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CONSIDERATIONS FOR THE FORMULATION OF STRATEGIES
FOR EXPORTS OF MANUFACTURES

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Working document *

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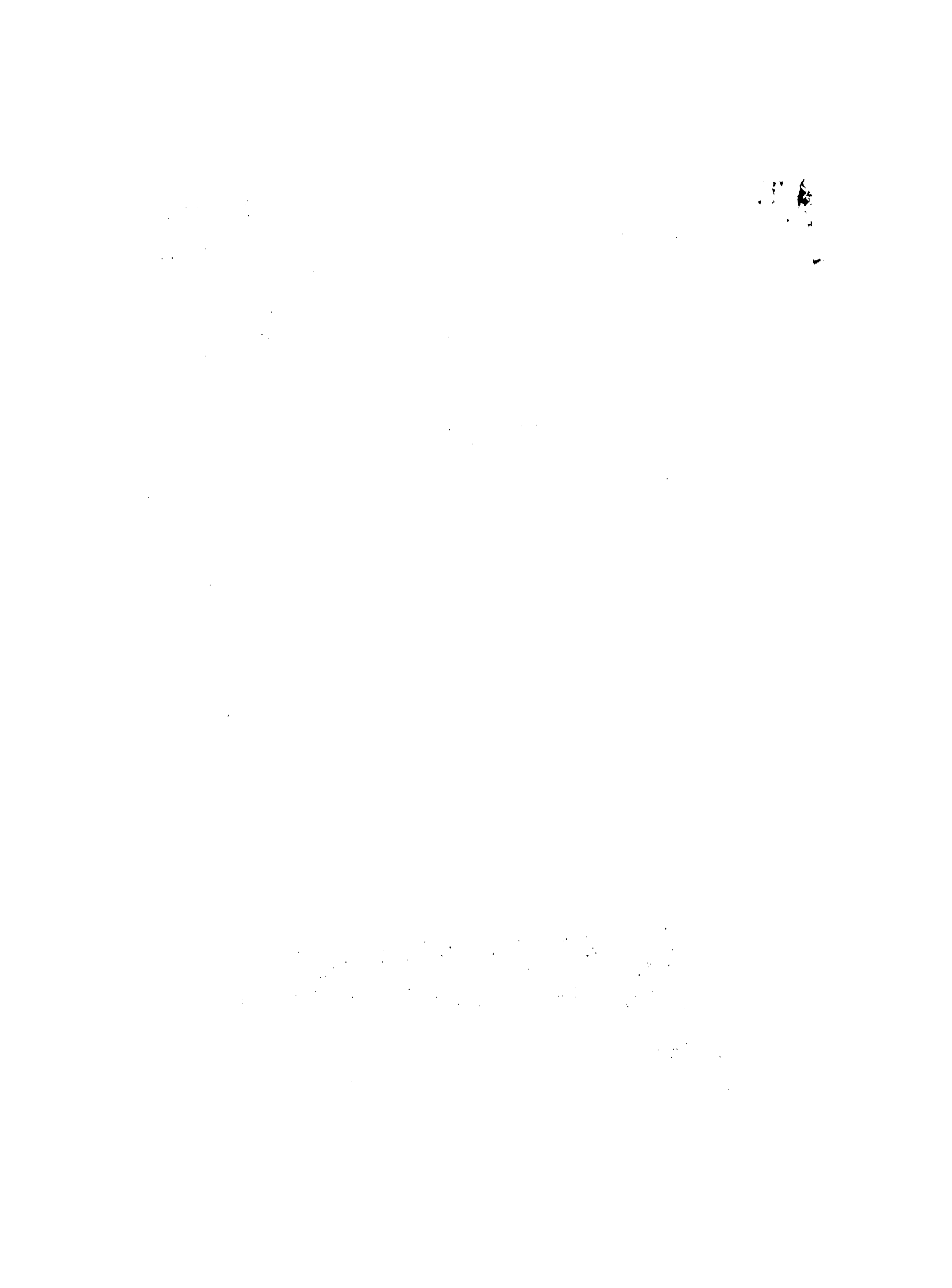


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INTRODUCTION

One of the objectives of economic policy on which a consensus of opinion appears to exist in the various Latin American countries is that of speeding up the growth rate of exports on the basis of diversification of their composition, with an increase in the share of manufactured products. This target is set up in countries differing from one another in size, in their degree of industrial development, in the natural resources they possess, and even in their patterns of social, economic and political organization.

Given the assumption that a long-term export policy cannot be based on permanent subsidies to make up for the inefficiency of enterprises, and, furthermore, in view of the high growth rates of world consumption of manufactures, the conclusion must be reached that the basic problem which the expansion of industrial exports entails for the Latin American countries is to create conditions conducive to the establishment of an industrial supply which, at least in certain sectors, will be competitive in international terms. Moreover, this supply must be built into the framework of a system of economic relations which will incite industry to be for ever striving to improve its levels of efficiency.

Clearly, in the present situation of industrial activity in Latin America these conditions are far from being fulfilled. The position, has been described in various ECLA studies; for the purposes of the present paper, suffice it to say that generally speaking the region's industry is markedly inefficient by international standards and that in addition the system of economic relations within which it is developing affords it no incentive to do better.

Accordingly, the problems to be analyzed are those implicit in the transition from the present state of Latin American industry to a situation consistent with the aim of joining the select and limited circle of countries that supply the world market for manufactures. If the position is envisaged in these terms, it will manifestly not be piecemeal measures that will enable industry to reach such a goal.

/It seems

It seems unrealistic to contemplate increasing the efficiency of industrial activity in all sectors and in every enterprise at once. Clearly, sectoral and regional priorities will have to be established. It will be necessary to take action with regard to exchange, tax, credit and tariff policies; to design instruments of industrial policy in respect of purchase of equipment, location, and evaluation of projects; to set up institutions capable of co-ordinating the whole set of measures bearing on export capacity; to take export criteria into consideration in the treatment accorded to foreign capital and in the legal regulations governing the purchase of technology from abroad; and to determine the steps to be taken directly by the public sector in the field of infrastructure (transport, communications, energy, etc.).

The integrated system of measures to be adopted by the public sector in the areas listed above, together with the establishment of priorities in relation to the measures in question and the consequent time sequence of the relevant decisions, is what is defined in the present study as a "strategy for exports of manufactures".

A first requisite for devising such a strategy is to be able to foresee the effects of the various measures contemplated. If this forecast is to be worthwhile, it must be based on an understanding of the over-all operation of the system to be projected, as well as of the behaviour of its principal internal agents. It is this understanding that will make it possible to ascertain the causal relationships between the measures adopted by the public sector and the reactions of producer firms, whether they are State, private (domestic or foreign) or mixed enterprises.

Hence it can be inferred that in order to formulate a realistic strategy which will enable industry to convert its present inefficiency into the required capacity to compete at the international level, another prerequisite is a sufficiently clear grasp of the process which has led up to the existing situation, and which has to do both with the evolution of international economic relations between Latin America and the rest of the world, and with the internal characteristics of the region's industrial development.

/The strategy

The strategy will have to take into account the changes that have come about at the international level, in respect to the relative importance of the various regions and countries, trends in trade in the different types of goods, and new patterns of entrepreneurial organization which, in spreading from one country to another, modify the basic characteristics of world trade. Nor can it disregard the decisive effects on national competitive capacity produced by the various mechanisms and procedures for the transfer of technology. In addition, it must be based on an analysis of the interrelationships between the financing arrangements that link Latin America to the developed world and the Latin American countries' chances of exporting manufactured products.

Thus, the view of the problems posed by the expansion of industrial exports which is expounded in the present study differs substantially from the conception that serves as a basis for the formulation of export promotion programmes in which the emphasis is placed on incentives to existing industry and on the marketing problems involved in gaining a foothold for its products in the world market.

It is contended here that in order to succeed in the task envisaged, Latin America must introduce significant changes in its "industrial development model", in respect not only of international relations but also of those established within individual countries. This postulate does not imply that the export possibilities of existing industry are disregarded, but simply that the difficulties with which that industry is faced should be approached in the right perspective to ensure that its expansion is geared to the lasting solution of its problems.

In chapter I, background information is given on some of the outstanding changes that have taken place in recent years in the general picture of international economic relations. The aim pursued in chapter II is to describe and analyze some of the characteristic features of industrial development in Latin America which may have an important bearing on the subject of the present study. On the basis of the material set forth in the two preceding chapters, an attempt is made in chapter III to discuss some aspects of the possible content of export strategy.

/Given full

Given full awareness of the fundamental differences observable between the various countries of the region, it could hardly be hoped to recommend a single strategy for all of them. In the writer's view, however, there are some problems which all the Latin American countries will have to tackle with greater or lesser degrees of vigour and urgency. The importance of the different topics discussed will undoubtedly vary from one country to another. An endeavour has been made to concentrate attention, as far as possible, on those aspects of the question which seem to be of relatively general interest.

Chapter I

RECENT TRENDS IN INTERNATIONAL ECONOMIC RELATIONS:
RELATIVE POSITION OF LATIN AMERICA

The object of this chapter is to draw attention to certain developments which have taken place in international economic relations since the Second World War, and which may be of significance for the purposes of formulating a strategy for exports of manufactures.

As regards the flow of goods, the following specific aspects of the question are analyzed:

- Increase in the share of manufactures in world trade;
- Decrease in the participation of developing countries in world trade;
- Decrease in Latin America's participation in world trade, to an even more marked extent than in the case of the developing countries as a whole;
- Increase in the proportion of developed countries' exports sold in the markets of other developed countries;
- Intra-regional character of more than half the exports of the developed countries and the socialist countries, in direct contrast to the situation in the developing countries;
- Differences in the structure of the socialist countries' exports, according to whether they are destined for the developed or the developing countries' markets;
- Changes in the behaviour of the socialist countries in relation to the world market: specifically, their increasing degree of openness, to which the economic reforms carried out at the internal level have apparently been favourable;
- Weakening of the United States' trade position;
- Strengthening of the relative position of Japan; and, lastly,
- Emergence and consolidation of regional and subregional groupings.

The events and trends described and analyzed in the text bring to light at least one essential point: namely, that the dynamics of the international system of trade relations will not be spontaneously conducive to an improvement in the relative position of Latin America.

/This bears

This bears out the idea - expressed at the beginning of the study - that one of the basic problems facing the region is that of bringing about major changes in its economic relations with the rest of the world. The flows of goods which were analyzed in an earlier section of the complete study constitute one of the levels at which international economic relations take concrete form. The other basic levels, are those of the flow of technology and the flow of financial resources. Clearly, then, an international agreement relating solely to transactions in goods will not suffice, since such transactions will be largely determined by what happens at the other two levels mentioned. The period following the Second World War has witnessed the emergence and expansion of an institutional mechanism which exerts a growing influence on transactions in respect of goods, technology and capital: namely, the so-called "international enterprises".

Outstanding among the factors adduced to account for the emergence of the international enterprises are some of the developments that have taken place at the level of transactions in goods. The chief of these are the relative slackening of economic growth in the United States, the formation and consolidation of regional groupings, and the stepping-up of trade competition among the various powers, particularly the United States, Japan and the Federal Republic of Western Germany.

Empirical data are then given which show that increasing proportions of world market transactions in goods, capital and technology are being channelled through these enterprises.

In order to evaluate the data provided in their full significance, it must be taken into account, in the first place, that the international enterprises, as a general rule, belong to the group of leading firms in their countries of origin. Hence they may well be in a position to exert a far from negligible influence on the definition of their respective countries' internal and international economic policy.

Secondly, it seems useful to bear in mind the fact that the subsidiaries of international enterprises generally expand faster than the industry of the countries in which they operate. In some instances they have already attained important positions, and in others, if current trends are maintained, they will do so within a few years' time. This means that the decisions adopted by such subsidiaries may, in the case of some of the Latin American countries,
/have significant

have significant macro-economic effects. That is, the firms in question not only supply specific items in the population's consumption basket, but take some part in defining and modifying its content. They do not confine themselves to using domestic financial resources, but generally play a decisive role in the development and orientation of financing mechanisms. In short, they do a good deal to determine a country's "style" of development.

Accordingly, no attempt can be made to change the system of relations linking Latin America with the rest of the world without specifically taking into consideration the relations between the governments of the region and the international enterprises.

The endeavour to synthesize the events and trends described in the course of the chapter brings to the fore, in connexion with Latin America, considerations of two seemingly contradictory types. On the one hand, the region is apparently becoming more and more closely "integrated" with the developed countries. This "integration" takes the form of growing financial indebtedness, the use of technology imported from the developed countries of the world, and the establishment of enterprises from those countries in Latin America. In contrast to this type of "integration", the phenomenon of "marginalization" is manifesting itself to an increasingly marked extent in respect of the type of product sold by the region in the world market and the rate of expansion of these exports.

Thus the apparent contradiction lies in the fact that if a balance of relations between Latin America and the developed world is drawn up, it can be seen that while the debts entered on the side of liabilities are increasing, the assets recorded on the credit side are decreasing. The element of contradiction disappears if it is recognized that the Latin American countries' development process possessed precisely the two-fold characteristic of integration with the developed countries at the level of commitments and marginalization at the level of the benefits associated with the dynamism of world trade.

The basic characteristic of the post-war development model has been the industrial development process, analysis of which should therefore reveal the mechanisms which must have brought about this situation of "integration" on the liabilities side and "marginality" on the side of assets.

In the following chapter, some of these mechanisms are identified and analyzed in brief outline.

/Chapter II

Chapter II

THE INDUSTRIAL DEVELOPMENT PROCESS IN LATIN AMERICA AND EXPORTS OF MANUFACTURES

Introduction

The formulation of a strategy for exports of manufactures must be based partly on analysis of the changes that have been taking place in the economic relations between the various countries and partly on interpretation of the industrial development process that has led to Latin America's marginalization in the world market for manufactures.

The conclusions drawn from the analysis of these two aspects of the problem should make it possible to identify the decisions which may gradually enable the region to compete in the world market. Clearly, the type of industrial development that has taken place cannot be studied independently of the relations between Latin America and the developed countries. The point of interest is to analyze precisely those mechanisms which, while on the one hand intensifying the Latin American countries' commitments with the developed world, on the other prevent the region from sharing in the benefits that accrue from the dynamism of the world market for industrial products.

Accordingly, attention is concentrated on certain aspects of the industrial development process that bear most directly on the key topic of the present study: how to raise the relative level of competitive capacity.

In the first section of the present chapter study is devoted to some indicators of what Latin America's industrial development performance has represented in terms of the scale of industrial activity, its dynamism and its orientation. With a view to evaluating it in relative terms, it will be compared with the industrialization process of a group of small European countries that have successfully launched their products in international markets. The second section deals briefly with some of the implications of the protectionist policy adopted by governments in order

/to encourage

to encourage industrial expansion. The object of the third section is to study the role played by international enterprises in the industrial development of the region. The fourth and last section examines the effects of technological dependence on the capacity to compete in the world market.

1. Scale, dynamism and orientation of industrial development in Latin America

Comparison with selected European countries shows that the size of the domestic market and the relative importance of industrial production in a country's economic activity should not be regarded as determinants of the capacity to compete in the world market. The volume of production in Belgium, the Netherlands, Spain and Sweden is roughly the same as in Argentina and Brazil and smaller than in Mexico.

When the comparison relates to the contribution made by industrial value added to total value added in production of goods, it can be seen that the proportion is much the same in the larger countries of Latin America as in the European countries.

Nor are significant differences observable between the growth rates of industry in Latin America and in the European countries included in the comparison.

It is when the volume of exports of manufactures of the Latin American countries is contrasted with that of the European countries considered that the basic distinction between the industrial development processes of the two groups comes to light. In 1966, for instance, the figure for the Latin American country with the biggest volume of exports of manufactures - Mexico - represented approximately 40 per cent of the industrial exports of the European country with the smallest volume, although Mexico's industrial output exceeded Spain's by about 50 per cent. In 1953, the two countries' exports of manufactures accounted for similar proportions of their total exports (12 per cent). By 1966 the corresponding figure had risen to 43.9 per cent in Spain, whereas in Mexico it had not yet reached 20 per cent.

/In several

In several European countries, exports of manufactures constituted over 20 per cent of industrial output in 1966. In Belgium and Yugoslavia, respectively, they represented as much as 36.4 and 49.8 per cent. In the Latin American countries, on the other hand, the share of industrial production that went to the external market was barely 1 per cent.

Obviously, in order to draw normative conclusions from a comparison between the industrialization processes of, say, Sweden and Mexico, it is not enough to contrast economic indicators relating to recent periods; the historical background that in each case explains the existing situation must be studied in depth. Accordingly, all that is claimed for the results of these comparisons is that they provide a frame of reference for the analysis presented in the following sections of the chapter, particularly the one dealing with the protectionist measures applied to encourage industrial development in Latin America.

2. Protection and industrial development

A rapid survey of the views expressed in economic literature on the origins and effects of the region's application of protectionist policy leads on to discussion of an aspect of the question which is often under-emphasized: specifically, the linkage between occurrences in the market for products and in the capital and technology markets. Disregard of these interrelationships may give rise to the hope - unfounded, in the writer's opinion - of reorientating industrial development by focussing action essentially upon those instruments which affect transactions in goods. What is more, it may breed a tendency to analyze on one and the same level the protectionist policies applied by Latin American countries and by the socialist countries, and even, with some reservations, that pursued at certain times by a country like Japan. ^{1/}

^{1/} See Bela Balassa, "Growth strategies in semi-industrial countries", in Quarterly Journal of Economics (February 1970), where a contrast is drawn between the "inward-looking" industrial development strategy pursued by such countries as Argentina, Chile, Czechoslovakia and Hungary, and the "outward-looking" strategy of Denmark and Norway. The first four countries have a common feature, in the author's opinion, in that they have insulated their respective domestic markets from international competition.

/It is

It is true that not only the Latin American countries but also the socialist countries and, to a lesser extent, Japan, have applied measures designed to protect their respective domestic markets against specific imports. But whereas in Japan it was essentially Japanese enterprises that were thus favoured, and in the socialist countries their own enterprises alone, in Latin America protection was extended alike to national and to international enterprises, the latter being predominant in the more dynamic sectors. In Latin America, the objects of protection were essentially those final products in respect of which import substitution was a primary aim. Capital goods and some intermediate products were purchased from abroad. And it is precisely in capital goods and certain intermediate products that a major proportion of technological innovations are incorporated and crystallized. Consequently, the combination of this fact with the existence of the international enterprises meant that a liberal policy was adopted with regard to imports of technology. In the socialist countries, in contrast, isolation from the world market also involved the great majority of capital goods. This situation, which undoubtedly affected the efficiency of specific industrial sectors in the countries concerned, implied on the other hand that their own laboratories and enterprises were forced to seek solutions for whatever technological problems cropped up. Japan, for its part, has been characterized by intensive utilization of new techniques discovered or invented abroad, but with one essential difference with respect to Latin America: the imported technology was assimilated by Japanese enterprises in which it was processed, adapted and improved upon.

These differences, although indicated in such broad outline, show how indispensable it is to integrate the analysis of protectionist measures in a broader perspective. They also account for the fact that the different countries enjoy widely varying degrees of liberty as regards the possibility of modifying the levels and structures of protection through time. In Japan's case, the protectionist measures slacken as the competitive position of its enterprises grows stronger. The socialist countries are making their debut in the world market with products developed during the spell of isolation which followed upon the Second World War. In

/Latin America,

Latin America, in contrast, where there is no autonomous development of technology, where national enterprises capable of facing international competition are lacking, and where international enterprises are predominant in the most dynamic sectors, the protectionist barriers are difficult to lower even for products from within the region.

In the countries with outward-looking strategies, low levels of protection, rather than constituting a basic characteristic of their strategy, seem to reflect the existence of internal decision-making centres which are capable of establishing long-term national objectives, pivoting the integration of the various sectors upon these objectives, and mobilizing the resources required to pave the way for their attainment. If this line of reasoning is followed up, the maintenance and consolidation of the high protectionist barriers in force in Latin America would seem to show that national decision-making centres are less predominant.

In these circumstances, it is surprising that the strategy for integration and mobilization of internal resources pursued by such countries as Norway and Sweden is defined as "outward-looking", whereas the opposite term is applied to Latin America's type of industrial development.

In the words of H. Myint, "it is paradoxical to describe such policies as 'inward-looking' when their main underlying emphasis is on economic aid (and trade concessions) to be administered from outside. Conversely, the policy of internal economic integration reducing the dualism outlined in this paper, is based on the building-up of more integrated domestic markets for capital funds and labour, realistically reflecting the factor endowments of the underdeveloped countries This is nothing but the inverse application of the Heckscher-Ohlin theory of comparative costs: that is to say, the policy of internal economic integration is the other side of the coin to the policy of expanding international trade according to comparative costs".^{2/}

^{2/} See H. Myint, "Dualism and the internal integration of the underdeveloped economies", in Quarterly Review, No 93 (Banca Nazionale del Lavoro, Rome, June 1970), p. 153.

This view of the problem makes it more appropriate to compare the history and implications of industrial policy in Latin America on the one hand, and in the Scandinavian countries, the socialist countries and Japan on the other. This latter group, whatever differences they may present as regards the levels of tariff protection, have one feature in common, although it takes different forms: the course of their development is steered pre-eminently by internal decision-making centres.

From this standpoint, therefore, it would be of interest to analyze in greater detail two factors which characterize and explain this inward-looking but externally-dependent strategy: the presence of international enterprises, and the use of unprocessed imported technology. From what has already been said, it can be inferred that in the formulation of a transitional strategy these factors, together with the levels of protection, will necessarily be of key importance.

3. International enterprises and exports of manufactures

The study of the behaviour of international enterprises in relation to the world market is preceded by an analysis of some general characteristics of their modus operandi in Latin America. Specifically, empirical data are presented on the following subjects:

- Re-channelling of foreign investment in the region towards increased participation in manufacturing industry;
- Size of subsidiaries in relation to that of parent firms;
- Participation of subsidiaries in local industry;
- Dynamism of sectors in which international enterprises operate;
- Mechanisms for expansion of subsidiaries. Structure of financing and purchase of established firms;
- Rates of return obtained on operation. Relation between nominal and real rates.

In the light of the data presented the following question is posed and discussed: how far has the industrial development policy adopted by the Latin American countries tended to aggravate the unfavourable effects associated with the presence of foreign enterprises and to minimize the potential qualities that might have justified their establishment in the region?

/The analysis

The analysis presented in the study suggests that this question must be answered in the affirmative. The gist of the argument is as follows. The virtues with which the international enterprises are usually credited include their ability to muster the financial resources required in order to take full advantage of economies of scale at the levels of production and distribution. Thanks to these resources, moreover, they can carry out research projects which will result in the improvement of products and processes. Their sound methods of planning and management enable them to decentralize production in specialized and mutually complementary plants. All this is reflected, in the last analysis, in levels of efficiency which, in combination with the establishment of promotional and marketing systems, qualify them to expand throughout the length and breadth of national and international markets.

When this picture of international enterprises is compared with the characteristic features of their behaviour in the Latin American countries, significant differences are observable. In the first place, plant sizes are smaller than could be desired, even if allowance is made for the limited size of the domestic markets. This is because, given the internal price levels made possible by protection, there are profitable investment opportunities for a considerable number of foreign enterprises - more, in some sectors, than in their countries of origin. Specific cases in point are such branches of production as the motor-vehicle and electronics industries and the manufacture of electrical household appliances or of pharmaceutical products. Another result of indiscriminate protection is that the subsidiaries established in the region fail to adopt the practice of specialization in different plants producing on an efficient scale. This holds good not only for the horizontal diversification of plants but also for their degree of vertical integration. In other words, the plants generally display a higher degree of vertical integration and produce a wider range of final goods than is the case among plants in the developed countries.

Moreover, inasmuch as their production is basically intended for the domestic market, subsidiaries in Latin America do not take advantage of their firm's international marketing networks for export purposes.

/The technological

The technological innovation potential indisputably existing in the firms in question is only faintly reflected in their subsidiaries, since neither the goods manufactured nor the production equipment and processes used in Latin America usually belong to the newest "technological generation." This last fact, as will be seen later, has manifest repercussions on the enterprises' export prospects.

One of the characteristics of these firms which is just as evident in Latin America as in the developed countries, or even more so, is their capacity to introduce modifications in the "utility function" of consumers. This implies that the subsidiaries succeed in attracting consumer preferences to the goods they themselves produce. In their promotional activities an important role is usually played by the development of mechanisms for financing consumption, especially in the case of durable goods. Thus they play an important part in the determination not only of the consumption basket but also of the investment basket, both in the private and in the public sector (private investment in motor-vehicles and public investment in urban transport infrastructure).

In so far as the subsidiaries are generally the leading enterprises in a large number of branches of industry, their behaviour exerts a significant influence on the domestic enterprises around them, whether these are suppliers or rival firms.

If the role discharged by international enterprises in the developed countries is compared with the part they play in Latin American industry, it seems warrantable to conclude that although their action carries decisive weight in the orientation of the development process both there and here, its results are different, at least as regards the dynamism of the system. In the developed countries profits are invested in research and investment projects, which are carried out and enter production in the countries concerned, increasing their productive efficiency and expanding their possibilities of competing in the world market.

In the Latin American countries, to the aforesaid implications in the shape of highly concentrated structures of production are superadded imports of capital goods and remittances of profits abroad. These last

/two factors

two factors simultaneously produce an inhibitory effect on the economic growth of the countries in which the subsidiaries operate, and a dynamic effect on the economies of the countries of origin.

If this state of affairs remains unchanged, it seems likely that at least one of the factors curbing the growth of the Latin American economies and closely linked to the existence of subsidiaries will be intensified: namely, the increasing share of these enterprises in the responsibility for national balance-of-payments deficits. Given that as a general rule the subsidiaries expand more rapidly than industry as a whole, which in its turn grows a good deal faster than traditional exports, it must be concluded that imports of equipment, raw materials and parts, and remittances of profits, increase at a very much higher rate than the total inflow of foreign exchange.

If it is recognized, on the one hand, that one of the possible ways of imparting dynamic impetus to Latin America's industrial development is by expanding exports of manufactures, and if, on the other hand, the weight carried in this process by foreign enterprises is acknowledged, it follows that a change in their behaviour in this respect might have important repercussions. Before the implications of a significant increase in the exports of international enterprises are discussed further, it seems necessary to examine the concrete experiences and possibilities existing in this field.

After analyzing the role which international enterprises seem really to be playing, in relation to the world market, in some Latin American countries for which data are available, the study postulates, simply as a working hypothesis, the following picture of what might possibly be the situation in this respect in the next few years:

A sizable proportion of industrial exports in the Latin American countries would come from subsidiaries of international enterprises;

The chief markets of destination of these exports would be the Latin American regional and subregional groupings. In practice, it would be a matter of the import substitution process at the regional level;

In the case of Mexico and some other countries, specific sectors of industry would show an increasing degree of integration with industry in the United States or in other developed countries.

/The type

The type of industrial exports that went to the developed countries would reflect the emergence of a new "international division of labour", relating this time to manufactured products. Latin America would export those products in which the developed countries were gradually losing interest, owing to changes in demand and to technological innovation; products and parts which would be complementary to other more sophisticated goods manufactured in the developed countries; and, lastly, natural resources that had undergone some degree of processing.

Exports of manufactures are generally regarded as a means to the following ends: (a) increasing the growth rate and stability of exports; (b) expanding and therefore dynamizing the market for domestic industrial production; (c) encouraging an improvement in the technological level and efficiency of industrial activities; (d) increasing national autonomy as regards the management of foreign trade.

If the picture described above is compared with the objectives indicated, it is patent that the Latin American countries would not reap the full benefit of the favourable effects expected from exports of manufactures. To base the more dynamic part of exports on decisions adopted by international enterprises does not seem the best way of achieving greater autonomy and stability in the management of foreign trade. In their export strategy, the international enterprises take into account production and market conditions in the various countries in which they operate. This being so, when the bulk of a country's exports comes from such enterprises, the situation can hardly be described as stable or as an example of autonomy.

As regards the possible dynamism of intra-regional exports, which imply in practice the continuation of the import substitution process at the regional level, it is foreseeable that during an initial phase significant growth rates might be attained, but that unless the domestic markets of the Latin American countries were substantially expanded, in the space of a few years there would be a tendency for the process to be carried to saturation point, just as at the level of each individual country.

/In the

In the case of the simpler products, or of those intended for the spare parts market in the developed countries, the goal of expansion might perhaps be attained, but the manufacture of such items would not constitute an over-powerful technological incentive for the plants producing them, still less for the collateral sectors.

The expansion of exports of labour-intensive products depends upon the maintenance of minimum income levels, which can on no account be considered a desirable objective. It becomes even less so if a significant proportion of the profits generated on the basis of using such labour is transferred abroad, and consequently cannot be earmarked for the expansion of the production base that would be necessary in order to raise the productivity and wage levels of the labour force in question.

Processed natural resources are perhaps the category of products for which export prospects are most favourable in terms of volume. But it is precisely here that there are the greatest possibilities of replacing subsidiaries by domestic enterprises, although their technology would be partly imported.

This train of reasoning leads to the conclusion that the behaviour of the subsidiaries in respect of export expansion does not necessarily guarantee the dynamism and stability of the industrial development model to the shaping of which such enterprises have made a decisive contribution.

4. Imports of technology and industrial development

The basic consideration to be borne in mind in tackling the imported know-how problem is that technology is not a factor of production which can be analyzed separately. In concrete terms, imports of technology cannot be studied without reference to the imports of equipment and machinery which constitute one of the essential ways in which know-how can be transferred. Nor is it possible to disregard the potential effects of the presence of subsidiaries, which form one of the most important mechanisms and channels for such transfers, on the orientation of local industry. Norms for importing know-how through manufacturing licences can hardly be proposed without previous study of the repercussions which the use of this channel of transfer may have on the purchase of equipment and inputs, and on the subsequent establishment of the firms extending such licences in the countries concerned.

/The types

The types of equipment imported, licences approved and firms installing subsidiaries in the Latin American countries, and the terms on which the corresponding transactions are effected, will depend upon the orientation of industrial development and on the objectives pursued by the firms operating in the countries of the region.

In the specific case of Latin America, therefore, it seems essential to bear in mind the two characteristics of industrial development outlined in the preceding sections of the study: i.e., the existence of highly protected domestic markets and the significant role played by the subsidiaries of international enterprises.

One of the most obvious forms taken by technological dependence on the part of a country or a region is the inability to design, manufacture or even draw up specifications for the capital goods used in productive activity.

This basic fact has all kinds of effects on the orientation, content and expansion prospects of the region's industrial system.

- (i) From the standpoint of the balance of payments, it implies a substantial disbursement of foreign exchange. In 1960-1965, according to estimates, imports of capital goods accounted for about 31 per cent of total imports of goods (35 per cent in Argentina, 32 per cent in Brazil, 37 per cent in Chile, and 39 per cent in Colombia). To this must be added remittances of profits by the international enterprises manufacturing such equipment in the region, the royalties paid by Latin American enterprises manufacturing under licence, and the service fees of the firms of consultants which undertake plant designing and specification of equipment.
- (ii) The fact that a large proportion of capital goods is imported detracts the multiplier effect of investment placed in a given country. It is estimated that for Latin America as a whole imports of capital goods represent approximately 45 per cent of total consumption of goods of this type. In Argentina the corresponding proportion seems to be 28 per cent, in Brazil 35 per cent, in Colombia 61 per cent, and in Chile 80 per cent.

/(iii) Since the

- (iii) Since the technology in question is designed with an eye to the developed countries' markets and in accordance with the relative availability of the factors of production, it often happens that even when the equipment imported or manufactured entails minimum scales of production, these prove too large for Latin America's domestic markets. This results in the emergence and subsequent consolidation of monopolistic and oligopolistic structures. By their very nature, such structures are conducive to an even lower degree of utilization of installed capacity than would be justified by the size of the markets. The high internal price levels fostered by protection more than offset the heavier costs under the head of equipment that result from small scales of production and under-utilization of capacity.
- (iv) The coexistence of high production costs and high rates of return has a doubly inhibitory effect on entrepreneurial export-consciousness. It appears from what was said above that this situation is partly attributable to the use of equipment which was not designed in relation to local conditions.
- (v) The inability to design and manufacture equipment also results in failure to exploit specific raw materials and other resources for which no foreign-made equipment exists. This situation often arises, for example, in respect of specific forest products and certain foods. In other words, the natural resources that are processed are those for which suitable procedures and equipment have been designed in the developed countries. This of course precludes making the most of the comparative advantages which might derive from the availability of certain natural resources that are non-existent or in short supply in the developed countries.

The foregoing effects are still produced even when the imported equipment has been carefully selected and bought at the most favourable world market prices. In practice, however, it is quite possible for neither of these two conditions to have been fulfilled in the case of a

/significant proportion

significant proportion of imports of capital goods. This is fundamentally imputable to a lack of the requisite motivation and knowledge on the part of enterprises, to the channels through which the equipment was purchased, and to the sources of financing drawn upon.

Data are provided in the study which help to substantiate this view.

Consequently, even if optimum use were made of the capital goods imported by Latin America (which is not in fact the case, for reasons already indicated), the overpricing of machinery would mean that the goods produced with it were heavily handicapped as regards competing in the world market.

The next question to be discussed is the purchase of technology through the channel of manufacturing licences. In this context, the analysis first deals with the factors that incite both domestic and foreign entrepreneurs to make virtually exclusive use of imported technology. Attention is also drawn to the possible differences between the criteria applied by domestic and by foreign enterprises in purchasing products and processes abroad. Emphasis is placed on the fact - of basic importance in the writer's opinion - that as long as the satisfaction of the highly-protected domestic market continues to be the entrepreneurs' key objective, there will be no inducement, at least where the private sector is concerned, to break new ground in the sphere of technology.

The legal regulations relating to the purchase of technology are next examined, together with the expenditure effected by selected countries under this head, and the sectoral allocation of the know-how thus acquired.

Generally speaking, the legislation governing contracts of this type in Latin America may be said to have been conceived essentially as an instrument for regulating the corresponding outflow of foreign exchange. The legislators seem to have been far more concerned with the balance-of-payments problems than with the formulation of a policy for the purchase of technology. For a legal body to be able to fulfil this latter function it would have to (i) lay down clear guiding principles with respect to sectoral priorities; (ii) accord preference to specific mechanisms for the transfer of technology, to which end it would have

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to define with extreme clarity and precision the wide range of transfer procedures existing at present; (iii) establish operational mechanisms for valuation of the content of imported technology and the efficiency with which it was utilized; and (iv) grant faculties and human and financial resources to an agency whose function would be to apply and perfect the regulations in question.

In practice, the legal norms seldom display such characteristics; they go no farther than establishing registration procedures, time-limits and maximum remittances, defining the possible content of contracts only in general terms.

With regard to expenditure, data for Brazil, Chile and Colombia are given and are compared with the corresponding figures for Japan. It can be seen that the proportion of the gross domestic product represented by such expenditure is practically the same in all four countries. The basic difference lies in the fact that whereas in the Latin American countries local expenditure on technological research and development (RD) is equivalent to about 40 per cent of the allocation for imports of technology, in Japan the ratio between the amounts spent on local RD and on imports of technology is approximately six to one.

To put it another way, while in Latin America the know-how purchased is used just as it is handed over by the supplier, in Japan it is subjected to intensive processing whereby it is adapted or improved upon. It is this processing that enables Japanese firms to compete in the world market even against the very enterprises from which they imported the technology.

The foregoing considerations are strengthened if the type of know-how purchased and its sectoral destination are taken into account. It is shown in the study, on the basis of a comparison between Brazil and Japan, that contracts for the use of trademarks are of very much greater importance in Brazil. At the sectoral level, contracts relating to durable and non-durable consumer goods are the most prevalent. In Japan, on the other hand, 54.3 per cent of the contracts pertain to the machinery sectors.

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In the same context, attention is next drawn to the significant role played by the Japanese Ministry of Industry and International Trade in the negotiation of contracts between local firms and external suppliers. Another case described is that of the Royalties Committee of Colombia, whose work seems to be producing highly promising results.

The last point touched upon in chapter II relates to the restrictive clauses which are often included in contracts for the purchase of technology. Taken together, the data supplied with respect to different countries point to the conclusion that it is absolutely indispensable to adopt far-reaching decisions in this field if the aim pursued is really to increase the competitive chances of local enterprises.

The data furnished in this chapter reveal the magnitude of the obstacles that have to be faced before the countries of the region can begin to play a part in the world market for manufactures. They also help to explain the statement contained in the introduction to the present study, to the effect that significantly increasing exports of industrial goods implies changing the industrial development model hitherto followed in certain basic respects.

Chapter III

MEASURES POTENTIALLY COMPOSING STRATEGIES FOR EXPORTS OF MANUFACTURES

Introduction

The aim of this chapter is to identify and analyze some of the measures that governments could adopt as stepping-stones to an improvement in the efficiency of industry, with a view to gaining a foothold in the world market for manufactured products.

In the first place, the relations between the exports objective and the other economic development objectives established by governments are discussed. Attention is then concentrated on the role incumbent upon the public sector in the formulation and implementation of a strategy for exports of manufactures. Later, the various situations arising in the Latin American countries are examined, after which the specific measures proposed are considered. These measures are grouped in three major categories, according to whether they relate to industrial policy, to trade policy or to institutional questions. The next problem dealt with is that of selecting priority sectors and drawing up sectoral export programmes.

Some of these aspects of the subject are analyzed in other documents prepared by ECLA experts for presentation at the Meeting. This is the case, in particular, with trade policy measures, institutional problems and criteria for the selection of export products. In connexion with these topics, only very general considerations are outlined in the present report.

1. Exports and over-all development objectives

Throughout the study it is assumed that one of the aims of the various governments is to increase their exports of manufactures. Obviously, this is only one among the objectives pursued by economic policy. Targets to which equal or greater priority is assigned usually include the expansion of employment, the more equitable distribution of income among the various sectors of the population and the prevention of unduly marked regional disequilibria.

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The various possible ways in which the different objectives may come into conflict are discussed. Outstanding determinants of the intensity of such conflicts are considered to be the importance of the external sector in national economic activity and the time horizon in relation to which the objectives and the corresponding economic policy measures are projected.

2. Participation of the public sector

From the analysis presented in the preceding chapters stems the conviction that, on the one hand, the industrial development process needs reorientating, but that, on the other hand, the basic pressure for this reorientation will not come from the private sector.

This is the essential reason for thinking that the public sector should bear the brunt of the responsibility for the formulation and implementation of measures designed to increase the efficiency of productive activities and, in particular, to further the possibilities of competing in the world market.

The point to be stressed here is that the public sector should take much more vigorous action than hitherto to influence productive enterprises, whether they are private, public or mixed, domestic or foreign. In some cases the measures adopted by the public sector with respect to enterprises will be based on direct control of property rights and management. In other cases official action will take the form of attempting, on the basis of certain economic parameters, to modify the behaviour of enterprises from without. In this second type of action the working hypothesis will be the possibility of reconciling the micro-economic motivations of enterprises with the economic interest of the nation at large.

It is not intended to make an exhaustive study of the whole body of measures through which the public sector can influence the level of efficiency of enterprises in each of the political models which may emerge in Latin America in the future. Attention will be concentrated on a small number of measures which seem to be of adequate relevance in various political models.

/3. Influence

3. Influence of the existing situation

The idea that significant changes need to be introduced in the industrial development process must be qualified with due regard to the special conditions prevailing in different countries.

To define these various situations in the study the following factors are referred to: stage of industrial development, size of domestic market, natural resources, endowment, presence of international enterprises, and linkage with specific regional or subregional groupings.

It is considered that the degree of intensity with which these factors make their presence felt may carry decisive weight in the definition of the various strategies.

4. Industrial policy measures

An attempt is made to identify the measures that might help to neutralize or correct certain distortions which seem to be cramping industry's chances of competing in the world market.

A distinction is drawn between the measures aimed at raising the level of efficiency in the existing industrial park and those designed to create a future industrial supply. The former relate more directly to those countries in which industrial development has already made some progress.

A first category of measures comprises those whose object is to ensure that domestic enterprises of a size compatible with world market requirements exist in specific sectors.

In this context, the problem first discussed is that of mergers of existing firms, with special reference to domestic enterprises. With respect to international enterprises, mention is made of the possibility of restructuring given sectors by inviting international bids and redefining the characteristics of the corresponding industrial park.

It is beginning to seem essential to seek not only means of increasing the size of firms within sectors of production, but also mechanisms to facilitate the integration of the agents which act as financial intermediaries and of the enterprises producing goods. In this connexion, the question of industrial estates is discussed, and a comparison is drawn between the

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role they might possibly come to play in Latin America and the role they actually do play in Japan. Some basic differences between the two cases are pointed out.

A third manifestation of concern to increase the size of Latin American firms is to be found in the creation of what are known as "multinational" enterprises. In this case, it is a matter of expanding enterprises through the integration of different Latin American countries' capital and/or markets.

In relation to these enterprises the different motivations adduced to justify their establishment are touched upon, together with the significance of the linkage between such enterprises and regional integration agreements, and, lastly, the importance that would attach to the expansion of multinational enterprises in the framework of sectoral development programmes. Attention is then drawn to the possible differences between private and public multinational enterprises.

Lastly, consideration is given to the relation that would exist between the export opportunities of small firms and rationalization at the level of the firms which take the lead in the various sectors.

A second industrial policy topic to which reference is made in the study is the necessity of reducing levels of protection.

The difficulties with which action in this field will be faced, and the relations between protection and subsidies, are among the subjects discussed. Attention is drawn to the necessity of studying the possible changes to be introduced in industrial/agricultural price ratios. Lastly, stress is laid on the importance which may attach to this question in the determination of the behaviour of international enterprises.

The third problem analyzed concerns project evaluation criteria. It may safely be said that the export prospects of any industry to be established in the future are largely determined at the time when the investment projects are prepared. It is at this stage that decisions are adopted as to plant size, the products to be manufactured and the local and imported inputs to be used, the technical processes to be applied, the question of location, etc.

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Hence the following point is emphasized: if the expansion of industrial exports is established as an objective, it is essential that the public-sector agencies which evaluate industrial projects should attach sufficient weight to the export variable in their selection criteria.

A fourth type of measure relates to legislation on foreign capital. Here the point to be stressed is the necessity and possibility of inducing the international enterprises to modify their export policy. Examples taken from countries inside and outside the region are cited to show the viability of achieving concrete results in this field.

It is considered that clauses could be incorporated in the foreign enterprises statute which in one way or another would relate foreign exchange export earnings with the granting of tax or other incentives or privileges.

The fifth group of measures is concerned with imports and development of technology. Given that one of the basic objectives pursued in raising the level of technology is to improve local industry's capacity to compete in world markets, it follows that State activities in the area of exports and in that of development of technology should necessarily go hand in hand.

The steps to be taken in this direction might perhaps be grouped in two categories: (a) measures designed to change the attitude of entrepreneurs to efficiency and therefore to the necessity of raising the level of technology; and (b) measures aimed at improving, in both quantitative and qualitative terms, the supply of domestic and imported technology available to enterprises.

In the case of private enterprises, whether domestic or foreign, it may be assumed that demand for technology will increase in so far as this implies a rise in rates of return or at all events a means of preventing them from decreasing. Consequently, the success of any measures adopted to stimulate the demand in question will largely depend upon how far they contrive to create an industrial environment in which the level of efficiency is one of the determinants of rates of return. The following are among the measures that might serve this end: reduction of effective protection of domestic markets; export incentives; in the evaluation of projects financed by the public sector, application of criteria relating

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to their level of technology; observation of the same principle with respect to the granting of concessions for imports of specific equipment; use of domestic content indices in which weight is attached not only to local industry's share of the value added in production of each good, but also to the corresponding content of technology; action to promote the emergence of enterprises of a size compatible with investment in research and development; and tax exemptions and incentives for enterprises introducing innovations that will push up their level of efficiency.

As regards the role that the public sector should play in boosting the supply of technology, both domestic and imported, mention is made in the study of several specific ways in which action could be taken. The first of these, which does not seem to have been systematically tried out up to the present, consists in using the purchasing power of the central administration and of public and semi-public enterprises as an instrument for the promotion and development of local technology. Action of this kind may be particularly appropriate in the capital goods sector, where the public sector is usually the leading consumer. If in addition to the purchases made directly by State enterprises account is taken of the equipment bought by the private sector with public financing and the equipment used by firms fulfilling official contracts (public works), it can be deduced that the public sector's opportunities of contributing to the development of the capital goods industry are enormous.

A second type of action is the formation of cadres of specialists in engineering design. This would be a matter of establishing high-level engineering firms whose activities, to begin with, might be channelled into the areas of strategic importance for national development. These enterprises would doubtless have their origin in the State agencies existing at present.

A third area of action referred to in the study is that of the creation and/or strengthening of technological research institutes. Stress is laid on the possibility of carrying out multinational projects in specific areas.

It is contended in the study that the Latin American countries' chances of gaining a stable and worthwhile position in the world market for manufactures, at least as far as the sectors enjoying comparative

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advantages in terms of natural resources are concerned, are to some extent contingent upon the efforts made at the three levels mentioned above: technological research, engineering design, and manufacture of machinery - all on a clear-cut basis of sectoral specialization.

With regard to technology purchased abroad, the public sector can make its influence felt through the pertinent legislation and through direct advisory services to enterprises. In this latter field, it can define sectoral priorities, offer guidance to enterprises respecting the most appropriate sources and procedures for transfers of know-how, see that the cost of such transfers does not exceed international levels, evaluate actual utilization of the know-how purchased, and ensure that contracts do not contain restrictive clauses which imply increases in real costs and affect export prospects.

In this direction, a great stride forward has been made within the framework of the Andean Group, whose common regulations for the treatment of foreign capital include articles that clearly reflect concern with the possibilities discussed above.

5. Trade policy measures

The first necessity to which attention is drawn is that of according due importance, in the formulation of export policy, to analysis of world market trends in relation to the various sectors. It is pointed out, however, that since Latin America's share in exports is very modest in the case of the great majority of manufactured goods, the key problem seems to be that of creating a supply which will meet world market requirements. In other words, while the potential importance of obtaining trade preferences from the developed and socialist countries is not overlooked, the fact emphasized here is that perhaps the most difficult obstacle to surmount does not lie in that direction, but on the side of the availability of a supply satisfactory enough in quantity and quality for real advantages to be taken of the preferences in question.

A second topic of discussion is the need to make a thorough study of the possibility of partly reorientating the Latin American countries' international trade, against the background of the data furnished in chapter I on the dynamism, content and orientation of the trade of the
/principal countries

principal countries and groupings operating in the world market. Nevertheless, over the short and medium term at least, it is of great interest, in view of the region's meagre volumes of industrial exports, to analyze not only the over-all growth of the various markets, but also, in particular, the specific opportunities in each market that are adapted to the volumes and characteristics of Latin American products.

Whatever the market strategy adopted, one likely means of obtaining substantial benefits over the short term seems to be the use of the public sector's purchasing power as an instrument of pressure in external markets to encourage exports, whether they are effected by public or private enterprises. That is to say, given a strategy with respect to markets and products, it seems essential that the different government agencies and departments at least should adopt their export and import decisions on co-ordinated and consistent lines.

The other important branch of what is generally understood by trade policy is that relating to the establishment and application of measures to regulate exports and imports. A document describing and analyzing the various possibilities in respect of instruments of this type is being presented at the Meeting.

6. Institutional organization

This problem is of outstanding interest in so far as irrespective of the political model adopted, the public sector will have to play a major role in the field of foreign trade.

As a general rule, in the Latin American countries the various foreign trade functions were distributed, not always organically, among a large number of official agencies. In face of this situation, the countries of the region seem to be reacting in the direction of setting up agencies in which the functions in question are centralized. The important point is that any central agencies thus created should maintain functional relations with the planning system, the industrial development agencies, the producer enterprises and those providing services (transport and insurance), the financial institutions and the department concerned with political relations with the rest of the world. These functional relations would have to be conceived in such a way that the objective of expanding industrial

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exports would be incorporated as one of the criteria for decision-making within the various agencies. This suggests that the order of rank of the central organs of foreign trade is a decisive factor.

A special document on institutional questions as a whole, both at the national and at the international level, is being presented at the Meeting.

7. Selection of priority sectors

The first point made is that it will be unrealistic to aim at raising the level of efficiency in all the sectors of production at once. Hence the imperative need to select for export purposes certain priority sectors in which to concentrate internal efforts. Extra attention would be devoted to these sectors, over and above what is implicit in general export development policy.

In order to make the selection, it is suggested that each of the possible priority sectors should be studied at least from the following standpoints:

- (a) Long-term demand prospects in the various markets;
- (b) Degree of interrelationship with the rest of the local productive activities;
- (c) Relative participation of domestic and foreign enterprises; and
- (d) Structure of labour, capital and foreign exchange requirements.

As regards knowledge of world market prospects, the justification of this requisite seems obvious enough. The degree of interrelationship is considered relevant inasmuch as in the first place it indicates the backward linkage of the expansion of the sector concerned (i.e. to what extent it would draw the activities of the collateral sectors in its wake), and secondly, it permits identification of bottlenecks outside the sector which might hinder the improvement of its efficiency.

The reason why it is desirable to distinguish between the sectors in which domestic enterprises predominate and those in which foreign firms play the major part is that the measures which might be adopted by the public sector are different in each case.

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Where domestic enterprises are concerned, it will be possible to provide technical assistance at the plant level, encourage mergers, promote engagement of the services of technical specialist, etc. In the case of foreign firms, the most effective form of government action will be direct negotiation with the top executives of the enterprises.

The analysis of the proportion in which each sector uses the various factors of production may help in incorporating export policy into the framework of over-all development objectives. If the prices of foreign exchange, labour and capital really reflect the relative shortage of these factors, the general principle to be recommended would be that of concentrating on those sectors in which foreign exchange can be obtained at the lowest possible total social cost. The utilization of the various factors of production could be aggregated, enabling a comparison to be drawn between the various sectors. In practice, however, the "social cost" are unknown, and it is therefore necessary to work on the basis of the admittedly distorted market prices. Hence the advisability of making a separate study of the proportion in which each of the factors of production is used.

An attempt is next made to give examples, sector by sector, of the various combinations which can be found with respect to the use of capital, labour and technology. Lastly, attention is drawn to the need for the pattern of industrial exports to be visualized in dynamic terms. In the initial stage, the products exported may be those pertaining to what may be called "autonomous" sectors (processing of natural resources and assembly of imported inputs). Gradually, these will be joined by the products that are more closely linked to the rest of the local structure of production (chiefly machinery). For several years to come, the relative importance of products of this last type in the export pattern will probably be limited. The main advantages of their incorporation derives from their stronger backward linkage with the collateral activities.

In the designing of such a possible sequence of export structures, an essential role may be played by the analysis of the lead times of investment intended to create exportable supply in the various sectors. In many of them results in terms of exports may possibly not be obtainable

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until five or even ten years have gone by. It is during this interval that the greater importance will attach to measures designed to increase the exports of the existing productive activities. This applies particularly to tax, credit and exchange incentives.

8. Formulation of sectoral export programmes

Assuming that specific sectors are to be selected in which major efforts will be concentrated to promote exports of their products, detailed studies will have to be prepared, indicating the products to be exported; the existing enterprises, or projects for the new plants that will have to be constructed; the nature and time sequence of the specific measures to be adopted by the public sector, at the level of industrial, trade and institutional policy, in order to ensure the viability of the exports in question; the infrastructure and supply problems that will have to be solved; and the marketing channels that will be used.

It may well be that various parts of these sectoral studies are already available, or in process of preparation, in different public or private institutions. In that case, they would have to be integrated so that the internal consistency of the diverse initiatives programmed or under way could be evaluated.

This work of sectoral programming for export purposes would undoubtedly have to be fitted into the framework of the sectoral plans that are usually formulated at the level of the national planning offices or the various Ministries or agencies concerned with industrial development.