Brazil and Argentina textile trade steady despite high costs

By Charles Newbery 04 May 2018

Trade in clothing and textiles between Brazil and Argentina has grown, as manufacturers in these neighbouring South America countries rein in their comparatively high costs, according to international trade data. Brazilian textile and apparel exports to Argentina rose 4.9% to US$251m in 2017, from US$239m in 2016, while Brazil's imports from its southern neighbour shot up 22.6% to US$86.9m, from US$70.9m over the same period.

Brazil has been taking advantage of the slow but steady economic recovery in Argentina to sell more to its southern neighbour, leaving Argentina behind in sales to Brazil, according to Ecolatina, a consultancy in Buenos Aires.

Brazil accounts for a sixth of the textile and apparel exports to Argentina, trailing China's 45%, according to international trade data. For Argentina, Brazil is its biggest export market, buying 24% of its total textile and apparel exports, the data shows.

This growing trade shows how Brazilian manufacturers have been investing and innovating to reduce expenses, says Silvio Paiva, director of sales at Avanço, a São Paulo maker of circular looms: "The focus is on increasing productivity and keeping down costs."

Rafael Cervone, executive director of Brazilian textile industry organisation Texbrasil, says improving efficiency and productivity, such as with automation and digital printers, has allowed Brazilian companies to work faster and out of more compact factories, reducing energy, water and other operating costs. This will make producers — even smaller ones — more competitive against Asian suppliers, helping to expand exports in Latin America, he says.

Noting that similar work was being undertaken in Argentina, Cervone says: "This will open an enormous number of opportunities for Brazil and Argentina."

One good example of Argentine cost reduction – which could help boost exports to Brazil – is TN&Platex, the biggest yarn maker in Argentina. It has slashed its workforce to less than 1,000 from 2,500 over the past six years, and in 2016 it closed one of its seven factories.

"It's extremely expensive to operate in Argentina," says Teddy Karagozian, the company's chief executive.

Argentine inflation, while down from 40% in 2016, was still at 25% in March, according to Indec, Argentina's national statistics agency – way ahead of Brazil's mild 2.85% rate (as of March).

Indeed, Argentine exporters are facing a tougher environment than their Brazilian counterparts, with borrowing rates at 36%, compared to the Brazilian central bank's (Banco Central do Brasil) base rate of 6.5%.

Argentine energy costs have been surging, with fuel up 37% and electricity nearly 120% in February, year-on-year, according to data compiled by the Argentine Industrial Chamber of Clothing (Cámara Industrial Argentina de la Indumentaria, or CIAI). In Brazil, diesel and gasoline prices were 10-12% less than in Argentina in April, according to GlobalPetrolPrices.com. Brazil's industrial electricity costs, while 24% more than in Argentina in March, declined 3.1% in dollar terms in March year-on-year, according to SEG Ingeniería, an energy consultancy.

Another hurdle in Argentina is high taxes. Pro Tejer, an Argentine textile trade association, estimates that 50% of the price of a T-shirt goes on taxes, leaving a profit margin of 4.8% after paying advertising and design, credit, logistics, rent and other costs.

This has sapped the industry’s ability to compete with clothing imports, explains Ariel Schale, executive director of Pro Tejer. “When you have non-competitive costs, you have non-competitive prices,” he says.

Argentine clothing imports surged 53% year-on-year in 2017, according to CIAI, following the decision of Argentina President Mauricio Macri to scrap the trade controls and protectionist policies of his populist predecessors, who ruled from 2003 to 2015. Brazil’s textile imports rose 21% over the same period, according to Texbrasil. Source: WTiN.