

Saskia Bonnefoi

## **The Challenges of the Textile and Apparel Cluster in the State of Mexico Regarding Changes in the Business Environment**

### **The historic importance of the textile industry in the economy.**

Textile production in the State of Mexico area has a long tradition that goes back to prehispanic Mexico, reaching its peak during the colonial era with textile plants and fulling mills and handmade production through the spinning and knitting of wool, cotton and silk. However, it was in the mid-19th Century, with capitalist consolidation, when the textile industry became very important for the economy of the region, becoming one of the main branches through which the industrialization process began in Mexico.

A sustained modernization process began at the beginning of the 20th Century, despite the traditional nature of the textile industry. During this period, the constant flow of investment, the surge in commercial capital and the birth of financial capital gave the textile industry an unprecedented boost. The industry became the largest in terms of production and number of workers, reaching its highest point in 1907 and 1908 with 35,811 workers in the region.

The industry had several conditions in its favor, including:

- The existence of a relatively large population, which provided the market that was required for the industry to develop, as well as providing cheap, plentiful labor for the textile sector.
- A tradition in handmade textile production that could be reproduced in mechanized textile production.
- A protectionist policy by the government, which consisted of protective tariffs, the prohibition of the importing of raw cotton and of textiles manufactured abroad, and the establishment of financial resources.
- An affluent economy, which enabled the accumulation of capital that was required for the introduction of modern textile machinery.

This case was prepared by Saskia Bonnefoi under the supervision of Emiliano Duch on 2011 based on a real experience in the State of Mexico, as the basis for class discussion rather than to illustrate the effective or ineffective handling of an administrative situation. Some situations, characters and companies have been disguised to preserve confidentiality.

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Also, between 1940 and 1970, the economic and social development of Mexico was defined by an accelerated industrialization process called the replacement of imports, with production being mainly focused on the domestic market. This system related to a production model that was characterized by the standardization of production, rigid automation, the importance of economies of scale and the predominance of large companies. During these years the industry became one of high production costs and frequently of low quality that increasingly depended on subsidies.<sup>1</sup>

### **The effects of the new market developments**

The opportunity of the new development of the North American market with the North American Free Trade Agreement (NAFTA) signed in 1994 boosted growth and modernization in the textile sector, which enjoyed privileged access to the North American market, while other leading competitors continued to be subject to tariff restrictions. The textile and apparel cluster in the State of Mexico also grew in the 1990s due to its geographical location in the center of the country and to the presence of over 20 million inhabitants in the City of Mexico region.

During this period the State of Mexico mainly concentrated its production on two branches of the textile industry: a) The spinning, weaving and finishing of soft fibres and b) the preparation of unbranded garments. Most of these products were exported to the USA and frequently entered the country under a tolling agreement. In particular, the large, traditional business owners had the capacity to modernize and to specialize in these branches, thereby achieving efficient vertical integration that enabled them to produce large volumes and reduce their costs. This was how major figures in the industry like Grupo Zaga, Kaltex, Qualifil, Avante Textil, Clariant, Convertex, Fynotej, Grupo Comiza and Grupo Yacab became established. Together, these companies employed over 50,000 people. This was a time that was characterized by high growth, giving business owners in the textile industry a lot of economic and political influence in the region.

However, one decade later the industry suffered a decline in production, employment, investment and exports. The main reasons for this crisis were the increase in international competition due to China joining the WTO and the granting by the USA of preferential trade arrangements to Caribbean countries. Mexico also saw a rise in its production costs, especially in terms of salaries and energy costs, and sustained appreciation of its currency.

Under these conditions, textile business owners asked for help from state and federal government bodies, in an attempt to find a way to reduce their production costs and save the jobs that the industry was providing. Inspired by the Turkish textile industry model, the requests included, as an example, a public contribution to the purchase of cutting edge technology machinery that would make it possible to speed up the assembly line production of finished garments, which would

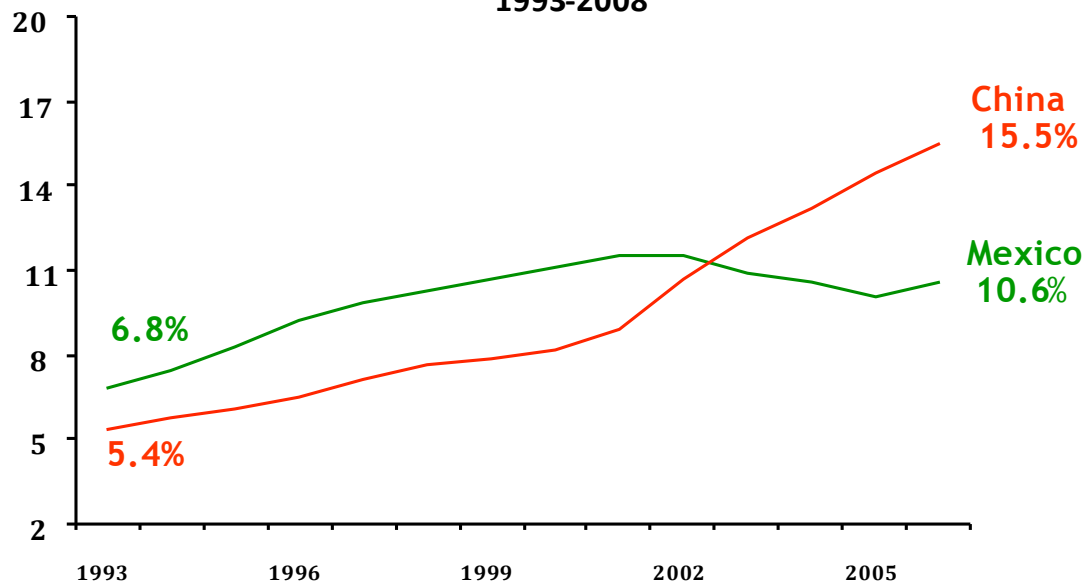
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<sup>1</sup> Yasmín Hernández Romero and Raúl V. Galindo Sosa, "La Industria Textil en el Estado de México, retos y perspectivas", in *Espacios Públicos*, vol. 9, num. 017, 2006, México, pp. 422-435.

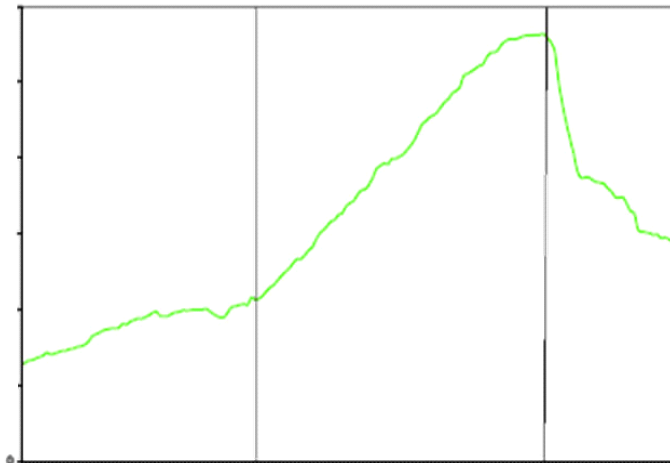
considerably reduce costs. For their part, civil servants did not have the necessary tools to justify the use of resources in this regard, other than strong political pressure by powerful corporate groups. In this context of a crisis in the sector, the State of Mexico Department for Economic Development decided to begin its competitiveness development programme by focusing on the textile and clothing cluster.

## ANNEXES

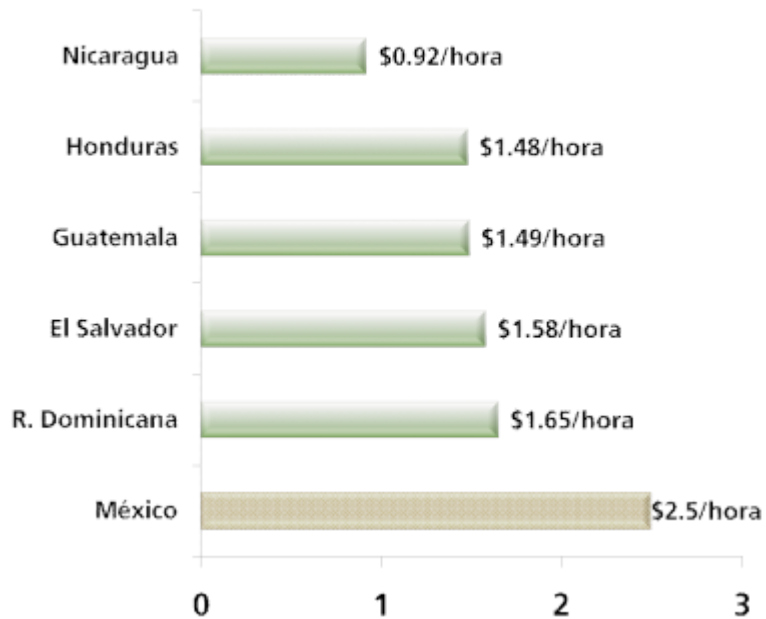
Share of the textile industry in the USA market  
1993-2008



Source: Department of the Economy, 2008



### Costos laborales en prendas de vestir (dólares por hora)



Costos laborales en prendas de vestir / Labor costs in garments

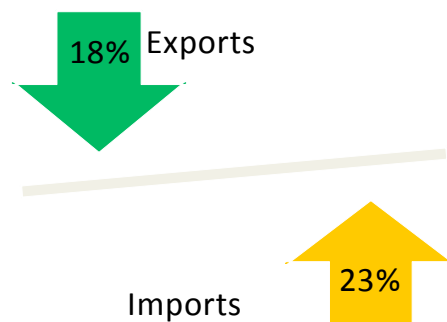
(dólares por hora)

(dollars per hour)

Fuente: CNIV, México, 2008

Source: National Chamber of the Clothing Industry, Mexico (CNIV), 2008

### Trade balance of the garment industry (2002-2004)



Source: CNIV

## **ROLE PLAY EXERCISE**

### *Positioning of large business owners*

The large companies in the textile industry that alternate in chairing the national chamber of the textile industry (CANAINTEX), had already decided upon the route to follow to come out of the crisis. It was clear that their experience and success in previous years gave them sufficient ability to come up with solutions for the industry. Therefore, they considered that it was not necessary to carry out any additional strategic analysis of the cluster in the State of Mexico. On the contrary, their main concern was that government policies were not solving the basic problems of the time, such as high electricity prices, unjustified taxes on labor that were increasingly expensive, in addition to poor public services in terms of water supplies, safety and roads. One business owner from one of the most powerful groups stated: "If these failings were resolved, the Mexican textile industry would be able to continue being a strong exporter".

Some business owners, who formed part of a new generation, had a different opinion, but only out of the public eye. In fact, they were making internal efforts within their companies to change the way in which they had worked until then, by capitalizing on the knowledge they had acquired through their contact with foreign companies.

## **ROLE PLAY EXERCISE**

### *Positioning of the civil servants of the Department for Economic Development*

The textile industry was a political and economic headache that was hard to solve. In the boom years, these successful business owners had been strong allies of the government, but now they were asking for more and more funds and preferential arrangements that could hardly be justified when compared to other corporate sectors in the region, and which also, in many cases, fell outside of the sphere of influence of the Department for Economic Development.

In this context, civil servants were open to listening to other strategic alternatives that would lead to a more constructive dialogue with business owners in the cluster. However, they wished to avoid any direct confrontation that might have a high political cost.

## **ROLE PLAY EXERCISE**

### *Opinion of the consultants hired by the Department for Economic Development*

The consultants had been hired to carry out a process that would increase the competitiveness of the textile and clothing cluster in the State of Mexico. The aim was to influence both the establishment of new public programmes for the sector and individual companies.

However, the strategic conclusions that the consultants had reached did not agree with the opinion of CANAINTEX on how to save the textile industry. Of course, this difference caused a confrontation between the consultants and the largest business owners in the cluster. The consultants were therefore faced with the problem of convincing the civil servants that the analysis of the business owners was incorrect and, at the same time, ensuring that the political influence of the business owners did not interrupt the entire competitiveness process of the cluster.