



Farther South of the Border Small Country Seeks Big Packages

By **Alison A. Neider**
Reporter

Guatemala City-Guatemala is only the size of Tennessee, but its ambitions are big when it comes to apparel manufacturing. It also faces big challenges, thanks to the North American Free Trade Agreement (NAFTA), which has provided advantages to neighboring Mexico in forging ties to the U.S. apparel industry.

These days Guatemala is hoping that an expansion of the Caribbean Basin Initiative (CBI) will provide NAFTA-like incentives for U.S. manufacturers looking for offshore production options. But the CBI deal has languished for about a year. A general case of jitters over the global economy has also fueled increasing concern of international trade pacts from many domestic contractors as well as sectors beyond the apparel industry. Concerns about CBI's fate have led to a back-up plan for Guatemala: A keen focus snaring production work for more complicated fashion items along with an emphasis on full-package programs. Both would complement an existing industry that's based largely on 807 assembly-only programs.



The code's principles:

- * No discrimination based on sex, race, color, religion or political opinion is tolerated.
- * Freedom of association is permitted, though unionization is low here.
- * Wage equality for work performed under similar conditions.
- * Child labor follows federal laws, requiring those ages 16 to 18 to have parental permission to work, and prohibit working overtime. Children under 16 years old cannot work.
- * Wages and working hours follow federal laws. Minimum daily wage is 25 quetzals plus additional benefits.
- * A safe and secure labor environment.
- * Environmental conservation helps companies observe federal laws.



Vertical operation: Manufacturer Shin Won knits, dyes, cuts, sews and ships garments from its facility outside Guatemala City

East Meets South: Vertical manufacturer Shin Won in Palin Escuintla is among 210 apparel companies in Guatemala with Korean ties

A recent visit to the Apparel Sourcing Show in Guatemala City revealed a local industry with strong government support and surprising international ties. Vestex, the apparel and textile industry division of Guatemala's Non-Traditional Exporters Association, sponsored the show, taking pains to match U.S. manufacturers with contractors, textile mills and support firms throughout Central America. The show also identified a roundabout resemblance between the industry in Guatemala and California: Both markets are chock full of South Korea-based companies or Korean immigrants plying the trade.

From Mercados to Malls

Malls filled with teen-oriented stores and cappuccino kiosks to open-air markets hawking Mayan crafts and souvenirs provide the shopping options in and around Guatemala City and reflect the evolving state of this Central American country.



Tourist trade: Open-air markets, such as this one in Antigua, sell Mayan crafts to travelers.

One such destination is Tikal Futura, an upscale enclosed mall attached to the Hyatt Convention Center in this nation's capital and site of the recent Apparel Sourcing show. The mall's stores carried a standard mix, including U.S. labels such as Gap, Guess?, Levi Strauss and Calvin Klein. Fashion prices run slightly higher than in the U.S., and much of the apparel carry country of origin labels ranging from Mexico to Macau and Turkey to Taiwan. Gap merchandise is labeled "Made in Guatemala." And one Calvin Klein denim style invoked American cachet but stopped short of an outright claim with a label that read "Styled in USA of USA components."

Factory Tours

The U.S. is Guatemala's largest market for apparel, importing about \$1.1 billion of finished garments annually. Pressure from U.S. manufacturers to provide package programs has led many Guatemalan factories to become more vertical, handling spinning yarn, knitting or weaving, cutting, sewing and shipping the final product. A visit to three factories—two as part of a Guatemalan Trade Office tour and one impromptu—provided insight into the country's apparel and textile industry.

Textiles Parabolico, S.A. (TexPasa) is a vertical knitting mill in Guatemala City. The mill spins its yarn from U.S. cotton and DuPont polyester, and has two sewing plants, a dyeing and finishing plant, quality control and shipping. It employs a 1,000-strong workforce and sends some sewing to outside contractors.

The company is owned by three brothers: Roberto Quan, general manager, based in Guatemala; Jaime Quan, who handles the import side from the company's Miami office; and Jose Luis Quan, who oversees the export side from Guatemala.

The unplanned visit to TexPasa revealed a factory buzzing with activity, as workers filled a customer's order. Planning manager Margarita Alther said the workers earn a minimum daily wage of 25 quetzals—about \$3.60 U.S.—with the chance of earning more by meeting production quotas.

Shin Won is a vertical manufacturer in Palin Escuintla, a town 45 minutes outside of Guatemala City. Its parent company is based in South Korea, with subsidiaries in Honduras, Indonesia, mainland China and Hong Kong. The company is one of 210 Korean-owned businesses involved in apparel manufacturing, said Shin Won general manager Daniel Lee.

"Shin Won" means "one faith," and the religious theme echoes in the company's marketing literature. The Guatemala factory occupies half of a 10-acre site between two active volcanoes. Three warehouses face an open field the company plans to turn into an employee soccer field. A fourth building serves as cafeteria and church: On the outside wall is the phrase "Dios Bendiga el Personal de Shin Won" or "God Bless the personnel of



Label conscious: Local malls stock many familiar U.S. brands.

Another fashion stop is the grocery store chain Paiz, stocking apparel for the family alongside freezer cases and canned goods. The selection tended to be basics such as T-shirts, twill pants and dresses, most of which did not have country of origin labels.

Worldwide Web-Literally

Not all patrons at Cyber Mania in Tikal Futura are teens surfing music Web sites and chat rooms. One Apparel Sourcing show attendee went online to research a potential client. John Hyatt, ocean division vice president of the Irwin Brown Co., a freight forwarder in New Orleans, La., met a large manufacturer on the trade show's second day and needed to track down background on the company. Hyatt was able to quickly access the manufacturer's annual report, finding the company's distribution centers in central southern states-ideally located for shipments through the Port of New Orleans-as well as information on the company's merchandise lines and competitors. He said he initially hesitated at the \$12.50 per hour online charge, but found the information in under an hour. When he reached the register, he discovered the online rates were in quetzals-meaning his hour of surfing charges cost less than \$2 U.S.



Instant access: Cyber Mania helped a trade show exhibitor track down information about a potential client.

Shin Won."

Services are held Sundays, in addition to weekly meetings to address any problems raised by workers and to explain Korean culture-an attempt to build an understanding between Guatemalan workers and Korean supervisors and owners.

Shin Won knits its own goods, but does not have a spinning facility. Yarn is purchased from Korea, Indonesia and Pakistan. Clients include Liz Claiborne, Gap, Perry Ellis, J.C. Penney and Sears. Executives said the company follows the country's code of conduct. The company has 300 production lines and 2,400 employees producing 3,600 to 4,500 pieces a day. Another 25 production lines are contracted to outside sewing facilities, according to the Guatemalan facility's president, Jong Myun Kim. Shin Won's workers live in a nearby town and are transported by company buses. Employees earn the minimum wage day rate and work five and a half days a week, Lee said.

Textiles del Lago, formerly called Liztex, is among the nation's largest textile firms. It recently combined its several facilities into one compound in Amatitlan, about 30 minutes from the capital. The trade office organized the facility tour, but the company requested no photos be taken of the sprawling factories.

The company produces knit and woven goods from yarn it spins from primarily U.S. cotton and polyester. There is a printing and dyeing facility with a laundry and lab. The company produces its own energy and sells the excess to the national system.

Company representatives declined to give the number of meters produced monthly, but said the company imports 5,000 bales of cotton every month and exports 70 percent of its product to the U.S., with the remaining split between Guatemala (20 percent) and other Central American countries (10 percent).

Three brick buildings with rows of white columns house the company's executive and administrative offices and are flanked by rows of employee housing: Small one- and two-story structures with corrugated tin roofs. Flower gardens, laundry lines and preschool-aged children occupy the tiny

Code of Conduct

Guatemala has a Code of Conduct covering the apparel and textile industries' business practices. The code's principles follow federal labor laws, but code adoption is voluntary and subject to a quarterly audit by accounting and consulting firm Ernst & Young's Guatemala office. The code was instituted in 1996 and 50 companies are in the program to date.

front yards. Bicycle racks are scattered through the compound and bike-riding employees zip from building to building.

Eight hundred housing units are available for the 2,000 employees, but new housing is under construction. Some current housing runs alongside the power plant and the warehouses. The new facility will be located across the highway from the compound.

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