Texture of alpaca is good. Product has a look of value as a whole. (6) Better buttons needed to increase value of product. (7) A small hole was found inside of right pocket fixing.

Remarks:
1. The cooperation of the Association of Department Stores in Japan, the Association of Knitwork Inspectors in Japan and the Tokyo Metropolitan Textile Industry Testing laboratory was enlisted for the evaluation of quality.
2. Gauge value was estimated. Price is the discount price at the maker's shop.

3-5-4 Current status and pending problems of each product

(1) Current status of each product (wool garments, denim garments, knitwear)

The standards prevailing in Japan applicable to garments may be the strictest among all international standards. Uruguayan products must clear these standards in order to export to the Japanese market.

The products which were the subject of the survey this time are wool garments, denim garments and knitwear. Uruguayan products are among the least recognized in Japan and no comment nor opinion was ventured by pertinent enterprises or associations. Knitwear is exceptional in that its quality is reasonably high and has specific Uruguayan characteristics, on which comments were given. The current status of Uruguayan wool garments, denim garments and knitwear may be summarized as follows.

1) The quality of current Uruguayan wool garments is found to be relatively lower than the quality of similar wool garments currently marketed in Japan. Updating of quality is necessary in order for Uruguayan wool garments to be exported to Japan.

2) Denim garments are strongly brand oriented. Entry into the Japanese market would be very difficult in terms of licensing.

3) Uruguayan knitwear is of high quality and is able to display an identity specific to Uruguay. Provided that appropriate action is taken in a timely manner in terms of proper price setting, Uruguayan knitwear could have a good chance of entering the Japanese market.