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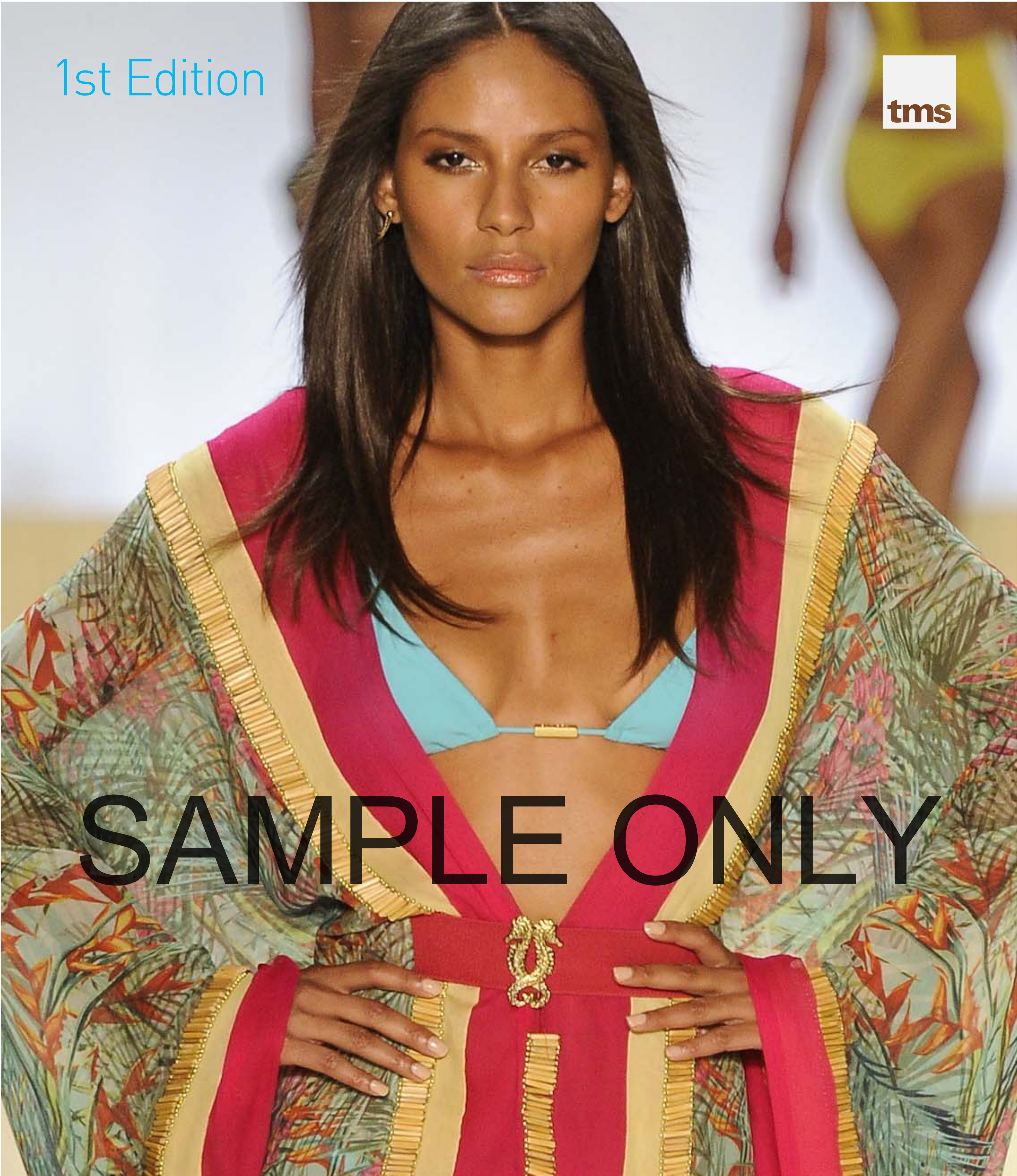

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LATIN AMERICA
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Latin America Textile Business Review

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Contents

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Introduction

It makes sense to treat the textile business in Latin America as a whole, since this region considers itself as an entity with historic, cultural, social and economic characteristics that set it apart from the big neighbour in the north (the US) and from the rest of the world.

However, for business purposes it is recommended to examine the current situation and future prospects of the textile and apparel sector for each sub-regional trade bloc – especially the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) bloc – and for each country separately.

GREAT DIVERSITY

Different importance and growth potential

This report reviews the textile and apparel sector in 20 Latin American countries; the importance and growth potential of this sector are very different from country to country. In some Latin American countries, especially those that have made a resolute choice for globalisation (e.g. Chile), not much is left of the industry, except for a number of companies that have transformed themselves into high-end or high-tech niche manufacturers. In some other countries, especially the four largest textile industries in the region (Brazil, Mexico, Peru and Colombia), there is surely potential for future growth.

Different government policies

The development of a sector is not only dependent on the strategies and efforts of private companies and professional associations; much depends also on government policies. In several Latin American countries, textile associations and labour unions alike tend to look back nostalgically at "the golden period" of the sector, when a solid import substitution policy sheltered companies from foreign competition. In Nicaragua and some other Central American countries, the government has energetically supported the apparel export sector, while in Costa Rica and Panama, clothing producers complain that the government has let them down.

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In some Latin American countries, the arguments of textile lobbyists who point to "illegal" imports from Asia are totally ignored by government. In other countries, such as Brazil and Mexico, the textile associations have successfully inspired anti-dumping and other protective government actions. Meanwhile, the policies of Venezuelan President Hugo Chávez have discouraged local textile entrepreneurs and caused wild fluctuations in Colombian and Peruvian garment exports to Venezuela.

Different types of production

It is understandable that Latin American governments adopt different policies towards the textile and apparel sector in their respective countries. In some, the sector is deeply steeped in ancient tradition and in agricultural activities (mainly cotton and wool production). In others, the production of textiles – mainly the assembling of apparel – is virtually exclusively a free trade zone activity.

The relative importance of textile exports is very different. Exports of clothing as a percentage of all manufacturing exports is only a few percentage points in Brazil, Mexico, Argentina, Uruguay and Costa Rica. It exceeds 10% in the Dominican Republic (DR) and 30% in Peru and Guatemala, 50% in El Salvador, more than 70% in Honduras and more than 90% in Haiti.

There are also very different types of production facilities in Latin America. The countries of Central America as well as the DR are home to many *maquilas* – large export processing plants. In Argentina, clothing production takes place mainly in small, informal workshops. In Peru, production facilities are not as big as *maquilas*, but cannot be compared with the small workshops in Argentina either.

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‘Cotton countries’ and ‘wool countries’

Latin America countries are not leaders in the field of man-made fibre production (although Brazil is about to considerably enhance its international ranking owing to the large PetroquímicaSuape polyester project). But the region has some outspoken “cotton countries” and “wool countries”.

Cotton

With about half the cotton production of the US and twice the production of Mexico, Brazil is an important regional and even global player. In 2002, Brazil challenged the US by initiating a World Trade Organization (WTO) dispute settlement case against unfair US cotton subsidies. In June 2010, the US and Brazil signed a “Framework for a Mutually Agreed Solution” to their infamous cotton dispute. As part of the framework agreement, Brazil did not impose countermeasures authorised by the WTO.

It may be surprising that Argentina, whose cotton area is more than twice that of Mexico, is nevertheless a smaller cotton fibre producer owing to the large difference in productivity (yield/ha).

While the global average yield is around 730 kg/ha, Mexico (1,410 kg/ha in 2011/12) and Brazil (1,353 kg/ha) have a much higher productivity. Peru (851kg/ha) and Colombia (811 kg/ha) also exceeded the global average, but Argentina (435 kg/ha) and especially Paraguay (280 kg/ha) have a very low productivity (Table 1).

Table 1: Cotton area and production in major Latin American cotton producing countries, compared with the world and the US

Country	Cotton area (m ha)			Production (m bales[1])		
	2010/11	2011/12	2012/13 (July)	2010/11	2011/12	2012/13 (July)
Brazil	1.40	1.40	1.08	9.00	8.70	7.00
Mexico	0.11	0.19	0.16	0.73	1.24	1.03
Argentina	0.61	0.50	0.43	1.35	1.00	0.95
Peru	0.05	0.06	0.05	0.21	0.22	0.20
Colombia	0.04	0.05	0.04	0.16	0.19	0.15
Paraguay	0.03	0.07	0.06	0.06	0.09	0.09
USA	4.33	3.83	4.21	18.10	15.57	17.00
World	33.34	35.77	33.28	116.40	122.71	113.81

[1] 480 lb

Source: FAS/USDA

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Table 2 provides a hint as to which Latin American countries have a well-developed, vertically integrated textile supply chain. Only Brazil, Mexico, Argentina, Peru and Colombia are major cotton users; much smaller are El Salvador, Venezuela, Guatemala, Ecuador and Bolivia. The remaining Latin American countries use less than 25,000 bales a year. (Panama does not even produce or import a single bale of cotton.)

Although Mexico is a relatively large producer of cotton, it is also a big importer. Mexican cotton imports exceed the cotton imports of all other Latin American countries combined. In contrast, Brazil – the largest cotton user in Latin America – imports little cotton (only 50,000 bales in the 2012/13 season), but exports more cotton than all the other Latin American countries combined.

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Guatemala

With its area of 108,890 km^2, Guatemala is the third-largest country in Central America, preceded only by Nicaragua (130,373 km^2) and Honduras (112,090 km^2). Guatemala has coasts on both the Pacific Ocean and the Caribbean Sea.

With a population of 14.4m (2012 est.), of which 1.15m live in the capital Guatemala City, Guatemala is the most populous country in the region. Nearly 40% of the inhabitants are of indigenous origin. Guatemala also has the youngest population of all Central American countries (Table 1).

Table 1: Central America: average age

Country	Average age (years)
Guatemala	20
Honduras	21
Nicaragua	22.9
El Salvador	24.3
Panama	27.5
Costa Rica	28.8

Source: Multi-purpose Household Survey 2010, CIA World Factbook

History

The Mayan civilisation flourished in Guatemala and surrounding regions during the first millennium AD. After almost three centuries as a Spanish colony, Guatemala won its independence in 1821. During the second half of the 20th century, it experienced a variety of military and civilian governments. In 1996, the government signed a peace agreement formally ending a 36-year, traumatising guerrilla war, which left more than 200,000 people dead and 45,000 persons missing; it also resulted in 150,000 refugees and 1.5m displaced persons. More than 83% of the victims were Mayas, and a staggering 94% of the crimes were attributed to the army.

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Economy

Guatemala is a lower middle-income economy. In 2011, gross domestic product (GDP) was US$46.7bn. At around US$5,033 in terms of purchasing power parity (PPP), Guatemala's GDP per capita is roughly one-half of the average for Latin America, which implies that for the near future, a workforce will be available for low-paying industries, such as the apparel sector. The distribution of income remains highly unequal. More than half of the population lives below the national poverty line, and nearly 50% of Guatemala's children under the age of five years are chronically malnourished.

Since the 1996 peace accords, Guatemala has pursued important reforms and macroeconomic stabilisation and attracted foreign investment. The Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) of 2006 spurred increased investment and diversification of exports. Economic growth fell in 2009 as export demand from the US and Central American markets dropped, but the economy recovered gradually in 2010 (+2.8% real growth) and 2011 (+3.8%). The official unemployment rate is surprisingly low (4.1% in 2011).

Guatemala is well connected to the outside world via telecommunication systems, two international and 16 local airports, and two commercial ports: Puerto Quetzal on the Pacific coast and Santo Tomas de Castilla on the Atlantic coast.

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THE TEXTILE AND APPAREL INDUSTRY

Structure

According to the Guatemala Apparel and Textile Industry Commission (Vestex), part of the Guatemalan Exporters' Association (Agexport), the structure of the textile and apparel industry in 2011 (disregarding the informal sector) was:

- textile: 41 mills (spinning mills and textile factories), 18,500 jobs;
- apparel: 142 companies, 48,393 machines, 55,925 jobs;
- related sectors: 260 accessory and service companies, 15,000 jobs;
- total: 89,425 jobs.

Two subsectors

There are actually two very different subsectors in the textile and apparel industry in Guatemala: one is focused on the domestic market and the other on the export market.

The first subsector competes on price and has little access to formal credit. The education of starting workers is minimal and the turnover of personnel is high. According to Asociación de Confeccionistas de Guatemala (Asconfeg – the association of apparel producers of Guatemala), this subsector consists of around 1,000 micro- and small companies. Many of them operate outside the legal field in the informal economy. The employment they generate is precarious and sometimes the owners cannot even pay the minimum salary.

The second subsector is export-oriented, mainly towards the US market. It comprises local enterprises, enterprises with foreign capital and by cut, make and trim (CMT) companies (*maquilas*) with either local or foreign (often South Korean) capital. These companies have access to credit and organise formal training for workers. The *maquila* enterprises for garment assembling in Guatemala are classified as active under Decrete 29-89 or Maquila Law; they constitute the most important sector under this law.

Knitwear

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On a global level, Guatemala is mainly competitive with knitted fabric and knitwear, a segment in which the country is more specialised and is adding more value than in the woven segment.

According to Vestex, in 2008 only 30.3% of the textile production of Guatemala consisted of woven fabrics in cotton, synthetic fibres or mixtures (polyester and cotton), while 69.7% were knitted fabrics in cotton, synthetics or mixtures (jersey, interlock and rib).

The predominance of knitted fabric is reflected in the apparel export figures. According to Vestex, US apparel imports from Guatemala in 2011 were 76.8% knitted and 23.2% woven.

The sector has developed from cut, make and trim (CMT), which usually requires woven fabric, to more specialised products made of knitted fabric, although this required another type of machinery. The main reason for the shift from woven to knitted products was that Guatemala could not compete on price with woven products from Asia.

Importance of the sector

In spite of declining production and employment, Guatemala is still an important textile and apparel country in Central America.

According to researchers at the International Centre for Trade and Sustainable Development (ICTSD) in Switzerland, who based their estimates on data from the Bank of Guatemala, the sector's share of national GDP, which was 4.20% in 2001, gradually declined to 3.62% in 2006; it has since further decreased.

According to Maldona and Baroni (in the ICTSD study *El sector textil y confección y el desarollo*

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Peru

With nearly 30m inhabitants on an area of 1.29m km², Peru is a country of medium dimension, regional influence and power. Its capital, Lima, is on the brink of becoming the next Latin American mega-city (defined as a city with more than 10m people).

History

Peru's vigorous national identity is supported by the memory of several prominent Andean civilisations, most notably that of the Incas, whose empire was captured by the Spanish conquistadors in 1533. Peruvian independence was declared in 1821. After a dozen years of military rule, Peru returned to democratic leadership in 1980. The country experienced economic problems and a violent insurgency by the Communist Party of Peru (Sendero Luminoso or "Shining Path").

President Alberto Fujimori's election in 1990 ushered in a decade that saw a dramatic turnaround in the economy and significant progress in curtailing guerrilla activity. In 2001, Alejandro Toledo became Peru's first democratically elected president of native American ethnicity.

2006 saw the return of Alan García who, after a disappointing presidential term from 1985-1990, has overseen a robust macroeconomic performance. The government of new president Ollanta Humala (2011) has given clear signals that it wants to accelerate the "sustainable" development of Peru.

In February 2010, Peru was one of the 33 countries that created the Comunidad de Estados Latinoamericanos y Caribeños (CELAC – Community of Latin American and Caribbean States), an alliance of 591m people (est. 2011) on an area of 20.4m km² with a gross domestic product (GDP) of US$7.0trn (2011 at PPP).

Economy

In the post-crisis year of 2010, Peru's GDP increased by an impressive 8.8%. The Lima Stock Exchange was the most profitable anywhere in the world, yielding 65%. In 2011, GDP growth still reached 6.9%, while Peru boasted the lowest inflation rate in Latin America.

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Much of the growth success of Peru can be assigned to the macroeconomic policy the country has applied over the past two decades. However, it must also be stressed that the country's economic growth is directly linked to the price increase of exported minerals, such as gold, silver and copper. Besides minerals, Peru has two other important sectors: agriculture, and textiles and clothing.

Limiting factors

For Peru, the most critical factor is probably the under-utilisation of human capital; in mathematics and science, and also in technological innovation, the country ranks very low. Further, the state of the infrastructure (ports, airports, roads and related public services) is comparatively poor. The Jorge Chávez International Airport in Lima is an exception: it has been upgraded and in recent years was elected the "best airport of South America" three times by Skytrax, a London, UK-based market research and consulting firm specialising in the air transport industry.

Doing business in Peru is problematic because neither the judicial system nor the political class are considered trustworthy; the Peruvian authorities have not been successful in combating corruption and improving civil security.

Sub-employment is a big problem. There are no national statistics about this, but the figures for Greater Lima (Lima Metropolitana) indicate that only 52% of the active population is adequately employed (Institute for Statistics, December 2010), 40.4% are sub-employed and 7.6% unemployed.

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TEXTILE AND CLOTHING INDUSTRY

As a producer and exporter of textile and clothing products, Peru has a special position in Latin America. The industry's main strengths are the local availability of quality materials (such as Pima cotton and alpaca fibre), the high degree of vertical integration (facilitating quick response and full package production) and the many free trade agreements (FTAs). Until recently, the focus on a limited niche market – cotton knitted tops for the US that require less than 15 minutes of cutting and making up – appeared a reasonable choice. However, the 2008-09 global financial crisis made Peruvian manufacturers aware that the few comparative advantages they enjoy do not guarantee their future international competitiveness. Hence, the emergence of several new initiatives, from negotiating a "buy from Peru" agreement with a leading clothing retail chain (Ripley) to geographically diversifying exports.

Key sectors

The textile and clothing industry is quite important in Peru's economy. In 2010, GDP amounted to US$158bn, to which the textile and clothing industry contributed 2.7%. The share of the T&C industry in total value added of the manufacturing industry was 11%. The sector provides around 400,000 direct jobs (470,000 if the whole supply chain, including cotton, alpaca, etc., is taken into account). According to the Ministry for Labour, the Peruvian textile chain also provides 1m indirect jobs.

In 2010, the textile and clothing industry achieved exports worth US$1.55bn and domestic sales worth US$225m.

Table 1: Peru: gross added value of the textile and clothing manufacturing industry, 2006-2010, in 1994 constant prices

(PEN'000)	2006	2007	2008	2009	2010
Textile sector	1.76	1.85	1.61	1.22	1.49
Clothing sector	1.59	1.72	1.68	1.18	1.84
Total	3.34	3.57	3.29	2.40	3.34
Share of manufacturing industry (%)	13.6	13.0	11.0	8.7	10.6

Source: Perú: Compendio Estadístico 2011

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Table 2: Peru: share of the textile and clothing industry in gross added value of the manufacturing sector, 2004-2010, in 1994 constant prices

(%)	2004	2005	2006	2007	2008	2009	2010
Textile sector	7.9	7.7	7.1	6.7	5.4	4.4	4.7
Clothing sector	7.5	7.1	6.4	6.3	5.6	4.3	5.9
Total	15.4	14.8	13.5	13.0	11.0	8.7	10.6

Source: Perú: Compendio Estadístico 2011

Table 3: Peru: structure of the textile and clothing industry, according to the number of employees in the industrial census 2007

	Textile sector		Clothing sector	
Company size	**No.**	**%**	**No.**	**%**
Micro (1-10)	5,521	94.0	17,033	97.2
Small (11-100)	298	5.1	436	2.5
Medium and large (101 and more)	54	0.9	49	0.3
Total	5,873	100.0	17,518	100.0

Source: BCRP

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Glossary

AAPN
American Apparel Producers' Network (USA)

AATCC
American Association of Textile Chemists and Colorists

ABIT
Associação Brasileira da Indústria Têxtil e de Confecção (Brazilian Textile and Apparel Industry Association)

ABRAFAS
Associação Brasileira de Produtores de Fibras Artificiais e Sintéticas (Brazil)

ACG
American Cotton Growers (USA)

Acotex
Acabados y Cortes Textíles (Mexico)

ad valorem tax
Taxes on goods imported into a country from a foreign country, are either *ad valorem* (according to worth) or specific. An *ad valorem* tax is one in the form of a percentage on the value of the good.

ADEX
Asociación de Exportadores del Perú (Peruvian Exporters' Association)

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ADIH
Association des Industries d'Haiti (Association of Industries of Haiti)

ADITEX
Asociación Dominicana de Industrias Textiles (Dominican Association of Textile Industries) (Dominican Republic)

ADOEXPO
Asociación Dominicana de Exportadores (Dominican Association of Exporters) (Dominican Republic)

ADOZONA
Asociación Dominicana de Zonas Francas (Dominican Association of Free Zones) (Dominican Republic)

Aemprotex
Asociación de Emprendedores Productores en Textiles (Bolivian Association of Textile Producing Entrepreneurs)

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A new publication from Textile Media Services

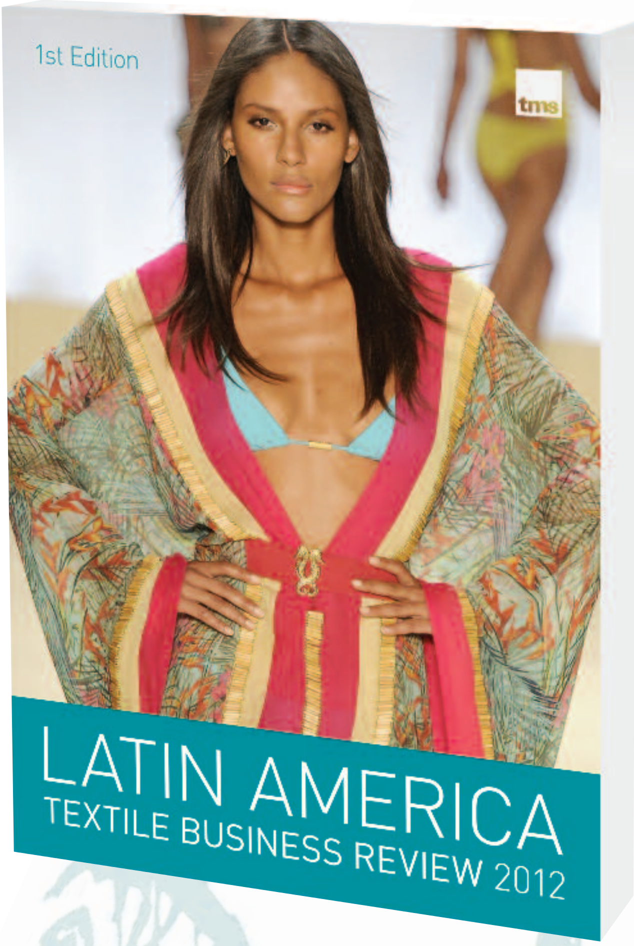
The definitive review of Latin America's textile and clothing industries

Textile Media Services is publishing the first **Latin America Textile Business Review**, a unique reference resource of the textile and clothing industries in Central and South America and selected Caribbean countries.

Written by Jozef De Coster, and with more than 330 pages and over 315 tables, this definitive review provides timely information enabling manufacturers, consultants, buying and trading organisations, research institutes and marketing associations to make critical decisions about new markets and sourcing opportunities in this rapidly developing region.

Published in September 2012, the first edition of the **Latin America Textile Business Review** includes the latest available statistical information on 20 countries in this emerging market, and an in-depth analysis of the current and future business environment affecting the region's textile and apparel sector.

The report is a companion product to the **Central and Eastern Europe Textile Business Review**, the **South East Asia Textile Business Review** and the **South Asia Textile Business Review**.



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Latin America Textile Business Review

The textile and clothing industry in Latin America is going through an interesting period. With a population of more than 600m people, this region is beginning to assert its own identity in the fast globalising world.

The collective struggle of Latin American countries to find their place, both within the Western Hemisphere dominated by the US superpower and in the world, is reflected in the strategies applied by textile and clothing companies.

Latin America is home to four major textile producing nations: Peru, Brazil, Colombia and Mexico.

Peru is South America's biggest clothing exporter and boasts unique domestic raw materials, especially alpaca fibre and Tangüis cotton. Brazil, a BRIC country, has enormous growth potential in both its textile supply chains – natural fibres and man-made fibres. Colombia, the "comeback kid" of the region, cherishes great fashion dreams. Mexico is determined to regain its position as the leading supplier of garments to the US, although admitting it will need some time to beat the current market leader, China.

Meanwhile, the CAFTA-DR countries – Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua – are eagerly competing amongst themselves and Haiti for niches in the US market.

Most Latin American countries complain about *contrabando* and other illegal imports of (mostly Asian produced) textile goods. How they respond to this problem varies widely.

Country profiles

The report features in-depth profiles of: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

This new report will help you identify:

- key trends, strengths and weaknesses of the Latin American textile and clothing industry
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