

**The Future of the South American Textile Industry**  
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The title of this conference is “the future of the Mercosur Textile Industry”. Even if I had a crystal ball I wouldn’t be able to give you a true picture of the future, all I can give you is not too considered opinion, of the options available to the governments who most matter in the planning of Mercosur, those of Brazil, Argentina and now, Venezuela. I am a true believer in the non politically correct Napoleon’s comment “Apres les femmes, ce sont les chiffres que trompent le plus”, so I will restrict my use of statistics to the absolutely essential. Tendencies and extrapolations have a disturbing habit of changing when least expected

More than 12 years ago, in Sao Paulo, I addressed the International Textile Manufacturers Federation, with the following words:” sometimes , a shock is necessary to improve competitiveness , but it is one thing to be submitted to a cold shower and another to be tied to an electric chair” That was the feeling textile manufacturers in Argentina had when there was a deliberate opening of their markets, and Brazilian and Asian textiles started pouring in, factories closed left , right and centre, and hundreds of thousands of jobs were lost , thanks to a ridiculously low exchange rate for the dollar, which at the same time allowed Argentine tourists to flock to Miami and say to shop attendants “give me two of each”. We know now, how these experiments ended, first of all Brazil devalued, flooding other Mercosur countries with their products from their comparatively huge production capacity, and afterwards it was Argentina ´s turn to devalue massively in 2002, but by then most factories had already closed. I remember being in a TV program led by Argentine producer Mariano Grondona, in which the present president of Brazil was present as a guest(he was just the PT candidate then), and I compared the relationship between Brazil and Argentina with a love affair between an elephant and a mouse, when the mouse makes love to the elephant not much is felt by the latter, but if the roles are reversed, there is sure to be a tragedy. This of course, is replicated by both Argentina and Brazil’s influences on Paraguay and Uruguay. A combination of differences of scale, widely skewed exchange rates, plus the unsymmetrical investment and export subsidies in each country, are sufficient to render some sectors of the Mercosur economies zero sum and unviable. Unless certain safeguard measures are implemented, and asymmetries corrected, the mice will certainly suffer, and industries will be located in countries with the most favourable exchange rates and the largest subsidies. Textile factories in the other countries will tend to close down. Until recently, most investments had been taking place in Brazil, that could boast of both of the above. But during the last few years, the exchange rate here has become unfavourable to exporters and imports from China have come flooding in, and have overwhelmed some manufacturers. The fact that this is related to keeping the cost of living artificially down and a need for the president to be re elected, is a mere coincidence. Brazil has faithfully carried out recommendations of the IMF and speculative financial funds have poured in, attracted by a high interest rate which has helped to create a strong real, upsetting many serious investment projects, and helping to develop a “ Dutch disease” fueled by exports of soya beans and iron minerals.

With the benefit of hindsight, in view of what has already happened in the Mercosur countries, I can recommend some policies for their governments.

Nowadays it is fashionable to analyze value chains, this means that for textile industries to be viable in Mercosur countries, their garment making must be viable too. It is no good for Mercosur to set up textile factories if the fabrics they produce are not bought by those who make up clothes, sheets or towels, which are imported from the Far East. It will be difficult to compete with the Far Eastern tigers for export markets, but that still leaves an important internal market of 250 million potential customers (including Venezuela). In Argentina at least the consumer has been recuperating his purchasing power, which had been devastated between 1998 and 2002. In Brazil it has also improved because of an inflated exchange rate, and it seems that in Venezuela consumers are buying more thanks to high oil prices and government spending.

There is a political decision to be made by Mercosur governments which seems to me very simple. Do they actually need the jobs that the textile value chain gives to the economy? I think that at least for the next fifteen years, the millions of jobs in cotton cultivation, ginning, spinning, knitting, weaving, printing, dyeing, cutting, sewing and trimming, together with ancillary services connected to the above, will be sorely needed. We are not yet a service oriented economy like most of the developed countries of Europe and North America, who have decided to sacrifice their textile and manufacturing jobs to China, India, Pakistan, Bangla Desh, the Mediterranean rim countries, Africa, Eastern Europe and the Caribbean. We cannot afford to use lose these jobs, because we just do not have sufficient others to offer for the moment. We cannot all be soccer players, government employees or computer specialists. Sewing affords good opportunities for women too.

If this paradigm is correct, and I believe it is, then the political will of the 5 governments presently in Mercosur, should be to defend their textile value chains, especially their making up of garments, which are most at risk from China and Far Eastern sources

Therefore, certain measures must be taken to implement this political decision, in the context of the Doha round which is full of challenges for the viability of textiles in South America. It seems bizarre that the US and Europe are pressuring our governments to open our textile markets and lower our tariffs, when their industries will certainly not benefit from these measures, but their competitors in Asia who devastated their own industries certainly will. It is obvious that if tariffs for fabrics and garments are slashed here, the products of Asiatic sweat shops will come pouring in. No amount of safeguards and rules will prevent Far Eastern and other countries from misrepresenting origins, underinvoicing, subsidizing or otherwise cheating; US and European countries can bear witness to the practices. Their imports from Asia have increased geometrically also affecting industries in Mexico and Central America. So efficient customs procedures, antidumping and antisubsidy measures should be organized quickly, before the Doha round starts rolling again. Other urgent measures have to be taken to improve the competitiveness of the cotton value chain, which is the main textile material in South America

First of all, adequate production of good quality cotton at international export prices, will ensure that Mercosur textile industries enjoy abundant raw material supply. There are several threats to this supply. In my opinion, the worst is the boll weevil, which has almost been eradicated in the USA, but has taken over the cotton fields of Brazil and Paraguay, and is now threatening Argentina and Bolivia

Unless an intelligent regional boll weevil eradication program is carried out in these countries, the very existence of cotton will be at stake. This will definitely affect tens of thousands of jobs in Paraguay and Argentina. In Brazil, the small cotton farmers have almost disappeared already. In Parana, there were 30,000 of them, now there are less than 600. In Paraguay, this is taking place now, thousands of small farmers are moving to the slums of Asuncion and one of the smallest crops in history is expected for next year. Each spray costs about 20\$ a hectare, and if 10 extra ones are necessary for the picudo, that doesn't leave much for the farmer, who spends almost nothing per hectare and has to live on 1,5 hectares of cotton. We don't want a similar problem in Argentina.

Another issue is contamination, which also affects Paraguayan cotton and Argentina's small farmers with their hand-picked cotton. It could be solved with a strict control by provincial governments, of allowing only cotton materials to be used for sacks, sewing threads and harvest belts, but they are notoriously lax in this issue, and prefer political decisions to economic and technical ones. Consequently farmers are penalized by a low price, like Pakistani and Indian cottons are.

Next I would place logistics. It is not the Matto Grosso farmer's fault that he is far from seaports, and it is the government's job to ensure that the roads and ports are in a good shape and that customs offices are running efficiently. This also adds value to the farmer's efforts in bringing his goods to market. As also the high interest rates which he has to pay for the credits that make farming possible, should be adjusted downwards.

Obviously, a realistic exchange rate is very important for competitiveness, in all stages of the industry. If the peso equals one dollar, like it did for ten years in Argentina, everything imported will be cheap, and we will suffer for it, like industries are suffering now in Brazil, as also the USA is suffering owing to an undervalued Renmimbi.

Regarding the next stage, the spinning industry, my recommendation is to ensure a maximum symmetry of tax and credit advantages, in all Mercosur countries. There is a high capital requirement for this industry and modern machinery is very expensive, there will be investment where owners can find reasonably priced credit and where some incentives can be enjoyed. Brazil is a good case, with the BNDS dispensing billions of dollars worth of low cost credit annually and similar amounts in state or export subsidies. It would be nice if other countries in Mercosur could afford to be as generous. Energy is another issue which is most important for investment purposes. Most experts feel that Argentina is headed for an energy crunch in 2007 or 2008 at the latest. God has been kind so far, but there has been little investment in energy, winters have been mild, the dams have filled up with rainwater and hydroelectricity has filled up the gaps in fuel supply, with energy consumption growing at 8 % a year. Our gas reserves have supposedly dropped to a mere 9 years supply, with an enormous fleet of natural gas driven cars guzzling fuel which should be used for industry. I presume the other Mercosur countries are also worried about their energy future and this is why we are wooing our Bolivian and Venezuelan neighbours, who have abundant energy resources. Brazil has an excellent policy of developing ethanol from sugar, while Argentina is building a flourishing biodiesel industry transforming soya and other oilseeds into diesel fuel.

I personally feel that the knitting industry has a more brilliant future in Mercosur than weaving, because value added is somewhat lower, the fashion content is somewhat higher, delivery times shorter than from the Far East, and we can therefore compete

more successfully. Making up shirts will be less competitive than T shirts, more minutes of labour are required and the Vietnamese or Bangladeshi ladies making less than 50 dollars a month will be more successful at taking over Mercosur jobs, especially if our governments accept to reduce our textile import tariffs, which is obviously not something I am recommending

In my opinion, the 11 trade associations representing all segments of the US fiber, textile and apparel industry had a point, when they signed a letter urging the WTO to establish sectoral textile negotiations within the DOHA round, that would consider textiles and apparel separately from the overall non Agricultural market access negotiations. Our textile manufacturers also fear that textiles could become a trading chit with reference to overall Doha negotiations. This does not seem to be such a problem in the near future now, however it must always be borne in mind.

In the end , the decision of whether textiles are strategically important for the future of Mercosur is something which our governments must decide. Undoubtedly, China and other Asian tigers are more competitive, not only because labour costs are much lower, but because they are sometimes more efficient and also have more subsidies. Just a year ago, tens of thousands of jobs were lost in Africa when their duty free access to the US and European markets were rendered unimportant by the removal of quotas that kept Asiatic garments out. I feel that this can also happen in Mercosur, unless our governments keep reasonable tariffs to compensate for overvalued exchange rates and nonmarket subsidies that favour exports from Asia. Efficiency should also be encouraged, labour laws at present in Argentina are not encouraging productivity increases. In the US, textile employment is more than 40% less than in 1997, in clothing its 70% down. This has been compensated by vigorous growth in other industries and services. We can not afford to let this happen at present because we are not receiving sufficient investment in other sectors, especially in the less developed parts of Mercosur. I feel that Bolivia should soon find a role, not only as a provider of an important energy supply, but also of hard working and serious cut , trim and sew workers for the textiles of Brazil and Argentina. In that sense, Paraguay and Uruguay have lots of experience also in producing garments for foreign markets. Unfortunately, some firms in Paraguay also has a tendency of allowing the import of practically made up products from the far East and just adding labels for re export. The problem of circumvention, trans-shipment, false declarations, falsification of official documents, counterfeiting, under invoicing and lax customs procedures, is not only limited to what American and European industries had to face.

One extremely important subject for the survival of the Mercosur textile industries is whether China is a market economy or not. I think, not. And obviously, anti dumping measures are easier if it not considered one. State intervention in the fixing of prices ,the exchange rate and the determination of costs and prices, make it a non market economy. So it depends on an important political decision of the governments concerned, to decide if they prefer to be politically correct and accept glaring state intervention in China or to defend their textile and other industries. In Mexico, even though there are antidumping duties of 533% on Chinese clothing, 58% of garments are smuggled from China and other Asian countries, and therefore prove how important customs procedures are for all countries, as also the political will to apply severe control measures when necessary.

The race to the bottom in international garment prices is not proving a great incentive to

textile investment. In the USA, prices of cotton trousers fell by 20% in 2005 alone, this is also having an effect in Mercosur with imports lowering prices despite continuing inflation.

I do believe that Mercosur countries can be an interesting location for joint ventures with European and American textile and garment industries now going out of business. The enormous availability of not so used equipment now closing down every month there, is an opportunity not to be missed. The recent decision of Springs Industries to relocate many looms to Brazil in a joint venture with Coteminas is a perfect example. Much almost new spinning equipment is being installed again in Brazil and Argentina. New machinery is extremely expensive and cannot be amortized unless great tax advantages are obtained. The textile industrialists of the USA, Canada and Europe should be looking at the new opportunities of our growing markets, with a population profile of quite similar characteristics to their own, and, often, important government support. This will certainly help to get unemployment down in South America.

96% of all investment in Ring spinning in the world at present goes to China, Vietnam, Pakistan, India and Bangladesh. Let us help to change these onesided statistics, there is an urgent need for investment in our countries too, in Argentina bank credits are insufficient for investment in the textile industry, but this is not the case in Brazil. Bolivia, Uruguay and Paraguay are also in urgent need of investment and offer highly motivated workers. In Argentina, our present government has exiled all thoughts of privileges for only certain industries, and has included textiles in its strategic plans. Secretary of Industry Miguel Peirano has described our industry as strategically important for the country's development and our President has defended it systematically in Mercosur's frequent internal squabbles. The textile PYMES( small and medium enterprises) which offer the bulk of labour opportunities, have collaborated towards an astonishing industry growth rate since 2002, without any aid from the financial sector, thanks to a correct exchange, monetary and fiscal policy, This has gives us renewed hope for the future. As secretary Peirano said, "When conducting an international negotiation, it is essential to evaluate it in terms of the internal and external markets, and to estimate correctly which the potential benefits are that justify the decisions to be taken. One must think, not only in relation to balanced sectoral improvements, but also in relation to regional needs" Our textile industries are often in undeveloped parts of our countries which seriously need jobs, and therefore are in exceptional need of protection. Argentina has been enjoying unprecedented periods of growth recently, but this has been very skewed and this new prosperity has not affected the whole country the same way. The Northwestern and Northeastern provinces are still behind and deserve some extra incentives for development, and I believe that the other Mercosur countries are in a similar situation

There is no hope for survival in textiles without investment, and no investment without adequate conditions. These conditions are certainly there at present, but governments must make sure that they are not changed, and that Mercosur textile firms invest in their home countries instead of in Pakistan. If China is allowed to advance in the import market of garments and shoes, at an annual growth rate of 50%, this will not be a favourable message for investors. We have the raw materials, we have the labour, we have the consumers, and we have the finance, at least in Brazil's case. We do need the right government decisions. In the last few years, about 400000 American textile workers have lost their jobs, and more are losing them every day. I believe the lesson of no holds barred globalization is being learnt by all our governments, and they should

dedicate a great deal of time to finding the optimum balance between the interests of consumers, workers and investors. Thank you for your patience