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EXPORTS OF MANUFACTURED GOODS:

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Angel Monti

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with the Government of Argentina. It is
subject to changes, both in substance and
form, and may not be quoted.

intended for practical use, at least as a critical analysis, in compliance with the formal request of the Government of Argentina.

c. This request was the subject of special concern, because it implied that the analysis should be useful virtually in generating consequences that might eventually be of normative value. Two of the many implications of this request are: that the variables must be sufficiently disaggregated, and that they should be included in a joint analysis of dependency relationships, i.e., in a model.

The first aspect is that of disaggregation. When an analysis is stopped at a certain level of abstraction chosen by the analyst, it is possible that seeming inconsistencies or dependency links, or even paradoxes, may appear. Such problems do not lie in the reality of the phenomenon analysed, but in the fact that the study is at a more general level of abstraction than that required to draw conclusions of virtual normative value for economic policy. This sharply limits the possibility of using overall econometric approximations in this study.

The second aspect - the inclusion of variables in a comprehensive model, has been approached by the formulation of a qualitative network. As commonly known, a network is a system of equations, not necessarily linear, written in accordance with certain conventions. This study has formulated such a system of equations, but there has not been sufficient time for thorough quantitative verification.^{1/}

^{1/} "Una red entre variables vinculadas a la exportación manufacturera" (A network of variables relating to exports of manufactures). (Basic document - Spanish version only).

f. In view of the twofold purpose of reaching useful and at the same time practical conclusions for use in conjunction with the analyses of other countries this paper only deals briefly with overall aspects. A number of appendices supply a certain amount of details, which are believed may be useful both for the overall analysis and for special cases. Finally, there is a set of documents, listed in Appendix 1, which are available for reference to anyone interested in further details.

CHAPTER II

The macroeconomic framework and some related factors

1. Purpose of this chapter

This chapter attempts to describe the main characteristics of macroeconomic behaviour and of some related factors, and to identify these factors which, on the macro level, influence the behaviour of exports of manufactures or establish a climate for exports.

2. Principal overall factors and their effects on exports of manufactures

A. Per capita income

i. Argentina has a population of approximately 25 million and a per capita income of over US\$ 2,000, measured in current dollars. The total rate of growth from the beginning of the century to the 70s was slightly over 3 per cent, and the per capita product 1.1 per cent.

During the seventies, the rate of growth per capita was over 5 per cent in 1974 and, after eleven years of uninterrupted growth, dropped 3 per cent per capita in 1975. Fluctuations, in general, have been high.^{1/} Investments in machinery and equipment have traditionally fluctuated. The country has systematically underutilized its capacity to generate product and income.

ii. This pattern of physical behaviour of the economy imposes certain basic conditions on exports of manufactures.

^{1/} "Stop-go" has become a common expression to qualify the type of growth in Argentina.

The relatively high per capita GDP is possible because the economy has sufficient resources and a high capacity for combining them. Consequently, ex ante, the economy has basic physical conditions that make it capable of exporting a considerable amount of traditional and non-traditional manufactures.

However, the ups and down of this activity - largely as a result of extremely changing economic policies - have had an adverse effect on the allocation of funds and on their outflow, they have acted as a brake to investments and, to a certain extent, caused confusion not only as regards production "for" export but also as regards exports of manufactures. Consequently, ex-post, the country's exports of non-traditional manufactures have been limited by these adverse factors, which have also formed part of its basic conditions. 1/

b. Inflation

1. Inflation is a constant that has accompanied Argentina's growth in the past few decades, with a traditional pattern of 25 to 30 per cent per annum. But the rate of inflation has grown steadily. The picture is one of "basic" inflation, over and above which there has been a larvate inflation, the appearance of which is believed to be connected with the degree of social control. 2/

1/ Cf. "La exportación de manufacturas y el papel de la mediana y pequeña industria" (IDB, mimeo, 1971). In this context, "basic conditions" means the set of institutional and operative factors that must converge for a country to be in a position to export under the same conditions as its competitors in the same products. This definition is opposed to that of subsidy. The idea is that the countries should have suitable basic conditions; information and marketing networks providing the same capacity to compete, etc.). Absence of a basic condition in some cases calls for the use of corrective measures. We shall revert to this matter later.

2/ "Social" is used in a broad sense, including political, economic, social in the strict sense, and institutional control.

Naturally, as in all cases of inflation, there are many factors juxtaposed, such as insufficiency of supply, excess demand and increased costs. 1/ However, the first two can cause a quantitatively small inflationary effect, whereas large inflations are associated either with the elimination of price controls or the speculative overbidding inherent in the inadequacy of the mechanisms of regulation, in a society which at times was consensual and others authoritarian.

The acute inflationary processes during the decade ending in 1975 were, in general, brought under control through policies of consensus, either of a compulsory nature decreed by the Executive branch, or through agreements between the government, employers and workers. But such consensus lasted no longer than the political pattern that inspired it. The height of Argentina's inflation can thus be understood largely as the necessary result, not only of a struggle between sectors, groups or social classes, but of a system of generalized misconduct on the part of the protagonists, who sought to gain most for themselves without thought for the national gain. 2/

1/ The conceptual framework for interpreting this process is described in "Factores del Proceso Inflacionario en América Latina" (ILPES 1967). A summary of this appears in: "La Inflación. Conceptualización y el caso Argentina" (Revista del Colegio de Graduados en Ciencias Económicas de Buenos Aires - April/September 1972). More recently: "Inflación: Dogma vs. Casuística" (mimeo 1976). The basic idea of interest here is that costs, supply and demand, are "channels" (or attributes of the first order) wherein there are many "factors" (or attributes of the second order) that explain price rises. These attributes of the second order can be explained by others of the third, fourth, etc. order; identifiable in a non-linear network. It is a casuistic approach which, however, admits of certain generalizations. One of them is that all inflation is mixed and, consequently, there is no point in talking of inflation "of" demand or "of" costs.

2/ A very detailed diagnosis of this process is required; in particular the period starting in 1973 can supply abundant raw material for this purpose.

With the swinging of the pendulum of the political pattern in the opposite direction, there arise equally pendular "claims" from the social classes, factors and sectors; inflationary prospects, to which the country appears to be inclined, are encouraged; speculation receives better returns than creative effort, and there is a feedback of misconduct capable of making the rate of growth of prices soar to unheard of heights.

In 1971/74 the average rise was above 40 per cent, and in 1975 it was over 300 per cent.

ii. It is a known fact, on both the conceptual level and as regards comparative statics, that high rates of inflation adversely affect the volume of activity, often considerably, and this occurred in Argentina.

Inflation had adverse effects on exports, and it has been proved that the upsurge of inflation in 1975 was associated with the drop in exports of manufactures, and also that, owing to the delay in adjusting the rate of exchange, added to inflation, a number of existing formal export commitments had to be cancelled. 1/

Certain variables which are factors of inflation at the same time influence exports of manufactures; some adversely - as the spiral - and others encouraging them - such as the inadequate distribution of income which, in a country like Argentina, is in itself considered inflationary. 2/

1/ See Background Document for this study: "Instrumentos para la Exportación Manufacturera" (Instruments for exports of manufactures). Abstract of the main opinions voiced at four meetings of experts held at ECLA's Office in Buenos Aires, 1975. (Spanish version only).

2/ On this subject we prefer not to enter into details, so as not to mix the much debated inflation theory with the treatment of exports of manufactures.

CHAPTER I

The role of exports in development. Content of the analysis.

1. Purpose of this chapter

The purpose of this chapter is to give an outline of the content of the analysis and explain certain basic aspects that have been taken into account.

2. Content of the analysis

a. Argentine exports of manufactures during the period 1969/75 are analysed, in order to draw conclusions concerning their behaviour and the factors that encourage or limit them. Furthermore, it was sought that the results should converge with those of similar studies on exports of manufactures being made in several other countries (Brazil, Colombia, and Mexico, at least), with a view to obtaining an overall picture of experiences in this field.

b. Exports of manufactures and the specific factors that influence them, are, in turn, influenced by the behaviour of the macroeconomic framework. This framework is analysed in chapter II, together with some of its principal implications for the variable under study.

Chapter III discusses the role of exports and their behaviour, and also contains an analysis of the effects of exports of manufactures, by activities, on some of the main economic variables.

Up to this point the approach used is a general one, and from the standpoint of "supply". Chapter IV analyses certain relevant factors that influence the external demand for manufactures.

In the light of these overall contexts, chapter V deals with the structure of the external sector, particularly insofar as exports of manufactures are concerned, and chapter VI refers to the instruments of economic policy used to promote them. Given the conditions surrounding the problem discussed in chapters II, IV and V, and the facts concerning the behaviour of such exports contained in chapter III, chapter VI explains the working of those instruments.

Chapter VII attempts an analysis in terms of effectiveness and efficiency. Effectiveness is judged in physical terms as the relationship between achievements and the requirements for attaining them. Efficiency is defined as the relationship between direct and indirect benefits and costs of all kinds; and in this context some cost-benefit elements are analysed.

c. This paper is not a test of preconceived hypotheses. It is an open inquiry into any variables that logical or empirical evidence seemed to justify.

d. An attempt was of course made to identify dependency relationships. To do so, various different instruments were used, converging towards a given end. In the econometric analysis important limitations were encountered, arising from problems of meanings in the basic series, in many cases from their comprehensive nature, from the extreme variability of economic policies, and particularly from the fact that the expansion of exports in Argentina in 1969/75 was based on declining indices of capacity of competition by price-effects (rate of exchange; domestic price ratio). Heavy reliance was placed on the opinion of experts concerning a list of problems posed with reasonable accuracy. It should be borne in mind that there have been quantitative limitations, and that this study is

c. Distribution of income and employment

i. The distribution by factors up to 1975 - which is relatively more egalitarian in Argentina than that observed in the Latin American context - followed the political pattern, and the proportion of wages in income varied, according to the government's views. This share was highest around the fifties, dropping subsequently, with a further rise around 1974. At the same time, the purchasing power of wages fluctuated during the past decade, showing indented curves characteristic of the spirals in which the nominal wage is absorbed by subsequent price rises. This absorption reached very high levels towards 1975 and the first half of 1976, and real wages were considerably reduced at that time.

Production per worker grew at a yearly rate of over 2 per cent in the past few decades; and, of course, the creation of employment opportunities was a function -increasing since 1950- of the rate of growth of the GDP. 1/ The change in unemployment is therefore associated with the changes in the rate of growth. During the second half of 1975 a drop of over 4 per cent in the GDP was apparently associated initially with a sharp reduction in the number of man-hours worked.

From the mid-sixties onwards, employment began to be generated at a similar rate to that of the growth of the population.

1/ The annual cumulative rate of growth of employment measured by five-year periods gradually increased from 0.6 per cent in 1951/55 to 2 per cent in 1965/70 (Adolfo Canitrot; "Algunas características del comportamiento del empleo en la Argentina entre 1950 y 1970". Jornadas de Economía. La Plata, 1973, p.3). After that date an average increase of 0.5 per cent may be estimated.

The distribution by sectors showed the same political sensitivity as the distribution by factors. During the past fifteen years the industrial sector's income dropped systematically, to the extent that the prices implicit in the manufacturing GDP grew less than the general level of prices implicit in the economy. This gave rise to transfers of incomes 1/, the beneficiaries of which were the agricultural or the services sectors, depending on the periods.

By main groups of transactions forming the overall demand (consumption-investment-export) income from total exports fell as a result of such transfers from 1960 to 1971, having recovered slightly since then.

ii. The consequences of these changes in distribution on exports of manufactures are many, particularly in labour-intensive branches of activity. A drop in real wages stimulates exports in two ways: through the effect of the lower costs and through the ensuing reduction in the domestic demand, as a result of which exports become necessary to maintain the activities of individual firms. But, in the opinion of experts, this affects the stability of the export function, because once real wages recover, employment grows, and the domestic market is reactivated, many firms tend to retreat to the domestic market, as a result of which, as shown by experience, the country loses markets it had formerly obtained.

1/ Such transfers were calculated to explain the increase in value at current prices of the variables as an algebraic sum in each case of volume-effect and price-effect. If we respect the definition of national accounts for volume-effect, $E_q = (Q_n - Q_0) \cdot P_0$, then price-effects is equal to $E_p = (P_n - P_0) \cdot Q_n$, which, to some extent, overvalues this effect. Calculating effects at the level of the economy as a whole and of the disaggregations considered in each case (by sectors or by other sets of variables) a general price-effect level (to some extent assimilable to effect-inflation) and a transfer-effect are identified, due to changes in the price structure with respect to a given base period. The sum of such transfer-effects is, of course, zero.

The transfer of income from the industrial to the agricultural sector, depending on its extent, can be "financed" by a relatively higher increase in productivity in the industrial sector, and this is what appears to have occurred.

d. Financing of the economy as a whole, for a given rate of growth of the GDP, can be measured in terms of the balance in current account in the balance of payments. 1/ In the fifties, and up to the beginning of the sixties, this had been a debit balance; since then and up to 1974 it fluctuated between a deficit of US\$ 220 million (1969) and a surplus of US\$ 700 million (1973). In 1975 the deficit in current account amounted to US\$ 1,300 million. These are book values; and there are very large unrecorded transactions, depending on the years (basically smuggling, over-invoicing of imports and underinvoicing of exports), which make it impossible to assess the financing capacity of the country as a whole on the accounts of transactions recorded in the past. 2/

The traditional cyclical pattern of overall external trade analysed for over half a century has shown that the growth of the GDP is associated with the increase in exports and that, in consequence, imports grow beyond the point in which exports have ceased to grow or even begin to drop. This pattern also appears to have been repeated in the past few years.

1/ The analysis of the events that have taken place reflects the behaviour of the financing of the economy as a whole in terms of a rate of growth of the GDP already adjusted to it, with some delays and the use of external credit. Another analysis that might be made would be of the financing capacity.

2/ Estimates of customs officials published in the press for 1975 indicated losses through smuggling of over US\$ 2,000 million. This would more than offset the book deficit.

In fact, recorded annual exports did not exceed US\$ 1,800 million until the first half of 1972, when they began to rise rapidly. The threshold of recorded imports began to increase in the first half of 1973. ^{1/} Both exports and imports - excluding underinvoicing and smuggling in the former, and overinvoicing in the latter - were almost double the values recorded in the previous years (US\$ 3,300/3,400, approximately, on average for 1973/75, with peaks of US\$ 3,900/4,000).

Notwithstanding the limitations introduced in the analysis by the data available and even taking into account the large increase in remittances for remuneration of factors, the effect of unrecorded transactions and the behaviour of the balance of payments in the last few five-year periods suggest that the Argentine economy generates more savings than it uses in its gross domestic investments. ^{2/} But a large part of such savings leaks out, and the balance of trade is increasingly more cyclical, and this significantly affects the operation of balance of payments policy.

Until the end of 1975 and part of 1976 the foreign debt increased, reserves dropped ^{3/} and the futures liability position of the financial system increased.

ii. The effect of this behaviour on exports of manufactures is discernible at various levels of abstraction. As a whole, it introduced all the restrictive factors characteristic of countries whose indebtedness is constantly

^{1/} In both cases deseasonalized series were used.

^{2/} The increase in the total foreign debt -including the balance for swap operations at the beginning of 1976- would appear to contradict this assumption. However, a detailed analysis of the transactions and the effect of unrecorded transactions suggests that the tentative opinion expressed in the text is not incorrect.

^{3/} At the end of 1975 reserves represented almost 2 months of imports. The values of this variable during the period 1960/75 range from 2 to 8 months, in cycles.

increasing causing them to go out periodically seeking to refinance their debts - largely short-term debts. This gives rise to many restrictions and uncertainties. The actual value of the mathematical expectation of benefits in the country tends to be lower than abroad - taking into account other factors, ceteris paribus - because of the relatively higher risk, and rational investors, who seek to maximize that actual value must place part of their savings abroad. The outflow of capital thus becomes a constant in the process, and only its volume changes. ^{1/} To invest a certain amount of foreign currency abroad is a reasonable mechanism of protection, and the mechanism for doing so finds a natural outlet in underinvoicing exports and in physical smuggling - in quantity and quality - of exports.

c. Monetary dosage of the economy

1. This can be analysed on the basis of the liquidity ratio ^{2/}; as a partial first approximation. Up to 1956 it reached a figure over 30 per cent; since then it followed a declining trend, dropping to 13 per cent around 1972/73 as a result of the policy, repeatedly adopted, of combatting inflation with monetary restraint. Since that date it has increased, mainly owing to fiscal measures.

The course of money demand, and of the policy with regard to it and to money supply is of special interest. Under physical growth conditions combined with inflation, a slump in the money demand as a value bearer was to be

^{1/} The expression "shifting to dollars" forms part not only of economic language but also of common usage. Expectations of inflation, of course, contribute significantly to this, by application of Gresham's law.

^{2/} Ratio between private means of payment (excluding quasi-money) and official means of payment with regard to the product.

expected, as well as an increase in that demand for speculation -obviously- and also for transactions, due to price-effect and volume of activity-effect in the latter case.

As regards discouragement of the demand for speculation, nominal interest rates have increased, although they continued to be negative real rates until early 1976 at least. ^{1/} But the banking system lends, taking solvency as an attribute of the first order, since it basically tends towards the recovery of credit rather than the optimum allocation of resources. Consequently, the efficiency of directional credit is not fully assured, and it never was in reality, notwithstanding the nationalization of deposits. ^{2/}

As the public sector has required an enormous supply of funds during the past few years, the increase in net credit to the private sector has been relatively low. Consequently, the physical volume of private means of payment has fallen considerably in comparison with some years earlier.

The features of financial circuits have thus been changing, both by the appearance or strengthening of second class instruments of legal tender -including foreign currency- and by increased importance of non-banking financial intermediaries, institutionalized or not.

Monetary restriction has checked the demand, and also the supply. In fact, it has been found that long-term credit is a prerequisite for investment,

^{1/} This has been the case, with some exceptions, during the past five-year periods. Early in May 1976 corrective measures were introduced, but their effect is not evaluated here.

^{2/} In April, 1976 denationalization of deposits was announced.

and short-term credit is a prior condition for the necessary expansion of capital turnover and, in general, to increase the rate of utilization in Argentine industrial stock companies.

As regards the long-term trend, the persistent monetary restraint was not accompanied by a slowing down in the inflation rate, at least until the beginning of 1976. If that was the purpose, it failed.

ii. On the other hand, it is believed that the persistent restraint contributed to limit the development rate, to reduce the volume of national savings and the possibility of allocating resources to priority objectives such as national technological progress. It would not be possible to demonstrate that insufficiently selective monetary restraint contributed to strengthen the physical and technological capitalization of business firms or their results, since many firms were forced to resort to borrowing from the non-banking system - which operates at higher costs - and even borrowing in foreign currency; consequently the exchange contingency was internalized in that context. This has, to a large extent, been the reason for the damage done to exports of manufactures by monetary restraint with inefficient selectivity, particularly to small and medium-sized national industrial companies and to the possibility of establishing large-scale national export companies.

It is believed - although this proposition cannot be demonstrated - that if a different policy to restrain inflation had been followed - especially one based on an income policy ^{1/} - and the monetary policy had been handled

^{1/} In 1962, 1967 and 1973/74 income policies were adopted that succeeded in combatting inflation in different political contexts, to different extents and at different costs.

with greater flexibility and particularly with a high degree of selectivity as regards industrial credit, Argentina would now be exporting manufactures at a much higher level than the prevailing one.

f. The public sector

i. As an economic actor the public sector has been increasingly subject to three essential limitations: its financing has deteriorated to untold limits; a high number of ministers and secretaries of State have succeeded one another, and the consequent changes in government programmes and policies has considerably hampered the achievements and behaviour of the public sector itself and of the economy in general.

In regard to the first aspect, evasion is very high; erosion of the tax base is considerable, as exemptions have been generously granted as a means of encouraging many activities (industry and exports, to a large extent); taxes on other activities are low (on land, for example); the policy governing prices and rates of public enterprises has been a fluctuating one, and the overall efficiency of the public sector as a supplier of services to the country does not appear to be high. In 1970 the national government's current income amounted to 7.2 per cent of the GDP, while in 1975 it was only 3.9 per cent.

1/ In 1974 the public sector employed 30 per cent of the working population and generated 18 per cent of the non-agricultural GDP. In the last 25 years it grew at a slower rate than the economy as a whole, and the reduction in participation occurred in government activity proper (declined from 10 per cent to 6 per cent of the GDP). See: BCRA, El Sector Público en el Sistema Contable Nacional 1950/74 (August, 1976)

In the other aspects mentioned above, the economy - and the public sector - have not been conducted "with" substantial planning in a systematic manner.^{1/} The pattern of economic policy has changed frequently with the changes in the top decision-makers, and it is felt that the administrative continuity nevertheless shown in the management of the public sector in many respects is largely due to the intermediate-level officials. The public sector's potential as a catalyst of private decisions, the utilization of its purchasing power as a univocal policy, and other essential aspects of its performance have thus been persistently underutilized.

ii. The above had immediate consequences on exports of manufactures. Their promotion required strong State support and not merely a virtual offer of "stimuli" to catalyse the presence of national companies in exports with all the vigour necessary, at least in the early stages. It is believed that if the public sector had been stronger financially and its policies as well as its top decision-makers more stable, its performance in the field of exports of manufactures would have been far better.

g. The overall conduct of economic policy

i. Two basic alternatives can be distinguished for the conduct of economic policy: to tackle it by fields of policy (fiscal, monetary, exchange, and the like) and within each field by selected activities, or by economic activities and then harmonize the different activities at the level of fields of policy. In Argentina, economic policy has traditionally been tackled by fields.

^{1/} The conduct "with" planning referred to here is conceived in terms of a continuing policy in order to attain reasonable objectives, considering the plan as an attribute of the first order and the successive approximations of the policy as attributes of the second order within the plan, and not the mere formal use of planning as an instrument.

Thus, the rule has been that decisions in the different fields of economic policy converge on each activity, without a parallel formulation of policies, by activities, with sufficient power of attraction.

Nevertheless, a number of industries considered basic or of special interest for the country, such as the iron and steel industry, have had this power of attraction and they have been granted special treatment. Such treatment has in general included a high degree of protection, exemptions from payment of duties on imports of capital goods and certain inputs, tax exemptions for certain periods on their operations, and, ultimately, support for exports.

The regional component has also been one of the aims, and certain poles and industrial zones (Córdoba, Mendoza, Tucumán, the coast of the Paraná River, Bahía Blanca, etc.) have been established, independently of Greater Buenos Aires. The regional promotion system seeks to induce investments, granting different preferences, depending on their location.

ii. Tackling economic policy by fields of policy - taking each field as an attribute of the first order - has been a limiting factor for exports of manufactures. In fact, tackling it by fields, and from different institutions depending on the fields, and with levels of selectivity that did not have identical objectives, similar penetration or analogous methods, did not ensure that all the required factors converged in the appropriate manner and at the appropriate time for all activities having a potential export capacity so that the manufactured products could be exported.

An export policy for manufactures should be developed on industrial and technological bases that require that it be conducted univocally, activity by activity. Within the frontier of possibilities, those that meet certain

optima and respect certain restrictions ^{1/} should first be chosen. Next, the policy governing such activities should be conducted with the necessary precision to ensure the flow of exports.

By not ensuring that the results of the policies converged by activities as strictly as possible, the higher strategic decision as to the extent of diffusion and specialization of exports was impaired.

It is well known that -ceteris paribus- the higher the number of sales flows the more the gross will the income from exports grow; in other words, the product of the number of goods exported by the number of markets of destination. ^{2/} But that greater diffusion of trade increases costs because there are certain scale effects and expenses must be incurred for promotion and entry into new markets.

It is well known, furthermore, that specialization in certain products generate a higher relative capacity of competition, in a more stable manner, in the specialized products. But this advantage is subject to the ownership of trade marks and patents, and it is sensitive to technological progress made by virtual competitors, to the appearance of substitutes and to the country's capacity to persevere in the advantage of specialization. It therefore implies a certain vulnerability to very specific risks in countries such as Argentina.

1/ See: Un modelo de optimización para la elección de prioridades de exportación.

2/ Cf. Mahfuzur Rahman: Exports of Manufactures from Developing Countries. Rotterdam University Press, 1973.

It is also known that it is not possible to expand exports beyond a certain point because of their cost, or to increase specialization beyond a certain level, because of their vulnerability. But, in any event, it is believed that in the field of exports of manufactures Argentina's specialization should be more deliberate, and more inducements should be offered.

Who should make the choice? If the policy is not conducted with planning and if economic policy is tackled basically by fields, and insufficiently by activities, there is no choice: the government can only limit itself to establishing the framework within which private decisions will be carried into effect. This has been the result in Argentina. But this is a limiting factor for exports, as minimizing a risk, or taking an accepted risk, leads the entrepreneur to export only traditional goods and to enter the field of non-traditional exports only if certain inducements are offered, with more caution than necessary, or more slowly than is desirable, or in a more fluctuating manner, depending on the level of domestic activity and, in any case, losing opportunities of specific exports. This also has been the result in Argentina.

It cannot be said that the policy has not been entirely conducted by activities, particularly as regards the treatment of certain goods. Neither can it be said that, in the context of a policy conducted basically by fields, it is not possible to tackle it efficiently by activities. But when there is a dispersed institutional constellation and no planning it is extremely difficult to obtain highly efficient practical results.

Briefly, the fact that economic policy has been conducted by fields, without an efficient and persevering convergence by activities, has given rise to a basic situation which has acted as a limiting factor for exports, caused

the loss of specific opportunities, and especially impaired the top-level decisions concerning the relative extent and specialization of export policy in conducting the external sector. ^{1/} However, there appears to be a trend towards concentrating on certain exports, although this is mainly prompted by the optima of the transnational corporations that are exporters.^{2/}

h. Sectoral factors

i. Argentina is an industrialized country which, it is believed, has accumulated a sufficient mass of critical technology and industrial capacity to cover the country's basic needs and endow it with a reasonable capacity for competing abroad due to technology-effect. In any case, and even if the preceding assumption is too optimistic, it is generally believed that its export potential as regards manufactured goods is higher than the level of current achievements in this field, and even in the field of non-traditional manufactures. The first stage of this process was the industrialization of domestic raw material; the next was substitution and, more recently, it has entered the field of exports of durable consumer goods, capital goods involving a high degree of technology (motor vehicles, machinery, installations, complete plants or "turn-key") and even disincorporated technology.

^{1/} In Conducción de la política económica por actividades (mimeo., 1975) it is proposed that the activity must be an attribute of the first order for the design, together with planning and participation, and that all requests arising from activities by fields of policy should be harmonized, bearing in mind certain regional optima and other factors.

^{2/} Jorge Katz and Eduardo Ablin; Tecnología y exportaciones industriales: un análisis microeconómico de la experiencia argentina reciente (mimeo., 1976), qualify certain industrial exports as "more sophisticated" in view of the technology incorporated, and they are of the opinion that the degree of concentration evidenced in exports at the level of chapters of certain metallomechanical and chemical industries is important.

It has been observed in various studies that the substitution process has been overprotected and that this excessive protection has not benefited the production scale, the level of technological progress, the cost of production or even exports of manufactures.^{1/}

The competitiveness of Argentine agriculture and related industries is well known. However, the unstable handling of relative price supports for agricultural production and the input-output price ratio in the sector have introduced uncertainties in the use of the land and the orientation of production and have contributed to delay the adoption of new techniques and the obtaining of better yields while preserving and even enhancing the value of land as capital.

In industry, particularly, many variable factors (rate of demand, relative prices, rates of exchange, availability of credit, and the like) have led the individual domestic entrepreneur to evaluate the risk as a relevant variable, and even to minimize it. This has led to underutilization of the possibilities of specialization, since the entrepreneur has learned that under such basic conditions, economic activity requires a mixed strategy, with production of various goods tied to different risks and different profitability patterns.

The above variability and the lack of a policy conducted by activities, based substantially on practical programmes, appear to be the main sources of the failure to utilize to best advantage the country's capacity to produce industrial goods.

^{1/} In chapter V we shall revert to this subject in discussing the external sector as regards effective protection.

In the field of transport, the Experts have observed comparative disadvantages for Argentina in its trade with the northern hemisphere and with other continents due to its geographical position, the scant availability of suitable holds in vessels of regular shipping lines, the apparently high relative cost of the port of Buenos Aires, the action of certain external discriminatory factors which would require a vigorous national policy in the field of external transport to offset their effects, the inadequacy of the national merchant fleet, and other factors. In view of the Experts, the traffic with neighbouring countries is finding suitable solutions. Nevertheless, it has been suggested that a comprehensive revision should be made of the programmes designed to facilitate trade and transport.^{1/}

ii. The immediate consequences of those factors are well known and will be analysed later in greater detail (chapter VI). The relatively low international cost of agricultural raw materials and long experience in processing them has stimulated a greater relative capacity of competition in traditional manufactures.

A moderate specialization, a scale originally reduced to the size of the domestic market as a result of the substitution policy, the relative level of utilization and exploitation^{2/} and certain adverse effects resulting from other factors which will be discussed later, have contributed to delay systematic exports of non-traditional goods in the list of Argentina's

1/ See ECIA - Facilitación del Comercio y del Transporte en América Latina (May, 1975).

2/ It is advisable to distinguish between utilization and exploitation ratios. The former is the ratio of actual plant-hours worked to maximum plant-hours that can be worked per year. The latter is the production per plant-hour worked. Both rates -particularly the first- can grow considerably in Argentina.

foreign trade products. However, it is generally agreed that the achievements during the past few years, up to 1974, indicate a steady irreversible and increasing trend in industrial exports.

1. Industrial policy

i. With regard to industrial policy^{1/}, experience in the handling of this sector suggests that the components production/substitution/exports have not always been integrated into a sound policy.

The functions of substitute production were adjusted to substituting goods in a protected market and with the addition of indivisibilities and defects of scale (many branches of activity included a larger number of companies than was viable), the higher costs resulting from defects in the combination of factors have wiped out the comparative advantage derived from the lower relative price of labour. The very full complement of highly qualified technicians and skilled labour generated a competitive substitution policy; and although in some industries, such as the motor vehicle industry, the number of surviving companies was gradually reduced after the necessary rationalization, there seems to be room for higher gains in capacity of competition through scale-effect and specialization-effect in Argentine industry.

The Experts believe that Argentine industry is capable of expanding its exports of manufactures considerably, but in response to different factors,

^{1/} O. Altimir, J. Santamaría and J. Sourrouille: "Los instrumentos de la política industrial argentina", in Desarrollo Económico (Ed. IDES - Economic and Social Development Institute) give a comprehensive identification of policy instruments.

depending on the type of company.^{1/} Thus, important branches of transnational industrial corporations can expand them significantly because they possess technical and commercial specifications supplied by their parent companies, trade marks of world-wide prestige, their own information and marketing networks and promotion mechanisms which operate on a world scale. In many cases their sales take the form of intra-company transactions; their production is optimized at the world level^{2/}, with low financial vulnerability in the local branch, whose junctural problems can be rapidly solved by the parent companies.

National companies are small and medium-sized; they possess a good technical capacity and can even operate with prices based on marginal costs; but they do not operate with internationally renowned brands; they must respect the restrictions imposed by licensors; often they have not an adequate scale of production or financing capacity for the size of the demand of industrialized countries; in many cases they consider exporting a marginal operation when the domestic demand drops and therefore have not a sufficiently stable motivation; they cannot internalize the greater ex-

1/ Agustín Pozos makes an interesting analysis of this type in his document: Exportación de Manufacturas Argentinas. Algunas respuestas y varios interrogantes. ECLA - Meeting of Experts on the formulation and implementation of strategies for exports of manufactures, Santiago, Chile, 1971.

2/ Naturally, some branches have optimal production; but the competition between branches which is sometimes applied, is also a method of optimization for the group.

change contingency of the foreign market by producing only "for" export^{1/}, and they frequently have to rely on export companies or consortia - a form which, in the opinion of the experts, calls for a co-operative attitude that is not usually found.

Under these conditions, the argument of idle capacity as a factor of potential exports of manufactures is not symmetrical: branches of transnational corporations can always have a greater possibility of using that capacity unless industrial policy, jointly operated with policies exports, technology and structure of ownership of decisions contribute to balance the possibilities.

ii. A value judgment as to why the industrial sector has introduced such restrictions on exports, over and above the problems introduced by actual protection, is worthy of note. It is believed that, fundamentally, there have been three essential and converging weaknesses: lack of control of the sector "with" programming; weakness or lack of a sound policy in conducting exports by activities; and no substantive auditing of performance - achievements and behaviour - for each relevant industrial activity.

j. The "actor" entrepreneur as a performer

i. The entrepreneur is a performer who has played roles which, to a certain extent, were related to the different ideologies that prevailed in the conduct of policy within his permanent task of maximizing profits.

^{1/} Some opinions point out that this type of production makes the country more vulnerable. Héctor W. Vallo ("Las industrias para la exportación", Desarrollo Económico, IDES, Buenos Aires) considers that the strategy of industrialization for export implies a new style of dependence. Others point out that it would be increasingly possible for the country to open up exports as its power of decision becomes stronger. This is one of the points that refer to the politico-institutional aspects of the problem.

Until the second half of the forties, the trend showed a marked predominance of private enterprise. From then on some companies were nationalized and public enterprises were created.

Basically, state-owned companies provide services to the public and also cover some industrial activities of little or no relative significance, excepting iron and steel and petroleum.^{1/} More recently, transnational companies have been established with the participation of Argentine public enterprises in such fields as hydroelectric power and petrochemical products.^{2/} With the exception of these two and a certain amount of industrial exports, public enterprises work for the domestic market, and their policy is directed to that market.

Foreign companies^{3/} have operated in the country since the past century.

The predominant country of origin was originally the United Kingdom but has since shifted to the United States. In 1967 the participation of the United States - at book value - amounted to 56 per cent of total foreign

1/ See Las empresas públicas en Argentina. Su participación en los diferentes sectores de la economía. ECLA-Buenos Aires Office, 1976. The largest company of Argentina, established long before, is public (YPF), and the public system generally covers service activities (power, transport, communications, water supply, radio and television stations), industries (iron and steel, petrochemicals, shipyards, sugar, wine, packing houses, motor vehicles, electromechanics, engine and turbine construction), trade (grains, livestock, central markets), and finance (banks and insurance).

2/ Power in Salto Grande and Yaciretá; and petrochemical products with Bolivia in a binational corporation.

3/ See, among others, the following studies: Juan V. Sourrouille: El impacto de las empresas multinacionales sobre el empleo y los ingresos (Feb. 1976, mimeo); ECLA, La presencia de las empresas transnacionales en la industria manufacturera de América Latina (mimeo, Nov. 1975); C. Givogni, R. Gordillo and H. Palmieri: Empresas Transnacionales que actúan en Argentina y sus vinculaciones en países miembros de ALALC-1973 (National University of Cordoba, 1974).

investments.^{1/}

The overall frame of reference of the past few years has been the increased participation of the EEC and Japan in world investment (40 per cent together) through transnational companies, and a drop in the participation of Latin America in that total (17 per cent). Within the region, Argentina has during the past few years become increasingly ineligible, in relative terms, for foreign investment in spite of being one of the countries with the largest market, and in 1966/73 the net flow of foreign investment it received was equivalent to only slightly above one per cent of the total amount invested in the region. In 1967 cumulative investment in Argentina was equivalent to 10 per cent of total investment in Latin America, and this proportion has dropped significantly since then.

By branches of activity, in the past century foreign capital was invested in public services, finance, trade and other essentially traditional industries. Trend-wise, investments in public services dropped and the presence of foreign companies became stronger in industry, which in 1967 absorbed two thirds of total foreign investments in the country.

In the industrial sector, their presence is associated with more capital - and technology - intensive activities, in an industrial spectrum in which the industries with the highest growth are the most concentrated, and it is in these that transnational companies have the largest participation.^{2/}

^{2/} The changes in the list of one hundred leading companies show that over 30 foreign companies took the place of national companies, predominantly in dynamic activities of high market concentration.

^{1/} Italy (11%), United Kingdom (9%), France (6%), Western Germany (5%) and the Netherlands (3%) were other significant participating countries.

In 1972, the participation of foreign companies accounted for not less than 30 per cent of industrial production and approximately 11 per cent of employment in industry.^{1/} In 1955/72^{2/}, the product of foreign industrial companies grew at a yearly rate of 8,7 per cent, more than double that of national firms (4.28 per cent) and of the total GDP of Argentina. During the same period industrial production per worker increased 7.7 per cent in foreign companies and 3.0 per cent in national companies. In the early seventies, almost two thirds of the industrial GDP of foreign companies came from activities in which they control over three fourths of the production.^{3/} The rate of growth in these activities was double the rate of the industrial sector as a whole. Their main market is domestic, and their exports (in 1972) did not represent more than 5 per cent of their sales, although they must have increased subsequently.

The essential contribution of foreign companies has been technology. From the standpoint of savings contributed, in the peak period (1959/63) foreign investments did not exceed 4 per cent of the gross capital formation, but their access to domestic savings was fluent.^{4/}

- ^{1/} Although since 1955 the participation of foreign companies grew from 18 per cent to 31 per cent of industrial production, their participation in employment remained steady around 11 per cent during the period.
- ^{2/} See J.V.Sourrouille (op.cit.) and Oscar Altimir in La participación reciente de la inversión extranjera directa en el crecimiento de la economía argentina (mimeo. INTAL, page 21) estimate that in 1959/1968 over 40 per cent of the increase in the GDP was in the foreign sector, and since this sector contributes 45 per cent to the total GDP, almost 20 per cent of that GDP would be a foreign contribution. But foreign investments in 1959/63 -a boom period- only accounted for 3.6 per cent of the gross capital formation.
- ^{3/} It is estimated that at least half of the industrial production attributed to foreign companies is from companies in which national enterprises did not participate; and that those with a minority share of national capital generate less than 10 per cent of industrial production. The system for qualifying foreign companies in Argentine changed over a period of time.
- ^{4/} Although for several ideas their access to bank credit was restricted, transnational companies have been able to place their obligations in the market smoothly, in several cases they established ad hoc financial companies (particularly motor vehicle manufacturers) and obtained financing through credits from their suppliers. Under difficulties in the balance of payments the Government even encouraged the receipt of swaps and in exchange granted improvements in the access to domestic credit.

Argentina did not operate on the separability^{1/} of technology imports from direct investment and, consequently, one of the main reasons of the relative expansion of foreign companies in the country is that the policies governing foreign investments, technology, and the structure of decision ownership were not integrated in a single context with well-defined objectives.

National companies during the past few decades have worked, as mentioned, in extremely variable conditions as regards economic policies, high inflation, high protection against foreign competition, credit restrictions, competition from foreign companies -or even displacement through purchase of existing assets- recurring restrictions to the supply of inputs, labour conflicts, and technological dependence caused by the fact that the country did not formulate a national technological policy that would be efficient in practice. They lost ground to transnational companies, as we have just explained; they were integrated into new industrial structures and they also tended to acquire, as far as possible, "turn-key" technology. Upon Argentina's accession to the Paris Agreement on patents and trade marks^{2/} the protection accorded by the agreement's mechanisms to the countries that have something to patent contributed to the process, as the proportion of patents by transnational firms increased.

^{1/} See "El capital extranjero y la transferencia de tecnología". Revista de la Universidad de La Plata, No. 25 (1973).

^{2/} The Paris Agreement, to which Argentina acceded, established a period during which the rights of the owner of a patent or trade mark in a country are reserved in the other countries parties to the Agreement.

There was not a good operative unity of interests between the government and the national companies, although on occasion some differential stimuli were introduced for purchases in national companies and, as mentioned, restrictions in the access of foreign firms to credit. This was the result of not having a selective economic policy by branches of activity and also of the fact that state-owned companies only partially used the power of their demand to strengthen national companies.

It is therefore not surprising that the position of national companies was weakened although their volume increased.

ii. The consequences of this process are clear. The country has not so far been able to export what it wanted to, but what was available for sale abroad. Their larger size, their foreign commercial networks, their original benefits for industrial production and their relatively higher technological level placed transnational companies in a better position to export non-traditional products. Only recently have a few public enterprises sought foreign markets. And without a deliberate government policy to graduate the structure of the capacity of decision and encourage national companies by catalysing their stable presence in exports, the conditions imposed by those overall parameters governed the structure by actors of exports of manufactures.

k. Intermediate institutions

i. In this paper, intermediate institutions are meant to mean the political parties and institutionalized social groups. In the past decades no system of participation was created to suit the mixed economy of the country, in which frequent interruptions in institutional normality occurred. Save in a few cases where there was consensus leading to the formulation of overall

programme standards or restricted agreements on price and income policies designed to check ongoing inflationm convergence toward the establishment of a higher consensus was only occasional and, of course, connected with the political philosophy of the government in power. It is felt that this should be seen as an important non-economic explanation of economic events in Argentina.

Some opinions suggest that, in a conflictive society such as that of Argentina, those who hold economic power do not want changes; and those who want changes and can obtain access to political power, when they do obtain it do not introduce such changes or do not do so correctly. In any event, it is believed that the shifts in policy occurring between the normal operation of institutions and the interruptions of normal institutional life, largely explain the economic variability, inflation, the "leakages" in utilization of the capacity to generate income, and the changes that have taken place in the structure of the capacity of decision.

ii. The immediate consequence has been to slow down exports of manufactures. As political changes led to frequent economic changes, the risk of failure - particularly in longer-term operations - was high. And since in Argentina a number of elementary variables - markets and rates of exchange, at least - still depend on the preference for former economic doctrines upheld, even in contradictory terms, by different political parties, the most reasonable way to minimize the risk, at times, was to refrain from exporting in the medium or long term.

If the economy of Argentina is conceived strictly as a system composed of a transformer box and a regulator box, the interpretation is simple: as

regards exports, the potential of the regulator - in this case, the Government - has been so strong and its trend has shown such erratic behaviour - hardly that of a "regulator" - that the decisions that should have been taken in the transformer box (producers and exporters) were destabilized and, in the uncertainty, led to little or no transformation (non-investment, non export).^{1/} Notwithstanding this, exports of manufactures increased as a result of the effect of other mechanisms which we shall discuss later, although the increase was lower than it might have been.

Technology has purposely been left for the end of this brief summary, after discussing overall macroeconomic and institutional factors. Its analysis benefits considerably if it is conceived as a quasi-good.^{2/}

1. In Argentina the process of overall awakening to, and academic development of, the scientifico-technological problem has been rapid. Its institutional version appeared to be efficient at the sectoral level (the National

^{1/} We all know that in a system, when the regulator's potential is high with respect to the transformer, the system tends to become destabilized and that this can be avoided or attenuated by maximizing reliability in the operation of the regulator. Without a plan used as a reliable instrument of (government) control and in an atmosphere of extreme political variability, which even changed certain basic rules of operation of the two boxes, thereby causing a high degree of uncertainty, the producer necessarily tended to minimize the risk; in other words, to refrain from quoting except for what was indispensable, to refrain from making arrangements binding him to successive or long-term shipments, and to devote himself to the safer domestic market.

^{2/} In various studies, Jorge Sábato proposes that it is a good. However, it would appear that it should be conceived as a quasi-good (cf. Política de Tecnología. Objetivos e Instrumentos. OAS, 1971), because it is physically capitalizable, being immaterial, and because it is not destroyed or depreciated, but, rather, enhanced with use. This has many advantages because, whether or not technology is incorporated, in practice the criteria relating to imports, substitution, sales, capitalization, obsolescence and others usually applied to goods are applicable to it.

Industrial Technology Institute - INTI, and the National Agricultural Technology Institute - INTA), but deficient at the overall level (in the form of councils of a scientific rather than technological nature).^{1/}

The overall conduct of the policy on technology was weak. It was absorbed by sectoral policies (agricultural, industrial, etc.) and the foreign capital and fiscal policies (in which the expenditure on science and technology has been relatively small, thinly spread and not always used to best advantage). In the sphere of economic decisions, technology was not taken into account as a transversal factor in respect of sectors - independent, with its own supporters and with objectives of its own to be attained.

The accumulation of technology was progressing apace in Argentina; in the past two decades a policy was adopted for incorporating foreign technology introduced by foreign investments. Such technology was received without critical evaluation and practically with no control. In the second half of the fifties, Argentina acceded to the Paris Agreement on Patents and Trade Marks. Then came the incorporation of technology as described, without critical evaluation as to the type of technology incorporated, by whom it was incorporated, the conditions under which it was incorporated, the cost involved, or the restrictions it would imply in the future. It was not until the seventies that the process began to be conducted with greater care.

What happened might be summed up as follows* the incorporation of foreign

^{1/} A Secretariat of State for Science and Technology was established in recent years within the Ministry of Education, where the technological bodies remained in the Ministry of Economy.

technology involved a complementary effort of adaptation; it was disseminated or replicated, to some extent, to other activities different from those for which it was intended; it contributed to the general process of learning; it contributed significantly to increasing productivity, and it contributed to the country's current technical capacity to export, even whole plants "key in hand", and disembodied technology. Obviously the very high quality of Argentine professionals and technicians was a necessary prior condition for this.

It is generally agreed that the country possesses a critical mass of know-how to export technological goods, including others than those it now sells abroad.

Moreover, to the extent that the frontier of world technological knowledge expands at a lower relative speed than that at which technology is accumulated in the country - as appears to be the case in more than one sector, according to some authors - the country's capacity of competition has increased as a result of technology-effect in such activities.

But costs were incurred on account of the technological policy it developed. For instance: the new incorporation of technology was partly conditioned

1/ Productivity expressed in terms of labour can be a function of the scale of production and technological progress. Measured in terms of expenses on R&D per worker, this is a good explanation of Argentine industry (See Jorge Katz: Creación de Tecnología en el Sector Manufacturero Argentino. ECLA, Buenos Aires Office, 1976; and the same author and Eduardo Ablin, op.cit.). In this second study for a sample of 20 industrial firms representing a third of industrial exports in 1969/74, 16 of which are foreign, a close association between the level of exports and the rate of technological change is identified. This change is expressed partly by volume of production - as an index of "learning by doing" - and partly by the expenditure on R&D, although other variables play an important role, such as the fact that a large part of exports are intra-company.

by the former one, also the scant resources allocated to R&D had to be applied predominantly to the adaptation effort; transnational corporations dominate the technology market in the dynamic industries, they use "bottle-neck-patents" extensively and are owners of world-renowned trade marks, which, in turn, dominate the access of goods to the markets - and license contracts have introduced restrictions of various kinds which affect the appropriability by national firms of local technological progress and the export of manufactures produced under license.

These costs are not trivial. Transnational corporations cover 60 per cent of sales of goods produced under license, and 80 per cent of exports of licensed products.^{1/}

In increasing the specificity of licensed goods - their sophistication, from the technological standpoint - that of their components and spares and of the capital goods required to produce them also increased. Thus, national production of such goods loses relative capacity to compete ex-ante, especially as the system of industrial promotion exempts their imports from duties.

Purchases abroad of imported inputs, excluding fuels, represent practically three fourths of imports of goods, on average; and, in marginal terms, according to some authors, nine tenths of the increase in the import demand is a function of the variations in the production of the so-called "dynamic" industries.

^{1/} See INPI (National Industrial Technology Institute); Aspectos económicos de la importación de tecnología en la Argentina en 1972.

Thus, the concept of "transfer" of technology becomes clear: there is a transmitter outside and a receiver inside, which receives the technology without properly evaluating it.^{1/} It thus ties a set of decisions and actions of tomorrow to a technology received yesterday. Among other things, it under-dimensions imports of inputs and capital goods and over-dimensions exports of manufactures.

In fact, the balance of foreign currency for exports by industrial activities, analysed using input-output matrices for 1953, 1963 and 1970, shows that the import content has increased,^{2/} that this tendency is higher in industrial activities than in the total economy, and that it is also higher in dynamic than in vegetative activities. Consequently, until that time substitution was negative.

Furthermore, the import content is in general higher in domestic demand than in foreign demand, and the indirect import content increases more than the direct. The final demand of the dynamic sectors has the highest import content, and as the level of expansion recorded in this sector is highest, this helps to explain the overall result as regards negative substitution.

1/ This calls not only for the traditional economic evaluation of technological alternatives and an evaluation from the standpoint of the structure of the capacity for decision, among others, but also for a technological evaluation of the technology. This is necessary because the technological field, with substance of its own and conceptual autonomy, distinct from the economic field, possesses its own optima and restriction which act in dynamic terms and are expressed in terms of variables that must be included in the evaluation. (See: Política de Tecnología: objetivos e instrumentos (mimeo. OAS, 1971).

2/ Except in oil refining, in the industrial sector. See background document on Utilization of input-output analysis in the election of export priorities. The meaning of these results does not change whatever meaning is given to final demand. We shall revert to these later.

In other words, if the technology installed in 1970 in industry as a whole had been the same as in 1953, 35 per cent less imports would have been required to meet the final demand of 1970. So much for exports.

ii. Although on the one hand, the pattern of accumulation of technology made it possible to export, on the other it also limited the degree of freedom to export manufactures.^{1/} We shall now analyse its influence on the basic conditions of such exports.

In fact, it is conceivable that such exports have to pass through several variability filters, the first of which is the condition of the product and the technology incorporated to it. If the process of learning is faster in the local branches of transnational corporations, it is not surprising that they have the largest participation in the exports of dynamic manufactures, particularly if such sales are frequently intra-company transactions. In Argentina, exports of manufactures are correlated with technological performance (rate of growth, increased productivity, expenditure on technological development - particularly in research and adaptive development, improvements in products and processes, and efforts at "trouble-shooting").^{2/} Apparently, not until the firm reaches admissible technological lag in comparison with international levels do costs, marketing, financing and like factors begin

^{1/} This point is analysed in several studies. The National Register of Licenses and Technology Transfer Contracts incorporated information on the limitations to exports arising from such contracts. Aspectos Económicos de la importación de tecnología en la Argentina en 1972, op.cit. Concerning the automotive industry, see Análisis de la transferencia de la tecnología externa a la industria argentina. Ministry of Industry and Mining, July 1972.

^{2/} Jorge Katz, Technology, dynamic comparative advantages and bargaining power. (Instituto Di Tella, mimeo).

to be important.^{1/} And, as international technological levels continue to rise - although the world innovation rate has lately declined in certain activities - the domestic technological development effort is always below those levels.

Failing technological policy, it is obvious that transnational corporations have always been in a better position than national companies to carry out this process of accumulation in the country, since in any case it would have been in a better position to do so. Consequently, the transnational corporation that was in the best position obviously went through the filter of "who exports". National companies exported preferably goods produced by traditional industries, as we shall see later, and exports of goods produced by dynamic industries have basically been in the hands of transnational corporations, particularly as regards capital goods.^{2/}

A second filter is the restrictions introduced in license contracts.

The exact identification of the restrictions that ownership of the technology and the trade marks places on exports of manufactures is weakened by several factors.^{3/}

1/ The opinion of experts in foreign trade confirms these priorities among technical attributes of the product, opportuneness of delivery, price and financing.

2/ Análisis de la oferta nacional de tecnología comercializable (mimeo 1975). H. Paulero, R. Carcioli and J. Fidel state that out of 108 companies which exported capital goods worth over US\$ 50,000 in 1973 and received fiscal inducements thereby, 26 foreign companies received 70 per cent of the inducements granted. The concentration of export products is higher in foreign than in national companies.

3/ Among others: branch/parent company relations and the existence of unwritten gentlemen's agreements which separate the formal agreement from actual behaviour, in one way or another; the restrictive effect introduced by trade marks; the use of transfer prices which remove exports from cost-effect competition; regulation of sales volumes of specific raw materials in terms of the production intended for the domestic market; the purchase of technology "turn-key" or in a "package", which discourages national production of capital goods and introduces other adverse effects, etc. (See: B. García, C. Gargiulo and A. Makuc. Criterios para la desagregación de la tecnología: el caso de las industrias de procesos. (INTI, 1974).

Nevertheless, at least the following restrictions may be observed:^{1/}

- General restrictions: contracts granting patent licenses restrict exports in about 50 per cent of the cases. Furthermore, exports are not permitted in over 70 per cent of contracts having legal protection, over 50 per cent of the contracts for confidential technology, almost 80 per cent of the contracts for trade marks and some confidential know-how and 85 per cent of the contracts for trade marks alone. Thus, contracts licensing trade marks are those that restrict licensed exports the most, although they all impose heavy restrictions.

- Specifically territorial restrictions: over 60 per cent of license contracts between branches and parent companies only mention Argentina as the territory granted, and under 15 per cent, in general, are contracts in which the territory covered is the whole world. Furthermore, almost 80 per cent of exports specifically permitted to neighbouring countries are exclusive of the licensee.

^{1/} See INTI, Aspectos económicos...op.cit., which contains the results of an extremely enlightening sample. Companies having 80 per cent and over of foreign capital are considered foreign. Of the total companies analysed in the sample, which had applied for registration of technology contracts in the pertinent Register, 90 per cent of their exports were licensed; the proportion of these was 95 per cent for foreign companies and 34 per cent for national firms. Foreign companies cover almost 80 per cent of exports under license. In 1972, total sales of licensed products represented 16 per cent of the value of exports of manufactures. Exports of licensed products represented 4 per cent of their total sales, 36 per cent of exports of new industrial products, and 6 per cent of the country's total exports. By regions, almost 80 per cent of licensed exports goes to LAFTA countries, mainly Brazil. From 45 to 50 per cent of total sales of licensed products represent goods produced under license contracts containing foreign patent or trade mark transfers. In drugs, clothing, cosmetics, railway equipment, radio equipment, television, communications, machinery and, surprisingly, food, the figures are higher than this average. This suggests that the frequent association of ideas concerning the food industry and the national decision-making capacity should be reviewed. Finally, among the basic characteristics, the industries working with technology licenses have a predominantly foreign participation and the highest degree of concentration.

Briefly, when foreign technology is used, its main object is the national market, and the licenses for both patents and trade marks, although more for the latter, significantly restrict exports of manufactures. Consequently, the national legal power to invalidate or annul contracts containing such restrictions on imports is weakened to the extent that transnational operators in parent company/branch relations can take independent decisions and that, in their relations with other companies, they can make gentlemen's agreements.

However, there is an indication of important progress in exports of complete or "turn-key" plants, which have recently been given favourable treatment as regards reimbursement and financing, reserved for national companies and national technology.^{1/}

It is therefore evident that technological policy is a determining factor of the first order for exports of manufactures. The instruments that can be used in technological policy, as well as those that can be used for the ownership of know-how and trade marks and for industrial policies are at the same time decisive instruments of exports of manufactures.

In Argentina's experience, industrial policy has long had substance and conceptual autonomy, and has been institutionalized in the form of a Secretariat of State within the Ministry of Economy. But technological policy - and, within it, the policy governing the ownership of trade marks

^{1/} It is interesting to note that this means an entirely opposite instrumentation to that used at the end of the fifties, when imports of complete lines were authorized free of exchange surcharges, for purposes of re-equipment. See: Enrique Martínez, "Elementos para el análisis de la exportación de plantas industriales completas en la Argentina". (Elements for the analysis of exports of complete industrial plants in Argentina). Background document for this study (Spanish version only).

and patents - is in the process of definition and, although it intrinsically has substance and conceptual autonomy, it does not possess an efficient institution to support it, and unity of central control is required.

In the past, the technological development achieved made it possible to export in the manner analysed later, but it also brought with it a basic condition which considerably hindered the full use of Argentina's capacity to place its manufactures abroad.

iii. The optima of technological accumulation in the long term are selective and do not necessarily coincide with the optima of economic and social development, neither must technological development strategy necessarily follow identical roads with economic development strategy, although there is a large intersecting space between both fields.

Argentina did not select within the technological frontier those technologies in which she wished to specialize fully, and the protected substitute industry has made it advance on many fronts without due concern for the technological lag with respect to the world frontier, or taking into account its limited resources. Perhaps the great capacity of the country's human resources has been the keystone in this process, which has substituted much more foreign currency and generated more export opportunities than might be supposed.

3. Joint effect of the factors considered on the basic conditions for exports of manufactures

a. The economy has a high combinatorial capacity, but political instability implies instability in the prevailing economic policies and unreliability as regards its permanence; inflation and the changing pattern of distribution.

associated with such instability, generate joint internal instability of prices, costs, rates of exchange. This affects the reliability of the estimated yields from exports, increases risks, consequently affects the actual value of the mathematical expectation of prospective profits from exports, and operates as a brake and as a factor of destabilization of the export function.

b. Protection and the relative degree of domestic oligopoly strengthen the preference of the national entrepreneur for not exporting unless the variability of distribution generates a domestic recession which forces him to do so.

Furthermore, persistent monetary restraint has an adverse effect on the financing of investments and on the turnover of the national company. For the banker, a transnational corporation is a better risk than the medium-sized or small national company in financing production, and still more, exports. Since lending is based on solvency, national companies have less relative access to exports in consequence.

In addition, the persistent policy of restricting public expenditure to check the growth of the fiscal deficit prevents the Government from spending as much as would be required to set up exports strictly as a system; this, in turn, obstructs the work of catalysing the expansion of the export activity of the national company.

c. From the standpoint of systems, institutional malfunctioning produces an interesting result in the regulator box: both the plan and the actor who regulates change more frequently than required by exports, and those who handle the transformer system - the production activities - have to

await attitudes or decisions from the regulators, generally with a high degree of uncertainty, because the rules of the game are not stable. This affects the national company - the domestic optimizer - more than the transnational corporation, which optimizes at the world level and for which it is an essential condition that a large proportion of exports is intra-company.

d. As a result of the above and of the joint effects of the technological, industrial and foreign investment policies followed by the country, it was to a large extent predetermined that foreign companies would be the major exporters in dynamic industries.

e. Collecting the macroeconomic - including the macropolitical and institutional effects, it will be observed that the basic conditions for exports of manufactures are subject to the optima sought by such operators and to the restrictions they accept.

Argentine companies are still optimizers at the national level. Some companies are beginning to optimize at the supranational level, making investments abroad, and this is good for the country.

Obviously, transnational corporations optimize at the world level and only accept national restrictions to a certain extent. It is not by chance that investments in Argentina -as will be seen later- have dropped significantly in the past five-year periods. At that optimum level, intra-company exports, of factor prices and the like, constitute obvious instruments.

These different optimum levels, the different power potentials of both operators, and their different capacity to remove restrictions or make them

more flexible - and even to create restrictions ^{1/}are data in the problem.

To improve the basic conditions for Argentina's exports of manufactures in general, differential action, according to the operators, is required. Such action includes strengthening of national companies as industrial and commercial exporters. The speed with which the country is carrying out this process appears to be low; if such is the case, a strong catalyzer effort is required.

1/ A complementarity agreement in LAFTA originated by a transnational corporation, which thus reformulates the scales and specialization for its world optimum, certainly benefits all countries, but it also contains the effect of creating restrictions at national levels.

CHAPTER III

The role of exports of manufactured goods and their behaviour

1. Purpose of this chapter

Together with an analysis of the behaviour of Argentine exports of manufactured goods, this chapter includes some conceptual and theoretical questions of a more general nature.^{1/}

2. The balance of payments

a. In the past 25 years, the balance of payments has shown a debit balance in current account; however, for the period 1970/74 it showed a credit balance. If the under-invoicing of exports, over-invoicing of imports and smuggling of exports that actually took place - according to estimates of officials these were extremely high - had been entered as capital expenses, the balance for 1975 would not have been a deficit. This and other factors suggest that Argentina generates ex-ante sufficient national savings to finance its investments. Exports of manufactured goods have been a major factor in this achievement.

Furthermore, taking into account the problems confronting world markets for the commodities produced by Argentina, and the fact that there is an upper bound for the effect of the substitution of imports and for the dimension of the country's external savings, exports of manufactures are the

^{1/} For detailed discussion of the behaviour of exports of manufactured goods, see Appendix II: "Exports of Manufactures". These are defined according to UNCTAD, as semi-manufactured as well as manufactured products. The under-valuation of exports for the reasons indicated in the text does not appear to be unusual, according to the opinion of experts, but the figures for 1975 apparently have been unusual. This suggests that certain methods of analysis, such as econometric analysis, should be used with caution.

most flexible variable that can be used to adjust the balance of payments.

b. In fact, let us assume a simple model including product, external savings, substitution-effect^{1/}, basic exports and exports of manufactures, Conceptually, and in economic policy practice, the variables are bounded.

i. The GDP has a lower bound, since a certain expansion of the product is requested by factors such as the generation of a given level of employment, the satisfaction of expectations and social needs, the formation of a critical mass of technology, the achievement of a given distribution, the maintenance of a given political pattern, the preservation of a certain position of power and prestige of the country in the international system, and other sources of requests. There will be a "sufficient" level of growth to meet all these requests that make up the lower bound.

ii. The use of short-term external savings has a maximum level, which is evident if a dynamic programme is formulated for a sufficiently long period.

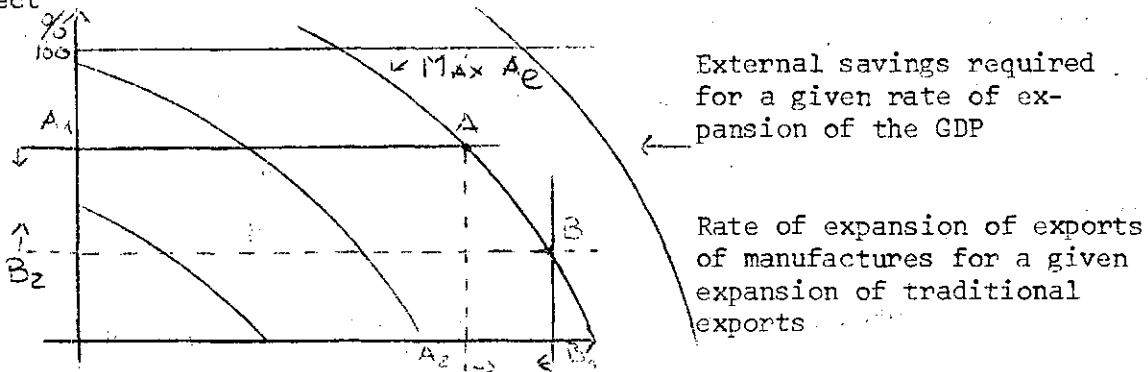
iii. Substitution-effect has a maximum level. In fact, substitution is not exhausted but has become more complex and, in the absence of a technological pause between the economies it is necessary to continue substituting. But the possibility of doing so is subject to various factors, such as availability of savings and of idle capacity; indivisibilities; periods before

^{1/} Substitution-effect is defined here as the ratio between the effect of substitution itself and the increase in the import demand before substitution. The former is measured by the product of the difference between the import coefficients for the period studied and a base period, and the reference variable (GDP, GNP, or other). The latter is measured by applying the import coefficient of the base period to the period analysed.

putting into operation; technological, capital and labour restrictions; restrictions of organization and of the desired balance of the power to decide, and others. These limit the possibilities of increasing the substitution-effect, so that only a certain proportion of the expansion in the import demand substitution can be absorbed by substitution itself.

iv. Traditional exports are upper bound, at least in the case of Argentina, due to the availability of exportable balances.

Substitution-effect



v. Given the levels of product and of traditional exports and the maximum levels of external savings and substitution-effect, point (A) where these levels intersect, defines the minimum limit to the necessary expansion of exports. And, in turn, point (B), in which the maximum export of manufactures possible cuts the maximum level of utilizable external savings, defines the minimum substitution required. ¹--/

¹/ In "Short-term financial planning" Economic Bulletin for Latin America-1965) a similar diagram is shown for programming purposes. It can, of course, be used with the real gross national income, with the expansion of the purchasing power of exports, or with other similar variables suited to the particular case.

c. Applying this abbreviated model in estimating the annual rate of growth of exports that would be necessary until 1980, an interesting space of solutions is identified. The effect of trade equal to zero, and a small negative value for minor transactions in current account are taken as constants. Four exogenous variables are considered: the rate of growth of the GDP (minimum 3 per cent and maximum 6 per cent); the balance in current account in the balance of payments (minimum zero), maximum positive US\$ 900 required to pay the total external debt in ten years; exports of basic commodities (minimum equal to 1974 level and two growth alternatives: at 3 per cent and 6 per cent per annum), and one level each of substitution-effect (zero, 20 per cent and 40 per cent of the increase in the import demand before substitution). The dependent variable is the annual rate of growth of exports of manufactures.^{1/}

The most exacting hypothesis in all exogenous variables (6 per cent growth of the GDP, zero expansion of export of basic commodities, zero substitution-effect, and surplus of US\$ 900 million in current account) would require a level of exports of manufactures of approximately US\$ 3700 in 1980, and this would mean a cumulative annual rate of growth of approximately 19 per cent from 1974 onward.

In 1970/74 the physical volume of exports of Argentine manufactured goods grew almost 16 per cent per year, and that of Latin America 18 per cent. A similar target, but applied on an expansive base, would not be unusual.

^{1/} A model of this type is, of course, a linear simplification of an intrinsically non-linear problem. The above should be taken merely as exercise, intended to serve as a guide.

TABLE III-1

ORDERS OF MAGNITUDE OF CUMULATIVE ANNUAL RATES OF GROWTH OF EXPORTS OF MANUFACTURES 1974-1980 WHICH WOULD BE REQUIRED IN ALTERNATIVE HYPOTHESES (%)

| | | Rate of growth of GDP (%) → | 6 | | 3 | |
|---------------------------------------|---------------------------|---|------|-----|------|-----|
| | | Balance in current a/c bal. of payments millions US\$ → | 0 | 900 | 0 | 900 |
| Rate of growth of basic exports (%) ↓ | Substitution-effect (%) ↓ | | | | | |
| 0 | 0 | | 13 | 19 | 7 | 14 |
| | 20 | | 11 | 17 | 6 | 13 |
| | 40 | | 9 | 15 | 4 | 12 |
| 3 | 0 | | 10 | 16 | 2 | 10 |
| | 20 | | 7 | 14 | Neg. | 9 |
| | 40 | | 4 | 12 | Neg. | 8 |
| 6 | 0 | | 4 | 12 | Neg. | 5 |
| | 20 | | 1 | 10 | Neg. | 4 |
| | 40 | | Neg. | 7 | Neg. | 2 |

Furthermore, for a product growth of 6 per cent, considering that the physical volume of exports of basic commodities increases 3 per cent per year and that we wish to obtain a balance in current account to pay the foreign debt in ten years, if the maximum level of substitution-effect were 40 per cent, the minimum level for the ex necessary expansion of exports would be 12 per cent per year

It is not unreasonable to establish this minimum level as a basic goal provided that the substitution policy is connected with the export policy so that full efficiency of the substitution process is assured, as well

as the capacity to export what is substituted.^{1/}

In the above treatment - given the minimum and maximum levels of the product, external savings and exports of basic products - exports of manufactures becomes a dependent variable of substitution-effect. This effect depends, basically, on the "style" of development.

If Argentina, growing at approximately 6 per cent per year, were to develop a sophisticated style of consumption, with intensive renewal of capital goods and imported technology to meet that sophisticated consumption, by 1980 it would incur in negative substitution of a magnitude equivalent to 50 per cent of the increase in the import demand that would take place between 1974 and 1980.

If, on the other hand, it were not only to develop a sophisticated style of consumption but also were to spend more on education and culture, utilize capital and existing technology to the full, provide full maintenance and work with more labour-intensive technologies, improving significantly the technology of organization, it would achieve positive substitution in an order of magnitude equivalent to 80 per cent of the increase in the import demand before substitution.

^{1/} If the ratio of imports to one of the reference variables (internal demand, total demand, GDP, production, etc.) remains stable, substitution would be neutral; and depending on the exchange rate it would be positive or negative. Naturally, the quantitative results will vary depending of the level of abstraction used. For instance, working at a level of 20 sectors and considering that the income-elasticity ratio of the import demand is different in each, there could be a neutral substitution in each, but the ratio of total imports could increase due to change in structure. Certain estimates for Argentina establish that a level of 1.3 in the product elasticity of the total import demand can be explained by the effect of such a change in its composition, consequently a higher value would indicate a negative substitution. The projections do not assume the possibility of a negative substitution for the future, and this also commits the technological policy in the viability of the attempt.

^{2/} These figures are still preliminary results of a numerical experiment model on which the Buenos Aires Office of ECLA is working for the Argentine economy. The first is for a style internally called "consumist" and the second for a "creative" style.

Both these alternatives are "pure" expressions of two styles of development. Their interest for the present purpose lies in the fact that the solution space bound by pure solutions is between -50 per cent and + 80 per cent of the effect of substitution on the increase in the import demand before substitution. If the Argentine alternative is mixed - with effects shared equally between the two styles - substitution-effect would not reach 10 per cent.

This suggests that the lower bound for necessary exports of manufactures strongly depends on the style of development of the country, and that the more consumist the style the higher will the minimum level be. In this case, however, a consumist style would make it absolutely necessary to place Argentina in the context of a system of international relations wherein either the country organizes its own transnational corporations at great speed, or the decisional vacuum left by the model necessarily would have to be covered by transnational corporations.

This is an important conclusion, and will continue to be important even if there should be significant errors in the numerical results of the overall and the numerical experiment models being analysed.

d. An important conceptual consequence is that production/substitution/export are clearly variables linked to the macro level.^{1/} At the macro-economic level, working activity by activity, these are also obviously linked, not only because, given world technological progress, substitution must take

^{1/} See: "Una conceptualización del papel de ALALC en la industrialización y el desarrollo tecnológico del área". Revista de la Integración, No. 9, November 1971.

place in such a way that it will subsequently be possible to export the goods substituted without subsidies; but also because - at least in developing countries with restricted markets - there is no way of minimizing leakages in the design and implementation of economic policy without making the effect of the different instruments of economic policy converge with great precision at the level of each activity. This is a fundamental conclusion of this analysis, which was stressed in Chapter II and will be stressed again later.

Forming a single conceptual set, production/substitution/export must have operative unity and therefore form a single policy set ex-ante, although the implementation of the policy may not in practice be conducted as a unit. Thus, protection/promotion are instruments, also interlinked, which comprise the set of policy instruments governing production/substitution/export at exports.

3. The real behaviour of exports of manufactures

a. In accordance with the UNCTAD classification, in 1974 Argentina exported US\$ 1,310 million worth of manufactures, or one third of total exports. Of this sum, US\$ 860 million were for manufactured and US\$ 450 million for semi-manufactured products. The growth was 30 per cent per annum at current prices.

1/ This is approximately the rate recorded according to different classifications (UNCTAD/SIIC, traditional or non-traditional, etc.). (See Appendix 2).

TABLE III-2

VALUE OF TOTAL EXPORTS FROM ARGENTINA ACCORDING TO UNCTAD CLASSIFICATION
(in millions of current dollars)

| YEAR | BASICS PRODUCTS | M A N U F A C T U R E S | | | TOTAL <u>1/</u> |
|------|--------------------|-------------------------|-------------------|-----------|--------------------|
| | | MANUFACTURES | SEMI-MANUFACTURES | SUB-TOTAL | |
| 1969 | 1.155 | 266 | 126 | 392 | 1.612 |
| 1970 | 1.341 | 303 | 126 | 429 | 1.773 |
| 1971 | 1.288 | 306 | 146 | 452 | 1.740 |
| 1972 | 1.339 | 374 | 227 | 601 | 1.941 |
| 1973 | 2.286 | 612 | 338 | 950 | 3.266 |
| 1974 | 2.621 | 859 | 450 | 1.309 | 3.931 |
| 1975 | 2.024 | 709 | 227 | 936 | 2.961 |

Source: A. Guazzo: "Encuestas y análisis sobre exportaciones manufacturadas argentinas". (Surveys and analyses on Argentine exports of manufactures). (Background document for this study - Spanish version only).

b. In 1975, the values recorded for exports of manufactures dropped to US\$ 935. This reduction is due to the special situation of the Argentine economy explained in Annex II and to the effect of unrecorded transactions (smuggling and under-invoicing of exports).

c. Changes in structure^{2/} in 1969/75 consisted in the systematic expansion of the metallomechanic industry (22 to 50 per cent) and the reduction of traditional exports (52 to 32 per cent) and chemicals (20 to 15 per cent).

1/ Includes exports of branches of activity not clearly specified and therefore not credited in the classifications indicated.

2/ Breaking down the values of the UNCTAD classification by SIIC Rev. 2 groups.

d. In 1974 exports amounting to US\$ 780 million, approximately, received fiscal inducements (60 per cent of exports of manufactures), and exports for a value of US\$ 330 million (25 per cent of such exports) received some form of export financing.

e. The degree of technological sophistication of exports of manufactures has been gradually increasing. Taking the 25 chapters of the export nomenclature considered most sophisticated, from the technological standpoint, these represented 10 percent of the country's total exports in 1969, and 19 per cent in 1974.

f. Exports represent a significantly increasing proportion of manufacturing production, having grown from 3.5 per cent to 6.7 per cent of that production during the period 1969/73 (in only four years).

g. Concentration by exporting companies is high. In the total exports of Argentina (basic and manufactured products) in 1973, the 100 leading companies (1.8 per cent of the total number of exporters) covered 71 per cent of their value. The foreign companies in that sample accounted for 34 per cent of the value of manufactures exported, excluding those of packing houses. Foreign firms tend to predominate in the dynamic industries to the extent that technology and capital grows, in which case their export: production ratio is higher than that of national firms, and the relative degree of concentration in export activities is higher. A goodly proportion of their exports are intra-company.^{1/}

^{1/} "Intra-company" sales are those between companies of the same economic group, irrespective of whether they are branches of the same company.

h. In 1974, 48 per cent of exports of manufactures recorded went to LAFTA countries, 18 per cent to the United States, and 15 per cent to the EEC.

In 1975, the participation of Cuba rose; that of the United States declined, and there was intensive unrecorded trade with bordering countries, which would somewhat change the structure described above.

Essentially, two thirds of manufactures of agricultural origin go to Western Europe, and two thirds of industrial manufactures go to LAFTA countries. The latter are mostly made by foreign companies, in medium and highly concentrated branches of activity.

i. As a whole, the highest technological sophistication, income-elasticity of demand, exports of basic industrial manufactures, export:production ratio, presence of foreign companies, concentration by products and by companies, and short-term expansion rate, appear to be linked variables.

j. There appears to have been a trend toward wider diffusion at the sectorial level, and within sectors, toward a certain amount of specialization by products. This specialization - apart from the traditional specialization in a number of manufactures of agricultural origin - is visible in the concentration of exports of sophisticated manufactures (three chapters of the nomenclature cover two thirds of such exports).^{1/}

There is also concentration by regions, preferently directed towards LAFTA countries, in the more dynamic industries.

^{1/} Although such specialization would imply a negative substitution, at least until 1970, according to the input-output analyses discussed later.

1. At the end of this process it is considered that exports have been incorporated as a variable, no longer circumstantial, to the sales pattern of the companies. Realization by the national companies of the need to export has increased to a very high degree, although it is naturally a slower process in small and medium-sized companies; the system of trading companies and the mechanism of export consortia is still relatively weak for active convergence of the latter towards exports.

It should be noted that this process is occurring - as will be seen later on - with a persistent reduction in the index of capacity of competition due to price-effects resulting from the ratio between the rate of exchange for exports of manufactures and the domestic price level.

4. Optimization in exports of manufactures and choice of priorities

An opinion concerning the orientation of exports of manufactures requires - as does any judgment of value - a certain conceptual pattern with a sufficiently explicit content. We shall first work on that conceptual pattern and then on the Argentine experience.

a. In designing export policy, as in any other problem of decision, an attempt is made to find the variables of the problem within certain spaces of acceptable values, or to optimize their behaviour.^{1/} The former leads to the establishment of objectives; the latter, to the establishment of optima which, essentially, form a precise species within the genera of objectives.

1/ Naturally, both problems can be linked from the standpoint of design; since, working with formal optima and parametrization, it is possible to identify viability spaces for the variables considered in the problem, and, vice versa, to process formal optima, it is necessary first to have some idea as to what values would be substantially acceptable.

Whatever the approach adopted by the policy in practice, from the conceptual standpoint it is necessary to discuss the concept of optimization, applied to this case.

b. The first step is to establish the level at which optima and restrictions are dealt with.

At the highest level of abstraction, optima can be generalistic (in the general interest of world society, for instance) or particularistic (when the optimizer is a country, an integrated region, a power group or an economic group, etc.).^{1/} In the present problem, the optimum is particularistic. What is sought is not criteria for supranational "equilibrium", nor even bilateral optima, in trade between two countries, as is usually the case in traditional theory. It is sought to optimize at the national level and ex-ante accept also predominantly national restrictions.

Such is the policy of the great powers, and it would not be sensible for the developing world to embrace this alternative unilaterally, except in a consensual manner and, for the time being, at the regional level, in terms of regional co-operation and integration.^{2/}

^{1/} Given certain assumptions, the traditional theoretical approaches conceive that optimization is possible at world and national level at the same time. But such assumptions are not really valid, and both optima do not necessarily coincide. "Notas sobre la construcción del sistema mundial" (El Trimestre Económico, Jan./March 1973) suggests alternatives of combined optima and restrictions at the world, regional and national levels. It states that, in the present situation, national optima are sought and the relatively more powerful countries only admit national restrictions. In the case of LAFEA optima continue to be national, certain regional restrictions being admitted - the weakest possible in the experiment so far. The case of the Andean Pact is a milestone, as optimization takes place at the regional level - conceptually, at least - with national restrictions. Optimizing at supra-national level with restrictions also predominantly supra-national would constitute really revolutionary progress - another milestone.

^{2/} The study "Latin American exports of manufactured goods. Experiences and problems", which forms part of this project, discusses this aspect.

c. A second question arises concerning the set of factors for which the optimum is to be sought: whether they are the present set, or the set which it is sought to integrate in the future. In the former case, availability of resources is a datum. In the latter, it would be necessary to identify the world frontier of resources - particularly critical resources - in the future. Here the resource, technology, is of decisive value.

Considering technology as a quasi-good, the possibility of giving its restriction in the constellation of factors maximum flexibility depends on the "capacity to capture" exportable technologies, which the country can develop. And this capacity to capture depends on the country's capability to generate adaptive technology, on its combinatorial capacity in creative technology and on its legal, institutional and operative capacity to preserve the national capacity of decision concerning it, and to use it in practice.

This is a fundamental matter. If the performance of exports of manufactured goods depends on the set of factors, and if this is a function of the capacity of capture^{1/} of technology, the efficiency of exports will largely depend on minimizing the cost of that capture. But, in any case, there is no longer any reason why a country that has a good supply of agricultural or extractive products should be condemned to export only manufactured products based on agriculture or extractive industries. On the other hand, maximization of the performance in exports of such goods can constitute a method of financing the capacity of capture which, in turn, is subject to optima of its own.

^{1/} It should be noted that the concept of capacity of capture is used here to mean the stages including capture itself and its administration up to the level of innovation and export of technology, whether embodied or disembodied.

As Argentina has no predominant restrictions as to human resources, natural resources and - with certain caution in the evaluation - savings^{1/} capacity to conduct a selective, programmed technological leap will be required, to adjust the supply of resources, taking into account the probable evolution of the world technological frontier.

This makes it necessary to conceive technological factors separately from economic factors, since at some time the higher optimum should be associated with the attainment of a certain constellation of applied technological knowledge, with priority over relatively more traditional economic optima (in terms of income, employment, and so on). This is considered a particularly relevant question for discussion of the development strategy of Argentina and, in particular, of the strategy for exports of manufactured goods.

d. Other factors sometimes constitute dominant restrictions, and certain restrictions are connected with one another.

When the financing capacity of the economy as a whole constitutes a dominant and not very flexible restriction, the optimum of the national external sector in the long term will possibly be associated with a mixed strategy over a period of time. Precisely such a strategy might consist in begin-

^{1/} The remarks in chapter II and in section 2 of this chapter III suggest that Argentina generates ex-ante all the savings required by its high investment rate, but that part of such savings leaks out through various forms of capital outflow, and that in the domestic sphere, the country does not fully control its direction owing to the poor selective efficacy of a number of policies (this reasoning includes not only the effect on the direction of savings but also the problem of the purchasing power of savings in terms of investment goods, which classically fluctuates and is apparently low, in relative terms, in the Argentine economy). Generation of savings to pay the foreign debt is a different problem.

ning by maximizing traditional exports of manufactures and then gradually incorporating selected activities within the world technological frontier, in such a way that other capacities of competition may be ultimately created.

This appears, to some extent, to be the course followed by Argentina, whose share in traditional exports - of commodities plus manufactures of agricultural origin - showed a declining trend.

Naturally, the way in which the process of production/substitution/export was designed and implemented implied restrictions for the future. One of them is the structure of the capacity of decision. Obviously, exports of manufactures of transnational companies are an instrument of optimization of such companies at the world level, and such optima do not necessarily coincide with national optima. There will thus be a minimum level of participation of public and private national companies in the structure of the capacity of decision in exports of manufactures, under which purely formal optimal national performances can be attained, but within a space of substantially unacceptable solutions.

Depending on the relative strictness of the two restrictions mentioned and on their influence on overall solutions, it might be possible that more than one country would be obliged to manufacture its own solution space, by maximizing the flexibility of both restrictions in dynamic terms for a certain time. The proportion of the national capacity of decision would actually appear, in more than one case, as a variable opposed to the overall capacity of financing in foreign currency. The solution of the problem is dynamic and depends on each situation. Some countries of the Fourth World, for instance, might have first to maximize their financing

... can suitably determine the structure of their capacity of decision, while others can work on this pattern first.^{1/}

Argentina tended to expand its capacity of financing in foreign currency, and no reference has been found to systematic policies applied in practice to seek a certain explicit pattern of capacity of decision by firms of exporters or manufactures.

e. The consequences of optima criteria chosen for each stage within a dynamic programme are, of course, most important, and they are evidenced in the criteria followed in selecting export priorities by activities or specific products.^{2/}

1. There are two complementary approaches to this subject: a conceptual and methodological approach to the problem of choosing an optimum set of goods for export, and a practical criterion.

The first is a programmatic approach and lays stress on the most suitable choice for the country, so as to give it priority in the conduct of exports.

^{1/} There are, of course, higher or associated policy problems, which it is not appropriate to discuss in this context.

^{2/} "Activities" is used here in a general and flexible manner to refer to all those things that should be treated differently, for specific purposes of analysis or economic policy decision, and without accepting conditions imposed by the fact that all activities must be defined at the same level of abstraction. It therefore includes a good and/or service and/or a group of goods and/or services, which the analyst defines.

The second approach is casuistic, and analyses what there is to export instead of what is desired. From this casuistic, pragmatic standpoint, a check list is drawn up which should include all the factors that must be covered in practice, in a convergent manner, for export to take place.^{1/}

ii. From a conceptual and methodological viewpoint, the choice of priorities for export by activities is a particular case of the general problem of optimization with a given number of elements, taken into account a number of objectives. Consequently, it would suffice to define such objectives clearly, to determine correctly the attributes of each activity, and to apply known methods of solution to obtain such priorities.^{2/}

iii. As we wish to measure the direct and indirect effects of exports, it is appropriate to use input-output analysis in calculating the parameters to suit such models. With those matrices we obtain the balance of foreign currency per export unit from the flow of goods, and later associating to each of the parameters for investment requirements by activities, and for remittances of interest, profits and royalties - visible and invisible - it is possible to obtain a balance of payments in current account based on the expansion of exports at the level of aggregation of each activity

^{1/} This approach is most useful in everyday policy, since practical problems make it necessary to decide, at least, who must solve them, how they should be solved and by what means. It is, moreover, a well known matter and there is abundant literature on the subject.

^{2/} See: Un modelo de optimización para la selección de actividades de exportación. It proposes a linear programming approach, in dynamic terms, and mentions other applicable instruments.

in the input-output table.^{1/}

It is also possible to calculate the employment-effect ratio for each activity from the direct and indirect flows of goods; the distribution-effect ratio which, through employment, can be ascribed to the expansion of exports of each activity, and the income-effect ratio, in terms of the gross domestic product.

Under other conventional methods, working with ratios of technological content that take into account the diffusion or internal replication of the know-how embodied in exports, it would be possible to estimate the forward and backward total-technology-effect of alternative export structures by activities.^{2/} And with parameters measuring the proportion of national decision contained in each activity, it is possible to identify the structure of decision inherent in each alternative export structure.

iv. Some of these parameters have been measured for the Argentine case, as we shall see below, but before analysing them there are certain questions of conceptualization to which we wish to refer.

In effect, the parameters taken from historical experience would obviously reflect the effect of the functions of production and the set of actors in the past. And, as discussed earlier, the factors of the future that is

1/ Further developments are possible, of course. Each parameter of a sector of the table is a mean of n-parameters of activities included in the sector, which can be calculated with distributions other than those in the table. If risk and uncertainty factors are included, an attempt might be made to maximize the actual value of the mathematical expectation of a given net balance of foreign currency.

2/ Let us assume that technology flows are measured in units of know-how, that an input/output matrix is constructed in those Kh units, and that with that matrix the forward and backward effects of a unit of export is estimated for each activity.

desired would also have to be taken into account.^{1/}

Furthermore, the assessment as to what is to be optimized can change over time in a dynamic context, as discussed earlier, and eventually it would be in order to maximize the balance of foreign exchange at a certain stage of the programme, at another, the national capacity of decision, at another a specific technological optimum (for example, the speed with which a given constellation of know-how is integrated), etc.

Moreover, certain variables would not be eligible for optimization in an export model. Thus, the extent to which exports - and still less manufactured products - can be asked to make a significant direct contribution to employment or to income distribution is open to question. It is believed that, quite the contrary, in the balance of employment, when countries are very backward, more than half the workers are employed in agriculture or in the services, if the country has reached an intermediate stage of development or is highly developed, and that it should be demonstrated that the production of manufactured goods for export should be asked to tie its technology to certain requirements of the internal balance of labour. From the standpoint of employment, the direct or indirect effect of exports on the generation of employment opportunities is not of such interest as the physical volume of the gross domestic product that can be financed with the net foreign exchange earned by exports, and the total quantum of employment that such GDP can generate.

^{1/} How to arrive at what is wanted has a bearing on the dynamic problem. Up to this point the static aspect of the model has been discussed.

The effect of exports of manufactures on distribution, apart from the direct effect due to employment-effect, must also be linked to the income structure of each activity, depending on factor remuneration and on whom the export inducements are directed to. In regard to the first aspect, clearly the larger relative expansion of exports of manufactures than of agricultural exports will directly improve distribution to the extent that the proportion of the remuneration of the labour factor in the sector's income, as well as the nominal unit wages, are higher in industry than in agriculture. But as regards the second aspect, if the specific inducements are directed to a foreign or national oligopoly engaged in export activities there would be a direct regressive redistributive effect inherent in exports of manufactures. Ultimately, a progressive effect might be achieved if the increase in income that can be financed by the overall performance of exports themselves could be properly distributed.

v. The assessment of the "objective" variables virtually eligible for optimization can also raise important contradiction problems.

We shall now see that past exports of traditional manufactures are associated with the highest parameters for foreign currency-effect (considering only imported input requirements and not requirements of capital or payments for factor remuneration), employment-effect, and product effect. But if we were to optimize a technological functional what is already known about the forward or backward effects in economic terms, and what is inferred from the know-how carried by unit of value of industrial production in each activity, suggests that the highest priorities should be assigned to non-traditional industries, particularly those that manufacture capital goods.

Consequently, a technological functional would give precedence to different exports from those arising from a traditional economic functional in terms of income or employment.

vi. Briefly, there are known instruments to identify the arrangement of priorities, activity by activity, identifying the optimum export structure, by activities, to attain certain objectives. The point is, precisely, that those objectives must be quite clear. It is not, therefore, a technical but a political problem. The technician should process different optimum and restriction alternatives - with their explicit implications - for the politician to decide; because part of the strategy will use the country's energies in overthrowing or making more flexible any dominant external, as well as internal restrictions connected with the structures given to the power of decision, whose optima are often opposed to national optima, and because the analysis should include variables which form part of other fields having conceptual autonomy and optima of their own, such as the aforementioned capacity to decide and technology itself.

f. Experience in Argentina concerning the contribution of a unit of export of manufactures to certain relevant variables has been analysed in three studies which form part of a Background Document for this study.^{1/} The effect of the expansion of exports in each activity was analysed within the possibilities afforded by the original input-output matrices available

^{1/} Attention is drawn specifically to these studies, which are included in the document entitled: "Utilización del análisis de insumo-producto para la selección de prioridades de exportación". (Utilization of input-output analysis in selecting export priorities - Spanish version only).

for the Argentine economy. The results for significant groups of industrial activities^{1/} are as follows:

TABLE III-3

SUMMARY OF EFFECTS OF EXPORTS OF MANUFACTURES ON THE ECONOMY AS A WHOLE

| | A: High | B: Medium | C: Low | | |
|-------------------------------------|--------------------------|--|----------------------------------|--------------------------------------|------------------------|
| Effects | Food, beverages, tobacco | Textiles, clothing, foot-wear, leather | chemicals, non-metallic minerals | Metal prod., machinery and equipment | Wood, paper and others |
| Balance of payment | A | A | A/B | C | A/C |
| Balance of payment and substitution | C | C | A/C | A | A/C |
| Value added | A | A | A | C | B |
| Employment | A | A | A/C | A/B | A/B |
| Diffusion | C | A/B | A | A/B | C |
| Induction | | | A | A | |
| Capital goods | | | | A | |

^{1/} The groups of activities included in table III-3 are the same as those analysed in Appendix II (table A-II-5).

Notes: Combined results of three studies contained in Background Document cited. As the studies do not deal with the same effects it is suggested that the original texts be referred to. Ratings are always relative to the mean. Cases entered as A/C are due to the heterogeneous behaviour of the activities grouped. Definitions are as follows:

- Balance of payments: effect in foreign currency of exports, less direct and indirect requirements of input imports.
- Balance of payments and substitution, in terms of adding the estimated effect of substitution.
- Value added: direct and indirect.
- Employment: direct and indirect.
- Diffusion: "forward" (ratio of intermediate sales to value of total production) and "backward" effects (direct and indirect requirements corresponding to unit demand of the sector (its variations are associated with those of the ratio between the value of national intermediate inputs and the production of the sector considered)).
- Induction: comparing the structure of transactions of Argentina with the most advanced industrial countries, it estimates what would happen if a new activity were introduced, at the technology level in those countries.
- Capital goods: effects of a varied nature, including technological. For these three effects, see study by Federico J. Herschel, which discusses the subject in detail.

if. The preceding table contains results that reflect the situation prevailing in the sixties, and several of its components are the product of an analysis made with matrices for the years 1953, 1963 and 1970.

It is interesting to conjecture what would have been the changes in the relative values of effects during the course of a process of economic development oriented by specific optima criteria and sustained policies consistent with those criteria.

The diffusion and induction effects are already relatively more important in non-traditional industries, and are added to the effects of capital goods manufactures.

The values of the balance of payment-effect due to flows of goods would tend to come closer between the non-traditional and traditional industries, to the extent that the former became better integrated in the country.

The same would be true of the income-effect, since in the long-term this is a function of the value added for each activity, and it should grow to the extent that technology is captured at a lower cost and non-reproducible resources of the country are used to better advantage in industry.

Employment-effect would also tend to be equalized, to the extent that specialization by plants grows and the equipment of the agricultural sector improves.

If this analysis is correct, the unitary ratios - by unit of export - of the different items would, in time, show a greater relative advantage for non-traditional exports.

Furthermore, so far, the goods of such industries show the highest relative income-elasticity of world demand, consequently, for them, the ceiling of the world market would increase considerably, whereas it is lower for traditional exports, owing to the surpluses of some industrial countries and the protectionism of others.

If it were possible to find a mechanism of financing so that the countries that have food shortages and no foreign exchange to pay for importing them could purchase food, and taking into account the projections for world population and food production, it is conceivable that there might be an explosive cycle of world demand for Argentine commodities and traditional manufactures. But if the historical pattern of recent decades in the practical conditions of world trade continues, relative elasticities will be higher for the non-traditional industry.

The above suggests that Argentina might perhaps adopt a mixed strategy so that, while it endeavours to maximize its foreign currency balances with traditional exports, it establishes selective lines for its non-traditional exports. This selectivity might continue with the historical pattern of diffusing exports along all sectors, but specializing at the level of specific activities, making a stricter selection based on thorough studies at the micro level (economic, technological, political, etc.). This is what has been done by the industrialized countries of the northern hemisphere whose market is of a size similar to Argentina's.

A relevant variable for non-traditional exports would be the speed of the process, and it would appear that this would have to be maximized. The method of operation would be such that each activity would have a programme which would cover the whole spectrum of production/substitution/export,

with unity of conception and operative unity. This would require an economic policy conducted by activities, co-ordinated at the level of the different policy fields.

Naturally, these ideas require verification with formal optimization models in dynamic terms.

iii. Among the effects considered in table III-3, we wish to draw attention to those termed diffusion (forward and backward) and induction effects.

Considering these effects in technological terms, parallel to them we conceptualize the existence of a technological multiplier whose behaviour will depend on the extent to which the activity concerned operates as an enclave - importing inputs of more advanced technology and operating as an assembly plant for them - or on its becoming integrated in the spectrum of national technology, obliging it to improve its own standards. Obviously, policies governing foreign capital, industry, technology, banking and other activities have to be integrated in a single context to maximize the value of the technological multiplier, which also depends on the efficiency shown in capturing technology and in creating it in the country.

iv. There is also a question concerning the level of abstraction. The evolution of values for the economy as a whole obviously depends on the effect of changes in the individual ratios and on changes in the structure of exports by activities. The present analysis is the result of the aggregation of original work with matrices of 20 sectors which, for comparability of the studies, permit analysis at the level of twelve sectors grouped for foreign currency, employment and income purposes.

TABLE III-4

APPROXIMATE RANK OF INDUSTRIAL SECTORS ACCORDING TO THE
EFFECT OF ONE UNIT OF EXPORT ON SELECTED VARIABLES c/

| Activities | Balance of payments | | | Value added | Employment |
|-------------------------------------|------------------------|--|--------------------------------------|-------------|------------|
| | Less imports of inputs | Less imports of inputs & capital goods <u>b/</u> | Less imports and royalties <u>c/</u> | | |
| Food, beverages and tobacco | I | I | I | I | II |
| Leather | I | I <u>d/</u> | I | I | II |
| Non-metallic minerals | I | II | II | II | I |
| Textiles | II | II | II | I | I |
| Cloting | II | II | II | II | I |
| Wood | IV | I | I | III | I |
| Metals | IV | III | IV | IV | IV |
| Chemicals | III | IV | III | II | IV |
| Paper | III | III | III | IV | III |
| Vehicles and machinery | II | IV | IV | III | II |
| Electrical machinery and appliances | III | IV | IV | III | III |
| Rubber | IV | III | III | IV | IV |

Source:

- a/ Position is approximate due to the structure of quartiles. Thus, 12 groups are considered and four ranks.
- b/ Indicative values; due to methodological and computing problems relative to capital goods.
- c/ Preliminary. They are visible royalties in the sector considered only. Based on guidelines contained in the INTI study on "Aspectos Económicos..." op.cit.
- d/ Estimated.

Note: The balance of foreign currency obtained by deducting from exports the amount of imports of inputs, the (defective) estimate of capital goods and the amount of royalties are only a gross approximation. The position of certain activities is unequivocal, but the position of other intermediate activities might vary to some extent.

v. The contribution in foreign currency of a unit of export less than imported content of inputs, aggregated by main groups, shows a declining trend during the period 1953/70. This suggests a negative substitution process, although a certain part of that drop in the total for the country is an effect of the change in structure, as the relative importance of non-traditional manufactures has grown.^{1/}

TABLE III-5

BALANCE OF FOREIGN CURRENCY OF A UNIT OF EXPORT LESS
IMPORTS OF INPUTS ^{a/}

| Sectors | 1953 | 1963 | 1967-69/1970 |
|-----------------------|-------------|-------------|--------------|
| Agricultural | 0.995 | 0.975 | 0.960 |
| Extractive | 0.990 | 0.955 | 0.920 |
| Manufacturing) | maximum | 0.970 | 0.965 |
| | minimum | 0.860 | 0.825 |
| Total for the country | <u>0.97</u> | <u>0.94</u> | <u>0.92</u> |

^{a/} When there is more than one study on the sector, the average value of the observations is taken. This slightly affects the comparability of the ratios of different years. The manufacturing sector includes the extreme maxima and minima of the activities analysed.

^{1/} Taking other factors as invariants.

From the standpoint of export strategy, to export relatively less skilled labour is to persevere in less relative income.

Another interesting aspect is added, from the standpoint of the terms of trade. The labour content in export of manufactured goods of industrial countries is more highly skilled and receives a relatively higher remuneration - even for equal skills - than in primary exports of countries such as Argentina; and the gap between wage patterns is widening. To persevere in importing manufactures against primary exports leads to structural loss, due to the effect of the terms of trade. More strictly, if the average skill content of labour is less in Argentine exports than in its imports the country loses due to the effect of the terms of trade.

These observations, together with those previously made concerning the suitability of maximizing the employment-effect of exports suggest that, in the case of Argentina at any rate, the employment-effect could only enter as a weak restriction in the general problem of the exporting sector's optimum.

vii. The structure of the ownership of decisions concerning Argentine exports is a variable defined earlier in this chapter and in chapter II. If the different actors were assigned a potential power of decision, measured in conventional terms, taking into account concentration by firms, goods and market, and if a minimum level were introduced in the national capacity of decision, it is reasonable to assume that there would be a demand for much more action by the State, to catalyse the strengthening of national exporting companies with certain speed - also lower bound - and a far greater presence of public enterprises in the national export effort - at least in the field of technology. This influences the institutional factors discussed later.

viii. A relatively mechanistic interpretation of the past would suggest that, in accordance with the transformation that has taken place, in which the proportion of metallomechanic exports increased and that of traditional industry dropped, Argentina would thus far appear to have sustained a relative loss due to the effects of foreign currency income, employment, and capacity for decision in the external sector, but it would have gained relatively due to the effects of diffusion, induction, balance of payments adjusted for substitution, production of capital goods, and more particularly, technology.

However, taking into account the foregoing and other observations, such as the creation of external economics, the ratios arising from the input-output analysis for the past are not mechanically applicable^{1/} to a study of formal optimization. It is believed that such a study should be made, to serve as a guide for future strategy.

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CHAPTER IV

Foreign Markets

1. Purpose of this chapter

The purpose of this chapter is to analyse aspects of the demand which influence exports of Argentine manufactures. It can be assumed that this demand is generated by two sources: either it arises in the purchasing country, or it is promoted by the exporting country itself.

As regards the first case, a few brief remarks are included concerning the world market and the generalized systems of preferences.

With respect to the demand promoted by the exporting country, the chapter discusses trade with LAFTA countries, the use of bilateral agreements granting export credits for manufactures or promoting such exports through other mechanisms and, finally, the establishment of joint companies or, in general, investment in third countries and exports of technology as factors to promote future exports.

2. The world market and the conditions of access thereto

a. World trade in manufactures amounted to US\$ 350,000 million in 1973 and US\$ 450,000 million in 1974.

Imports of manufactures by industrial countries from Argentina in 1973 amounted to US\$ 466 million (Table IV-1).^{1/}

^{1/} According to figures published in the Supplement to the World Trade Annual, Vol. II - Statistical Office, United Nations. There may be discrepancies with the figures given in chapter III and Appendix 2, due to the sources of data.

Argentine exports under the Generalized Systems of Preferences during that year were US\$ 85 million, that is, less than 20 per cent of the total imports of industrial countries from Argentina. This percentage rose in 1974 and 1975 as a result of a better knowledge of the possibilities of the systems and of their gradual application during the past five years.

b. It is believed that the Generalized Systems of Preferences are so far of little quantitative significance for Argentine exports. In the case of the system recently applied in the United States it is ambiguous; on the one hand, as the duties are higher than those of the EEC, the preference for manufactures is more significant and favours their export; but once this succeeds, it discriminates against them.^{1/} Besides, the success of general negotiations, which would greatly benefit trade between industrialized countries in the northern hemisphere, would have the effect of weakening the value of such preferences. In addition, agreements such as the Lomé Agreement, might seriously affect the value of preferences useful to Latin American countries, in general, granted by the EEC to the extent that they produce precisely the effects for which such agreements were concluded.

Consequently, with respect to the EEC, Latin American countries in general, and Argentina in particular, would have no alternative but to use the GSP to the full. With respect to the United States, which do not consider the establishment of a preference zone in Latin America, the countries of the region, and Argentina among them, have better relative possibilities than the countries of Asia and Africa of using the preferences in practice;

^{1/} Such is the obvious effect, although the origin of the US\$ 25 million (basic) bounds and 50 per cent of US imports are instruments to diffuse trade among different suppliers and prevent dominance of the most efficient. See also ECLA, Topics of UNCTAD IV, mimeo, April 1976.

and it would appear that stress should be laid at least on the limitations concerning origin and on the list of products. In general, the compensation of the lower margins of preference in non-tariff barriers resulting from general negotiations is a factor that should eventually be analysed. This, of course, in addition to non-tariff restraints.

c. However, very little has been obtained following the tremendous negotiation efforts originated in UNCTAD.^{1/} And it has not been demonstrated that the effect of the GSP should be incorporated, in the case of Argentina, to the list of sine qua non factors leading to exports of manufactures.

d. In 1975 the Argentine economy encountered special difficulties, with the relative recession in the world demand for manufactures. The proportion in which both these sets of factors influenced the drop in Argentine exports of manufactures is not apparent, although it is the opinion of experts that the external cycle added its own adverse effect to the difficulties posed by the domestic course of the economy.^{2/}

^{1/} Statement by Dr. Raúl Prebisch at the Second Latin American Seminar on Export Promotion - Caracas, Venezuela, July 1976.

^{2/} In January/June 1975, the certificates issued had dropped over 30 per cent as compared to their value for the same period in 1974.

TABLE IV-1

IMPORTS BY INDUSTRIALIZED COUNTRIES OF
MANUFACTURES FROM ARGENTINA AND USE OF GSP

| Year | Total industrial. countries | | Value of imports | | | Value of certificates of origin issued by Argentina <u>e/</u> |
|------|-----------------------------|-----------|------------------|-----------|-------|---|
| | <u>a/</u> | <u>b/</u> | USA | EEC | JAPAN | |
| | | | | <u>c/</u> | | |
| 1965 | 98 | | 42 | 40 | 1 | - |
| 1970 | 253 | | 123 | 98 | 2 | - |
| 1971 | 241 | | 127 | 92 | 2 | 13 <u>d/</u> |
| 1972 | 310 | | 114 | 128 | 5 | 47 |
| 1973 | 466 | | 204 | 193 | 19 | 86 |
| 1974 | ... | | ... | ... | ... | 134 |

Source: Supplement to the World Trade Annual, Volume II - Statistical Office, United Nations- 1965, 1970, 1971, 1972, 1973. Compiled by ECIA, Statistical Division.

- a/ Industrialized countries include the United States, Canada, Belgium, Luxembourg, France, Western Germany, Italy, the Netherlands, the United Kingdom, Denmark, Norway, Sweden, Australia, New Zealand, Portugal, Switzerland, Iceland, Ireland, Greece, Spain, Finland, Austria, Japan, Yugoslavia and Israel.
- b/ Import values recorded by industrialized countries in some cases are CIF and in others FOB/ The following countries record FOB imports: Australia, Canada, United States. The remainder record CIF imports.
- c/ EEC includes: Western Germany, Belgium, Luxembourg, Denmark, France, Ireland, Italy, the Netherlands and the United Kingdom.
- d/ July to December.
- e/ In January/July certificates were issued for US\$ 62 million. Exports to the United States in January/March 1976 under the GSP, amounted to US\$ 9 million.

3. Trade with LAFTA countries^{1/}

a. During the period 1962/1974, total exports from Argentina to the region rose from US\$ 140 million to US\$ 930 million, and the balance of trade during the period was structurally positive for the country.

Of that total, the proportion of products subject to liberalization was 85 per cent in 1961/62 and dropped, particularly since 1968, when new concessions agreed upon began to slow down. In 1973 only 55 per cent of trade was in liberalized products.

b. Exports of manufactures to the region grew from US\$ 20 million in 1961/62 to US\$ 630 million in 1974.^{2/}

Also in manufactures, the proportion of exports to the region grew, in the past three five-year periods up to 1974, from 20 per cent to almost 50 per cent. (Table IV-2).

Considering a number of individual manufactured products, processed foods, durable consumer goods and machinery had the greatest weight; and in a large number of products the participation of the regional market is outstanding. In effect, in 1970/72, LAFTA represented 90 per cent of the market for almost half of the manufactures, and over 50 per cent of the market for 80 per cent of the manufactures. Concentration by products is therefore significant.

^{1/} See: José L. Cordeu. Las Exportaciones Manufactureras Argentinas a ALALC. (Argentine Exports of Manufactures to LAFTA) - Background document for this study. (Spanish version only).

^{2/} In 1975, following the same recessive pattern already referred to, total exports to LAFTA countries dropped to US\$ 755 and exports of manufactures to US\$ 436.

The neighbouring countries and Peru received structurally 80 per cent of both manufactured and semi-manufactured products; and over half of the exports of these goods to the region went to Brazil and Chile. Consequently, there is also a significant concentration by countries.

TABLE IV-2
TRADE BETWEEN ARGENTINA AND LAFTA COUNTRIES

| Year or annual average | Exports | | Exports of manufactures a/ Participation of LAFTA in total for the country | | |
|---------------------------------|-----------------------|-------|--|----------------------|--------------|
| | Duty free products | Total | TO LAFTA | Semi manufactures | Manufactures |
| 1961 | ... | 100 | 22 | 19 | 16 |
| 1962 | 123 | 141 | 23 | 19 | 19 |
| 1965 | 209 | 231 | 51 | 33 | 32 |
| 1969 | 260 | 364 | 138 | 36 | 35 |
| 1970 | 255 | 366 | 154 | 36 | 36 |
| 1971 | 225 | 365 | 183 | 40 | 40 |
| 1972 | 320 | 484 | 234 | 33 | 43 |
| 1973 | 441 | 797 | 448 | 39 | 49 |
| 1974 | ... | 929 | 631 | 48 | 48 |
| 1975 | ... | 755 | 436 | 36 | 50 |

a/ According to UNCTAD.

c. The factors that caused this evolution, apart from those relating to domestic supply in the countries, can be grouped into factors derived from the existence of LAFTA and factors which, while not directly attributable to the mechanisms of the Treaty of Montevideo, constitute basic conditions for reciprocal trade.^{1/}

^{1/} Judgments of value given here are preliminary and have been prepared together with Mr. René Ortuño, ECLA Representative to LAFTA. They should be confirmed by a specific investigation.

i. Among the factors derived from the existence of LAFTA, the following are identified: tariff concessions; complementarity agreements; the role of a liaison and reciprocal information centre played by the Secretariat; the establishment of more fluid and homogeneous operating conditions, and the use of side instruments within the sphere of LAFTA.

- As we know, tariff concessions cover a wide range of products without a uniform system; their incidence on the FOB value is extremely variable, and they disaggregate very specifically as a result of the fact that negotiations are selective.

As a general rule it is assumed that trade possibilities are bounded in two ways. This assumption requires empirical verification. On the one hand, when the real residual tariff after the concession and the promotion regimes in the importing country is higher than 20 per cent, trade is hampered. On the other hand, it would be necessary also that the margin of preference with respect to extra-zonal trade be not less than a given dimension of the order of 20 per cent, so that intra-regional trade in manufactures may proceed in a larger relative dimension.

Among the Argentine manufactured products exported the following benefited: certain processed foods, machinery, tools, semi-manufactures, and others.

It is estimated that tariff reductions have been a positive factor which really made trade viable in a number of cases. An ad hoc study should be made to determine in what cases and in which dimensions they should be established.

- Complementarity agreements are also believed to be positive factors; they are fairly significant, as auxiliary instruments of the liberalization

programme, as special tariff reduction and trade facilitation programmes. Apparently, the mechanism has been used to a large extent by transnational companies in terms of their own optima, either directly or indirectly through their technological predominance. They even appear to have facilitated cases of utilization by the same economic group of crossed tariff reductions, together with local stimuli for industrial development in the exporting and importing country.

Essentially, complementarity agreements have a content of programmed distribution of markets and therefore call for high design and negotiating capacity in the participating governments.

Insofar as exports of Argentine manufactures are concerned, it is believed that trade in statistical and computing equipment, office machines, electronic valves, household goods and certain chemicals benefited most.

- The work of liaison and exchange of information performed, particularly through sectoral meetings, is considered fruitful and has made it possible to detect many trade opportunities, aside from the granting of tariff concessions and the conclusion of agreements. This explains why a significant part of the non-liberalized trade must also be attributed to the existence of LAFTA.

- Operating conditions have become smoother as a result of the contact between officials of different countries and of the work of the Secretariat in many fields, among others, the adoption of a Tariff Nomenclature based on the Brussels Nomenclature; the obligation to report non-tariff restrictions; the attempts to harmonize procedures; the statistical information system; training in customs procedures, and the like. This has

facilitated reciprocal trade, with more systemization, within the framework of a multilateral learning process.

It is felt that these general conditions have also benefited Argentine exports of manufactured goods.

- Three side instruments are also believed to have been useful to the process: the Agreement of Santo Domingo, the clearing mechanism operated by the Central Reserve Bank of Peru, and the recently created mechanism of Latin American bank acceptances. Although some mechanisms such as those of the Agreement of Santo Domingo might be strengthened to make them more effective, it is believed that the first two factors have helped the mechanism of payments and strengthened mutual confidence, most particularly the clearing system. The Latin American Bank Acceptances System (ABLAS) has also created a high degree of confidence in their future use.

ii. The factors which, while not directly related to the Montevideo Treaty, constitute basic conditions for reciprocal trade, include its geographical proximity, the existence of transportation, the prior existence of trade networks and crossed investments, and the fact that bilateral links (and multilateral, in the Andean case) have been consented to within the sphere of IAFTA.

The first three factors have obviously played a role in Argentine exports of manufactures: we have already mentioned that the neighbouring countries cover their essential requirements through trade with the region.

The bilateral or multilateral link can be defined as a factor of acceleration mounted on the inertia of the mechanisms of the Treaty. Argentina has used this facility intensively, having concluded a number of agreements.^{1/}

1/ See section 4, following.

iii. The relative weight of the above factors appears to have changed over a period of time. It is estimated that during the first stage of LAFTA the factors derived from its very existence, particular, at first, tariff reductions, strengthened by complementarity agreements, had greater weight. This was followed by the increasing weight of factors not directly related with the Treaty but which constitute basic conditions. This is evident, among other things, in the fact that the proportion of the value of exports of goods not subject to concessions in the total has grown, as mentioned above.

d. Considerations concerning the future suggest that the increase in regional income, the stepping up of the rate of development of lagging countries, the improvement and consolidation of the balance of payments of the area, the full utilization of the fruits of industrial and technological development, and other objectives envisaged in constituting the regional organization demand, among other things, that it be revised and up-dated, and an efficient connection between the economics be established.

i. This efficient connection has been sought through two types of apparently contradictory instruments: competition - through tariff reductions - and inadequately planned complementarity agreements. It would be possible to identify pure or mixed strategies - for mixed strategies, how much competition, how much co-operation and in what form - to serve the regional optimum or the national optimum for each relevant activity. It would appear that, based on the elucidation of questions of this type, it would be possible to establish harmonious policies, on a systematic basis, designed to lay stable foundations for industrial and technological expansion, making intra-regional trade in manufactured goods an instrument for

the attainment of its objectives - and more specifically its optimum.^{1/}

ii. In the past, a certain passivity has been observed in Argentina as regards LAFTA, joined to a relatively generalized passivity in the countries with the largest markets. It is believed that a starting point for a future policy would be to identify, activity by activity, the attainment of specific objectives in each case at supranational level - whether bilateral, multilateral or regional - permitting all the countries to show a better performance. In such cases it would obviously be necessary to optimize at the supranational rather than the national level, and the instruments required would be deduced during the course of the analysis, without preconceived preference for any particular doctrine.

Fundamentally, it is evident that Argentina should separate all that implies "inertia" from what truly constitutes "acceleration" of the process.

Multilaterality plays an important role in the inertia of the process. An increasing reluctance is observed on the part of the countries to assume multilateral commitments, whose ultimate consequences they cannot always evaluate, and which contain factors which, to some extent, restrict national decisions. The more multilateral something is, the slower it becomes, and a higher political will is required to increase its speed. Problems of various kinds that slow down the process are being experienced not only by

^{1/} A number of studies made suggest useful guidelines. For instance: Una conceptualización del papel de ALALC en la industrialización y el desarrollo tecnológico del área (1971, op.cit.); Juan Ayza, Gérard Fichet and Norberto González; América Latina. Integración económica y sustitución de importaciones. (Fondo de Cultura Económica, 1975); Gérard Fichet; La exportación de manufacturas latinoamericanas (Cuadernos del IILPES, series II, No. 15, 1972); Gérard Fichet and Norberto González; Cooperación regional y desarrollo: una propuesta de política latinoamericana para la industria y el comercio (mimeo., April 1976); ECIA; Algunas orientaciones básicas para el eventual ajuste del Tratado de Montevideo a una nueva etapa de integración económica (mimeo), and many others containing proposals for improving the LAFTA system.

LAFTA but also by the Andean Pact and the EEC, and in more than one case there is talk of a "crisis" or, at least, of a junctural disturbance.

Bilateral or restricted multilateral agreements tend more toward acceleration. Integration of economic interests is taking place over and above the liberalization of trade, as already mentioned, and shows that there are some factors in the process that are not capable of being formally assimilated to the mechanisms of the Treaty, but which can be ascribed to the process of active co-operation and integration that is taking place in any case.

iii. These approaches have direct implications for certain instruments of policy. As will be seen in chapter VI, Argentina promotes exports of manufactures by offering certain inducements, which to a large extent are directed to the countries of the region and are used in a large measure by transnational companies. The promotion scheme is permissive, open to whoever wishes to use it. On the other hand, as stated (chapter II), production/substitution/export should be a single conceptual and operative objective; optima for specific activities should be sought, and in some cases the search for a supranational optimum makes it possible to improve performance over and above the best national optimum (chapters II and III). Furthermore, the country is working (chapter V) with significant protection.

In view of the above, and with the future in mind, is it a better policy to persevere with a protection/promotion policy at the national level? Or is a concerted policy at the regional, or bilateral or multilateral level, by specific activities, better, implementing that policy "with" programming and with a genuine spirit of cooperation?

We believe that it has been sufficiently demonstrated that in many activities the supranational solution is more advantageous for all participants. The Latin American transnational company - which we shall discuss briefly later in this chapter - makes it unnecessary for the question of distribution of the fruits of integration to be resolved as a multilateral problem prior to the practical decision. Under these circumstances, it would be sufficient for the idea that the national optimum is in many cases better served by supranational optimum to be politically accepted, and, on that basis, to build up a system of institutions and instruments to serve all, without preconceived preferences for any particular doctrine. Certain types complementarity or regional co-operation agreements might serve as instruments of the governments in seeking regional and national optimum and restraints, adjusting the characteristics and specifications of existing instruments accordingly.

The Treaty of Montevideo provided two instruments - liberalization of trade and complementarity agreements - which serve very different conceptions of economic policy. To establish, for each activity, who uses those instruments and in what proportion, what they are used for, what benefits are derived by the user and the countries, and under what conditions, is a problem which, in the light of experience, can be reformulated to advantage, taking into account, furthermore, that in certain areas co-operation is obvious.

1/ This is particularly important in the field of technological development and in the case of non-competitive industries (e. . . railways, petroleum, communications, etc.), in which joint programmes can be formulated, with specified responsibilities for research and development, up to the innovation level.

If the above reasoning is correct, the future orientation of exports of Argentine manufactures to LAFTA would depend on non-liberalized trade, on the speed at which informal mechanisms continue to be set up and give fruit, and, in trade subject to some consensual advantages, on setting up and putting into operation a "system" of integration which should first be strictly characterized^{1/} and on the basis of which the mechanisms of the Treaty could be readjusted.

4. Bilateral agreements of interest for exports of manufactured goods

a. Background

During the forties, Argentina used a policy of bilateral trade and payments agreements. Later it abandoned the agreement system; and in the second half of the sixties there were still in force bilateral payments agreements with some countries with centrally planned economies, reciprocal credit agreements with Latin American countries, and special lines of credit to bordering countries for the purchase of goods, particularly manufactures, including machinery and equipment.

The first mechanism gradually became exhausted, and the bilateral payments agreements were substituted by the clearing house mechanism in LAFTA.

b. Recent policy

i. The policy of agreements was strengthened in 1973; some agreements included lines of credit to finance exports of Argentine manufactures.

^{1/} It is proposed, in the strict sense of systems engineering.

TABLE IV-3
BILATERAL AGREEMENTS - LINES OF CREDIT
GRANTED AND THEIR USE SINCE 1973 ^{1/}

(millions US\$)

| Country | Amount of Credit | Used |
|--------------|------------------|------------|
| Chile | 200 | 109 |
| Costa Rica | 30 | - |
| Cuba | 604 | 100 |
| Hungary | 15 | - |
| Poland | 20 | - |
| Uruguay | 50 | 1 |
| <u>Total</u> | <u>919</u> | <u>210</u> |

Source: Central Bank of Argentina.

^{1/} Until end of November 1975.

Note: With a few exceptions, the goods covered are manufactures.

Agreements with bordering countries serve growing bilateral trade and speed up integration, as already mentioned. ^{1/}

^{1/} Agreements were made with Costa Rica and Honduras. A trade and economic co-operation agreement was concluded with Spain whereby the parties grant one another most-favoured-nation treatment, agree to stimulate reciprocal trade promotion and to promote close economic and technological cooperation. A trade agreement was concluded with the People's Democratic Republic of Korea covering a list of exportable products for each party. The credit granted to Cuba amounted to US\$ 200 million per year for six years. See Background Document for this study: "Convenios comerciales de interés para la exportación manufacturera". (Trade agreements of interest for exports of manufactures). (Spanish version only).

The principal goods for which transactions under these agreements were approved are goods produced by the automotive industry, railway equipment, agricultural machinery and tools, plants for processing and preserving food and beverages, metal structures, boiler-work, telephone equipment, ships generators, machine tools and machinery and installations in general.

Although experience has been too brief and modest in size to permit a suitable evaluation of its efficiency (cost/benefit ratio), the agreements granting lines of credit were significant channels to facilitate the access of advanced manufactures to the countries indicated.^{1/}

ii. Agreements with socialist countries (USSR, Hungary, Romania, Poland and Bulgaria) are similar in structure; they no longer contain lists of products, which in previous agreements were indicative; they are more comprehensive than mere trade agreements since they include other purposes (expansion and diversification of trade, participation in the installation and modernization of plants, exchange of technology and the like), and some of them provide that up to 30 per cent of Argentine exports can be manufactures and semi-manufactures. The commitments they contain pertain to the governments, and the socialist countries must create payment capacity for Argentina by purchasing goods in advance.^{2/}

^{1/} Argentina possesses a consolidated line of credit contract with the IDB covering the financing of exports of capital goods and services, concluded in 1975. Since 1964 there had been a revolving line of credit with the IDB. Against that line of credit and its subsequent modifications, only slightly over US\$ 20 million were drawn.

^{2/} The terms granted for Argentine purchases are generally up to 10 years and the prevailing rate of interest is $4\frac{1}{2}$ per cent for the public sector, and from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent for the private sector. These conditions can still be improved in the agreement with the USSR for larger transactions. The agreement with Czechoslovakia provides for reciprocal most-favoured-nation treatment.

Parallel to the above, the 1974 Budget Law permitted direct import contracts through Argentine State-owned companies with their counterparts in other countries provided the goods were covered by trade agreements with those countries.^{1/}

5. Joint Latin American companies, Argentine investments abroad, and exports of technology.

the above factors are important instruments in generating external demand for Argentine products.

a. The establishment of joint Latin American companies is now a reality in the region and has gathered speed during the past decade. Such companies are concentrated significantly in the manufacturing industry, largely in the southernmost area of South America, so far; they are not exporters of manufactures;^{2/} their existence is due to similar factors to those of extra-regional investments, although on a different scale; and their establishment is usually the result of a previous export of manufactures

1/ The law empowers the Executive Branch to authorize direct contracts even with holders of public utility concessions.

2/ An INEAL study published in 1971 (John Elac: La empresa industrial en la integración de América Latina. Un estudio empírico), which analysed exports of a group of selected manufactured products in 1966-69, identified (page 123) that the capital of exporting firms was owned in over 90 per cent of the cases by nationals of a single country; and that when there is an association of capital of two or more countries, in almost every case a Latin American country is involved.

from the country of origin of the technology to the receiving country, usually a relatively less developed one.^{1/}

Their most important positive consequence appears to be that it tends to create a network of inter-Latin-American interests, since the slow progress of integration mechanisms can perhaps be attributed largely to the lack of such a network of interests.^{2/}

As regards Argentina's action, it is generally agreed that Argentine residents have very large investments abroad in financial assets.

It is also a well-known fact that many Argentine scientists and technicians are working and residing in other countries of widely varied development levels. There is, however, no connection between the capacity to invest

1/ INTAL has identified approximately 200 different companies and presumably there are many more. Among these, 45 companies analysed made it possible to draw the following conclusions: over 80 per cent were established during the past decade; 70 per cent are concentrated in the manufacturing industry; almost 50 per cent are in countries in the southernmost region of South America; there are some cases of mixed public and private ownership; in 80 per cent of the cases the countries are in different stages of development; they are located in the relatively less developed country; the reasons for investment identified are: to prevent closing of markets, intra-zonal transfer of technology, access to raw materials of recipient country, to gain bartering capacity vis-a-vis multinational corporations; the local partners usually have a minority share in the capital; and medium-sized companies appear to have a comparative advantage. Originally, Latin American binational companies as a general rule were established as a result of a previous trade connection; this developed into reciprocal relations, then tended to solve the problem of the entrepreneur who possessed the technology, who found a suitable partner in the country where the future company would be located; added to this was the need of the recipient country to substitute imports and consequently the need of protection; all of which made it possible to identify the possibility of establishing a binational company. In other words, the investment by the country of origin of the technology in another Latin American country, follows its export of manufactured goods.

2/ A word of warning regarding virtual negative consequences: a joint company is a political as well as an economic actor, and it would be advisable to establish some way of avoiding a repetition, among the countries of the region, of the adverse consequences caused in their midst by transnational companies. Efforts should be made, therefore, to obtain maximum benefits from the joint Latin American company, but taking care that the various costs of a process of this kind do not go beyond certain limits clearly identified in advance. And although the possibility of a code of behaviour for Latin American multinational companies is legally remote, it is believed that the principles that should form part of such a code should be identified now.

funds and the technological and entrepreneurial capacity generated by the technicians. Thus, Argentina possesses a considerable supply of the entrepreneur, capital, and high-level technical skill factors abroad, although they are not connected with one another. Consequently, the country's investments in companies located abroad, whether or not they are joint companies, are a good deal less than they might be.

However, some progress has been made in the form of public enterprises. An agreement has been concluded with Uruguay concerning binational companies, and there is a draft law establishing a regime for promoting mixed capital partnerships for integration and co-operation purposes located abroad, with the participation of Argentine capital.

The process of deliberately planned Argentine investments abroad is thus in the incipient stages, and so far it has mostly been promoted by the private sector. But the concern shown in the problem of Argentine investments abroad and the motivation to tackle it have reached a point in the public sector where it is conceivable that a suitable policy in this field may be forthcoming.

b. The exportation of technology, particularly if embodied in capital goods, can be instrumental in opening the doors for future exports of inputs, components, spares, services and other elements by the supplying country.^{1/} Argentina has for a long time exported certain capital goods - agricultural machinery, for instance - and recently, engineering consultants have even exported disembodied technology; but, at the end of the

^{1/} Depending on the country of destination, the agreements concluded, and their observance, of course. It could also be merely the exportation of a product that can be copied.

fifties, imports of complete plants for re-equipping domestic industries were still authorized. In 1975 a reimbursement of 40 per cent was granted on exports of complete or "turn-key" industrial plants based on national technology. Their suitability has not yet been proved in practice, but it shows that the country possesses a sufficient critical mass of know-how to export and, in the opinion of experts, although the major innovation effort is adaptive, the country is undergoing a process which also contains important creative elements.

The exportation of technology would have to be included in a comprehensive national policy in this field, conducted with unity of conduction. Within such a policy it is believed that it would be possible to attempt to instal "technology plants"^{1/}, and proposals have been made to establish a Technological Development Corporation.^{2/} This subject is also important because of its potential contribution to the integration process, not only through joint Latin American companies, but also through the establishment of a network of technological interests in the region, other forms of technological co-operation of practical use, and mechanisms to open up stable channels of reciprocal trade in manufactured goods.

A Background Document for this study^{3/} concludes that the country is in a

1/ Proposed by Jorge Sábato in various studies on the subject.

2/ Proposed by Angel Monti (mimeo., 1973).

3/ See background document by Enrique Martínez: Elementos para el análisis de la exportación de plantas industriales completas o llave en mano de Argentina (Elements for an analysis of exports of complete or "turn-key" industrial plants in Argentina - Spanish version only); and background document on Instrumentos para la exportación manufacturera (Instruments for exports of Manufactures - Spanish version only).

position to export plants of this type for a number of industries, including food products, textiles, chemicals, metallurgical products and instruments.

To obtain maximum benefit from this possibility in terms of specific exports, the country would have to operate in capital goods under a single planned direction and assign it top priority.

CHAPTER V

EXTERNAL SECTOR REGIME. SOME ASPECTS OF
INTEREST TO EXPORTS OF MANUFACTURES

1. Purpose of this chapter

The regime of the external sector in Argentina has undergone important changes in several of its components in a short space of time. As a result of these changes in the politico-economic models, the general philosophy underlying the conduction of the external sector at times experienced significant short-term changes. Nevertheless a certain trend, or certain structural aspects, are observed in such fields as protection, the exchange system, and the institutional structure.

The main aspects of the balance of payments and related variables, whose results are influenced by the external sector regime, were analysed in Chapter III. Consequently, the purpose of this chapter is to analyse certain aspects of protection, of the exchange system, and of the institutions of the external sector, pointing out the effects of these factors on exports of manufactured goods.

2. Effective protection

a. During the current century, Argentina went through a period of moderate protection from World War I until the forties, followed by one of increased protection until 1967, when there was a general reduction in tariffs. Since then and until the present time, the experts have the impression that the various changes in tariffs and special regimes for certain activities contributed to relax protection in some measure. However, the tariff policy was not necessarily handled as a flexible multi-purpose instrument, and

the purpose of collecting funds was present throughout.^{1/}

In 1965, out of a total of 200 activities studied, 25 per cent were un-protected (basically, traditional exports) and all manufacturing industries were protected. The highest protection in relation to the value added, was in the capital goods industries (over 200 per cent), followed by manufacturers of intermediate goods (over 150 per cent) and finally the non-durable consumer goods industries (under 100 per cent).^{2/}

b. Protection of substitute manufactures in Argentina was a natural prior condition in order to tackle exports of manufactures subsequently. In some activities, the experts believe that without protection it would not have been possible for the activity to subsist. In other cases protection appears to be excessive, particularly when it goes beyond the incipient stages of the activity, or when it permits out-dated technologies to subsist and slows down technological progress.^{3/} Furthermore, when the domestic scale is small and the scale-effect large, it has long been argued that co-operation at the regional level would make it possible to substitute

^{1/} Among the research studies on the subject see, for instance: Carlos Díaz Alejandro: The Argentine Tariff 1906-1940. Yale University-Economic Growth Center-Center paper 124; 1968; and Pedro Wainer: In protección aduanera efectiva en la República Argentina (mimeo.CONADE, 1970), and previous studies by Daniel Schydrowsky, Reinoldo Bojraj and Raúl Cuervo. More recently, Julio Berlinsky kindly made available a so far unpublished study made by him and Daniel Schydrowsky on "Incentives for industrialization in Argentina" (mimeo-restricted, 1975) concerning effective protection in 1969. This study introduces concepts of protection in respect of cash flow (value added less wages; i.e., roughly, remuneration of the entrepreneur and of capital before taxes), and introduces other definitions and methodological specifications.

^{2/} Pedro Wainer (op.cit.)

^{3/} This in addition to the adverse scale-effect. Other costs and many benefits, of course, form part of the functional of the protected substitution, but their detailed study is not the purpose of this paper.

with little or no protection, and even to export without promotion, depending on the case, when the capacity to capture technology is good.

In the case of Argentina, it is conceivable that protection has been associated with the possibility of sustaining a capacity of competition due to price-effects index,^{1/} which showed a declining trend - we shall revert to this in section 3, following - as, by laying the burden of protection predominantly on tariffs and other parallel restraints, it has been possible to release the rate of exchange from that function. This would have constituted an adverse effect for exports of manufactures, but with less protection both the import demand and the rate of exchange would have been higher, thus potentially permitting a larger outflow of exports of manufactured goods.

The two preceding paragraphs are apparently contradictory. Argentina clearly needed protection to substitute; it is obvious that it had no alternative. Furthermore, to lay the burden of the rate of exchange on protection would have meant granting external savings a disguised subsidy in terms of national assets, which would have impaired the structure of ownership. Finally, to the extent that traditional exports generated sufficient foreign exchange to finance an adequate rate of growth of the GDP at a structurally much lower rate of exchange than that required to export non-traditional manufactures, it was apparently useless to maintain over-devaluated rates of exchange to export what it would not have been possible to substitute previously.

^{1/} It will be remembered that this index is the ratio of the rate of exchange indexes to domestic costs or domestic prices of exportable goods, or another series (general implicit price level, non-agricultural wholesale prices, etc.), which is specified, where appropriate.

The problem changes when the country needs to export manufactures as a prerequisite to financing its development in foreign currency, and here again, the heterogeneous nature of cases occurring in the different activities demands a consistent selective treatment of the problem. Now the question of not financing relative inefficiency has a new connotation, but it becomes necessary to avoid generalizations in establishing the type of inefficiency concerned, activity by activity.^{1/}

In any event, in systematically creating new activities, in view of the pace of technological change, it is essential that each activity be conducted with suitable orderly planning so that protection may be flexibly handled, in proportion to the relatively early stage of the activity, and that exports be ordered concurrently,^{2/} with promotion if necessary.

Thus, protection and promotion are two endogenous variables in the problem of finding a dynamic optimum by activities, when optimization takes place at the national level or at the level of an integrated region. While it is true that to a certain extent they are linked - at least because more protection demands more promotion - at the national level, the profiles of both variables will necessarily vary depending on partial optimum, activity by activity, and taking into account other variables which affect

^{1/} Whether the inefficiency is due to the effect of scale, utilization, price structure, technological skill, ownership of technologies, oligosonic factors, etc. "Ex-ante" and "ex-post" efficiency should be clearly distinguished.

^{2/} It is no longer over-fastidiousness to conceive that in programming conduction by activities it is necessary to use a sufficiently extensive PERT to order decisions and actions throughout the life cycle of each good, and even to provide for its future obsolescence.

the overall capacity of competition, apart from rates of exchange and prices.^{1/}

c. In 1969, after the 1967 tariff reduction, working with exports that actually took place, effective protection to value added showed a negative value of 40 per cent.^{2/} Nominal protection also affected exports of manufactures vis-a-vis sales in the domestic market. The adverse effect was maintained under other definitions. If we were to consider the effect of an exchange adjustment to bring the rate of exchange to par value under free trade conditions - based on real conditions prevailing in the year under study - there would still be a significant effect against exports of manufactures. This negative effect therefore persists, both in absolute (compared with a free trade situation) and relative terms (when the sales inducement in the country is greater than the inducement to export).

If we were to take into account the risk and uncertainly factors in computing the value of the expectation of an income of entrepreneur-and-capital remuneration in selling manufactures in the country or exporting

^{1/} At the level of those precise problems, the great importance of the initial decision with regard to optimization and consequent conduction by activities or by fields of policy is observed. Viewed from other angles, the conclusions regarding the relative structure of promotion and protection would also be different. For example, P. Winer (opus cit.) proposes that, given a desired structure of effective protection, a nominal protection and an "ideal draw-back" be deducted, returning to the exporter exactly all cost increases due to protection-effect in respect of the international market. This would enable each industry to compete in the international market on the basis of its own "un-adulterated" efficiency. Here it is believed there are other factors that constitute a functional of overall capacity of competition aside from the capacity of competition due to price-effect (capacity of competition due to information-effect, marketing-effect, political support-effect, etc.) and that the conduction of export activities must cover them all. We shall revert to this later.

^{2/} Data from the study by J. Berlinsky and D. Schydrowsky (op.cit.). These ratios are extremely sensitive, depending on the input-output ratio. The 40 per cent contains effects of weighting and of the levels of aggregation of the analysis, among others.

then, it is believed the distance would be even greater.

d. Furthermore, the computed effective protection to value added in exports of manufactures contains the effect of fiscal and financial stimuli. Consequently, in 1969 such stimuli would merely have played a corrective role in respect of cost-effects of protection, even if only partially.

As already stated, the course of cost-effects of protection has not been measured subsequent to 1969; but it is the view of experts that there would have been a decline in the negative effect on exports of manufactures. Had this been the case and the net effect had been zero, only then would the set of "stimuli" have fully performed its corrective function in respect of the cost-effect of protection.

This is a very important conclusion, as it demonstrates that stimuli in themselves are not subsidies, but corrective factors. This leads to a complete revision of the concept of disloyal practice - subsidy, in this case - which is examined in greater detail in chapter VI.

3. Exchange markets and rates

a. Over the years, Argentina has tried almost every possible system of exchange market, from a single free market to a controlled market; with one or a number of rates in the official market; a bidding market in times of extreme shortage of foreign currency; the practical existence of a parallel market whenever there was an official market; the introduction of prior deposits at various times, and others. The import policy fluctuates

^{1/} In fact, the relative bias against exports, measured in terms of entrepreneur-and-capital-remuneration, is conceptualized in deterministic terms. If we added the effect of probabilities of a mathematical expectation of income from that factor by selling or exporting, no doubt the discrimination against exports would be greater.

tuated between freedom to import and the requirement of a prior exchange permit, with the addition of "need certificates".

Exchange control was introduced at the time of the Great Depression; during World War II conditions were liberalized, because of the physical shortage of goods to import; in 1946/49 there was a glut of foreign currency accumulated during the war, and since then the exchange market and exchange policy has been conditioned by the shortage of foreign currency in an atmosphere of fluctuating exports and increasingly strict control of imports.

The decision concerning its characteristics has been influenced by the political preference of the Government, at times associated with international commitments.^{1/}

b. In the long term, since the second decade the present century down to our days, there has been a declining trend in the ratio between the free market rate of exchange^{2/} and domestic prices, which is here called conventionally the index of the "capacity of competition due to price-effect".

^{1/} A detailed account can of course be found in the Annual Reports of the Central Bank of Argentina since 1935, and in the Annual Report on Exchange Restrictions, IMF. The background document Instrumentos para la exportación de manufacturas (Instruments for exports of manufactures) contains a discussion of the exchange system prevailing in 1975.

^{2/} In recent years, "parallel" (disinstitutionalized). This series is considered as being representative for this overall purpose.

TABLE V-1

LONG-TERM BEHAVIOUR OF THE CAPACITY OF COMPETITION
DUE TO PRICE-EFFECT INDEX a/

Base: 1974 = 100

| Period | Relative rate of exchange indexes in respect of | |
|-------------|---|--------------------------------------|
| | Prices implicit in GDP | Non-agricultural wholesale prices |
| 1913 - 1929 | ... | 234 |
| 1930 - 1939 | 225 <u>b/</u> | 337 |
| 1940 - 1949 | 195 | 232 |
| 1950 - 1959 | 220 | 228 |
| 1960 - 1969 | 119 | 116 |
| 1970 - 1975 | 117 | 115 |
| 1930 - 1959 | 213 | 266 |
| 1960 - 1975 | 118 | 116 |

Source: Prepared from original Central Bank and INDEC data.

a/ In terms of the quotation of the peso in the international market.

b/ Wholesale prices (general level) were used prior to 1935.

c. Non-agricultural industrial exports experienced favourable exchange conditions during the fifties. The capacity of competition index dropped significantly during the sixties, and that was when rate of exchange correctors appeared, at first in the form of refunds and draw-back, and of reimbursements later.

However, the capacity of competition indexes in the short term were highly unstable and the uncertainty for exports generated as a result was significant.

TABLE V-2

BEHAVIOUR DURING THE PAST FEW YEARS OF THE CAPACITY OF
COMPETITION DUE TO PRICE-EFFECT INDEX

| Year | "Free" rate of exchange A.P. per US\$) | Relative rate of exchange indexes in respect of non agricultural wholesale prices |
|-----------|---|---|
| 1969 | 3.51 | 106.2 |
| 1970 | 3.86 | 103.4 |
| 1971 | 6.14 | 121.0 |
| 1972 | 11.52 | 134.7 |
| 1973 | 11.29 | 86.0 |
| 1974 | 16.25 | 100.0 |
| 1975* | 73.28 | 146.1 |
| 1974 | | |
| march | 12.40 | 87.8 |
| june | 14.90 | 94.7 |
| september | 18.70 | 107.1 |
| december | 22.00 | 110.7 |
| 1975 | | |
| march | 28.35 | 109.6 |
| june | 52.00 | 125.1 |
| september | 104.23 | 149.3 |
| december | 140.10 | 155.5 |

Source: Prepared from original Central Bank and INDEC data.

* Preliminary

In 1974-75 inflation gained momentum and, particularly in the second half of 1975, a system of creeping rates began to be applied, and a number of expectations caused rapid movements in the "parallel" market.

d. In the meantime, promoted exports began to receive a favourable (before correctors) official rate of exchange upon the establishment in 1971 of a financial market with a higher rate than the commercial market. Part of

the promoted exports then came to be liquidated at the financial rate (10 per cent at the time when the system was established), until in 1975 one hundred per cent of such exports were liquidated in the financial market. Other ad hoc forms of devaluation were used as well (the special financial market, established in August, 1975), but these mechanisms did not raise the resulting official rate of exchange sufficiently to match the rise in domestic prices of industrial products.^{1/}

TABLE V-3
RATES OF EXCHANGE FOR PROMOTED PRODUCTS,
BEFORE CORRECTION ^{a/}

| Year | For promoted products | Implicit for imports AP per US\$ | "Free" ^{b/} | Free:promoted ratio | Capacity of competition due to price-effect index in promoted products ^{c/} |
|--------------------|-----------------------|----------------------------------|----------------------|---------------------|--|
| 1969 | 3.50 | 3.50 | 3.51 | 1.00 | 171 |
| 1970 | 3.77 | 3.77 | 3.86 | 1.02 | 163 |
| 1971 | 4.74 | 4.61 | 6.14 | 1.30 | 150 |
| 1972 | 8.01 | 8.16 | 11.52 | 1.44 | 151 |
| 1973 | 9.66 | 9.35 | 11.29 | 1.17 | 119 |
| 1974 | 9.93 | 8.85 | 16.25 | 1.64 | 100 |
| 1975 ^{d/} | 30.10 | ... | 73.28 | 2.43 | 98 |

Source: Central Bank of Argentina and INDEC.

^{a/} For reimbursements, refunds, etc.

^{b/} Quotation in international or parallel markets.

^{c/} Deflated by non-agricultural wholesale price index.

^{d/} Preliminary.

^{1/} In the average for 1975, the rate for basic metal industries and capital goods was on average 10 per cent higher than the average for industry.

Consequently, the capacity of competition index for promoted products dropped on average from 1969 to 1975, being 60 per cent lower in 1975 than in 1969. Therefore the demand for the use of correctors such as reimbursements grew systematically.

e. Concurrently, the gap between the "free" (parallel) rate of exchange and the rate of exchange for promoted products widened as compared with 1969, when they were on a par; and the average "free" rate for 1975 was 2.4 times higher than the rate for promoted products. This in itself introduced a strong inducement for smuggling exports, under-invoicing of exports, and over-invoicing of imports.

f. After a political change and a change economic policy in the first half of 1976, the level of the free rate - now officially regulated - was reduced while the official rate gradually increased, and a larger proportion of transactions began to be liquidated in the free market, thus shifting to a regulated free market and rates of exchange, with preferences for certain basic imports (e.g., paper).

g. This handling of the capacity of competition due to price-effect led to the necessity of resorting heavily to correctors (mainly reimbursements) during the past few years until the increasing fiscal deficit^{1/} limited their use. For this reason, and due to the influence of other factors discussed earlier, promoted exports declined in 1975.

^{1/} The proportion of the deficit in total public expenditure rose from 12 per cent in 1970 to over 50 per cent (preliminary) in 1975. We refer to the ratio of deficit to expenses of the National Treasury.

h. The experience of Argentina during the past few years in the field of exchange, interpreted in terms of many more elements than the partial indicators mentioned, is enlightening.

Obviously it is not possible to work with over-valued or under-valued national currency; first, because of the well-known effects of stimulating imports, discouraging or impeding exports, subsidizing the flight of capital, and others; and second, because of the also well-known effects of subsidizing external savings in terms of national assets, encouraging the deterioration of export prices, etc.

The question of whether a relatively larger burden of protection should be borne by tariffs and other measures or by the rate of exchange, knowing that both factors influence one another, is an open question.^{1/}

In the case of Argentina it is necessary to establish the optimum method of work, although it is felt that the rate of exchange should be released as far as possible from the burden of protection. It is also known that a high effective protection affects non-traditional exports, and that if such protection exists, correctors must be introduced in order to be able to export those goods.

It is generally accepted that the weight of selectivity in exports of manufactures must not be borne by the rate of exchange but by its correctors.^{2/}

1/ Cf. Julio Berlinsky: Protección y variaciones en la tasa de cambio. Mimeo. May, 1976, points out that a change in the exchange rates in itself affects nominal and effective protection in industries that compete with imports and lowers the relative rates of protection among various activities; and that, being a devaluation, it increases protection even if such devaluation is uniform for outputs and inputs.

2/ See Background Document on Instruments, which discusses in detail some practical aspects of experience in Argentina, in the opinion of experts.

It is also a well-known fact that when controlled official exchange markets exist, these always encourage the existence of parallel markets, and that the difference between the quotations in both markets has a maximum level, above which illegitimate transactions become generalized. In such cases, while exports suffer similar effects to those caused by over-valuation, the parallel rate, which is far removed from the official rate, brings into play certain over-devaluation effects, such as the purchase of existing national assets at very low prices in foreign exchange.

It is likewise known that when there is a very small difference between official and free rates, excessive generosity in the inducements offered for exports leads to over-invoicing and even to simulated exports, in order to take advantage of the inducement.

However, taking into account the real structure of the export trade, with high concentration in a few companies that have a relatively higher export efficiency, an effective rate of exchange applied to an activity acts as an "umbrella price", which makes it possible to export with some benefit for less efficient companies while it generates higher benefits for the more efficient ones and the ones which exports most. Taking into account this characteristic, in the real conditions existing in Argentina, a maximum level would be set for reimbursements so that the "umbrella price" will not generate excess benefits; but this is also bounded by the fact that excessive strictness would adversely affect the exports of predominantly national companies, which are relatively smaller.

Moreover, in relative experience a datum in the problem is that the rate of exchange required for traditional exports is structurally lower than that required for exports of manufactures, and that if a single effective rate were equalized for both, more domestic compensatory instruments would be required, of the subsidy type, to prevent domestic and international prices of food products from becoming equalized.^{1/} Essentially, "par" rates of exchange for exports of manufactures of agricultural origin are lower than those of non-agricultural manufactures. As the level of abstraction is reduced, this same pattern leads to the identification of a whole range of different par values, which request ex-ante a different real effective rate of exchange if it is desired to diversify exports by types of goods, minimizing the loss of export opportunities, without granting excess benefits to the exporter.

A single effective type is not, therefore, viable unless important adjustments are introduced in the domestic price structure after taxes; but too high a disaggregation would lead to a multiplicity which, in turn, would be unmanageable for various reasons. This would make it necessary to use a "cutting" criterion with regard to the use of rate of exchange correctors, such as reimbursements. It is possible, then, to calculate necessities, but economic policy could not operate with them all, particularly under conditions of significant variations in the levels and structures of domestic and world prices.

^{1/} At least as regards food products, as such equalization of prices would imply a transfer from urban wages to the agricultural entrepreneur to an extent which could not easily be envisaged as socially viable, not only in view of the constipation of resources of the country but also of the claiming power of organized workers.

1. The foregoing raises questions of a more general type. In effect, when the supply of resources is essentially flexible and depends on the capacity to capture exportable technology, the concept of a single theoretical or equilibrium parity to serve the country's optimum would hardly be valid as a necessary assumption for economic policy in cases such as that of Argentina.

Let us assume, furthermore, that the country generates more savings than it requires for its investments, but has to pay a pre-existing external debt: at what level should the "equilibrium" position be established in the balance in current account of the balance of payments?^{1/}

Even in economies which generate a very large surplus by exporting a non-renewable resource such as oil and wish to export manufactures, the dispersion between parities would be higher still and in a given situation - if we work with a single parity - equilibrium of the balance of payments would require a revaluation, while exports of manufactures would require devaluation. In such a case, should the country exhaust its non-renewable resource first and export manufactures later, or is it better for its optimum to work with more than one effective rate from the start?

The space of solutions for the structure and level of exchange rates is bounded by many elements; and the fact that the supply of factors is essentially flexible in the real world of today clarifies, rather than obscures, the problem from a conceptual standpoint, although it adds complexity due to its non-linear nature. In fact, one of the requirements

^{1/} This, in turn, leads to determining the optimum size of the foreign debt and a criterion to optimize the speed with which the shift from the current external debt to the optimum debt is accomplished; this calls for a criterion on the optimum discount rate, etc.

for the structure of current effective rates of exchange which makes the problem less linear is the request that it contribute to capturing technology so as to optimize the behaviour of the external sector in the long term. And this is not a purely academic type proposition, but an extremely practical request, which applies to the present problems of the developing world and of the countries that are in the process of industrialization.

j. In the case of Argentina, it is the expert's opinion that efficiency in the management of exchange could be improved.

The country's experience suggests that a certain amount of multiplicity in exchange rates is inescapable, and that this is manageable with exchange deductions and reimbursements based on a "basic" rate of exchange.

The problem as to what type of selectivity should be used, what attributes should be used to establish it, what should be the level of disaggregation, how it should be operated, on what requests to exchange management and on what exogenous factors it should be based, calls for special study. But, in any case, we know that a realistic rate of exchange structure is required.

It is possible to design such a realistic structure on a sound technical basis. By optimizing at the national level, and working dynamically by activities, it is conceivable that a space of admissible parities would be found for each activity,^{1/} bearing in mind the many variables that influence prices and volumes in Argentina and in the reference countries - purchasers and competitors - concerned in each case. It is interesting

^{1/} This makes it necessary to parametrize the models.

to note that this does not change the traditional rules of the game inasmuch as it means accepting the hypothesis of competition at the world level, assuming that each actor is rational and admitting that his rationality leads him to optimize, in his own interests; but that he must do so using selective, sophisticated instruments - which does not necessarily imply adopting criteria which assume that the optimum for a competitive set coincides with that of each actor.

Another experience which is particularly clear in the process of inflation which the country has lived through is that there is no alternative but to have a flexible rate of exchange. How to administer flexibility without generating inflationary expectations is not quite clear, and the solution to the problem calls for great clarity in inflation theory. However, experience suggests that small adjustments are advisable^{1/} and that the governments should hold in reserve a sufficient degree of freedom to handle it without tying the exchange rate fast to a given exogenous variable or set of variables.^{2/}

The variability in the capacity of competition level due to price-effect relatively discouraged exports of manufactures and, early in 1975, even led to cancelling previous export commitments.^{3/} This particularly affected

^{1/} Small adjustments, to avoid unbalancing the system (cf. Ana María Martirena-Mantel: Propiedades de convergencia de un sistema generalizado de tipos de cambio reptantes. Mimco., 1975).

^{2/} Perhaps what a "Yime" editorialist published over two decades ago under the title "Moderate inflation for ever?" has turned out to be a realistic forecast. It appears that this will continue to be the case in the immediate future, and the creeping rate of exchange in such exogenous world conditions will be a feedback of inflation, at least in part, in the economies of individual countries; but not at the world level for the countries that cannot export because of their own inflation.

^{3/} See background document for this study entitled "Encuestas y Análisis sobre las exportaciones manufactureras argentinas (Surveys and analyses on exports of Argentine manufactures) which contains the results of a survey on exporters conducted early in 1975, and the summary contained in Appendix II

national companies.

The reasons for this have already been stated, and if the conclusions of this analysis were only that the experience of Argentina suggests the need for a realistic and flexible exchange structure, it would merely confirm the result of many other analyses, and that alone is good. If we add the requirements that the system must operate selectively at the level of real effective rates, under certain optimum conditions by activities, with a number of rate levels between a required minimum level for widely separate parities and at least maximum admitted by the capacity to handle the system, and the requirement of efficient instruments, this calls for a task of permanent analysis which those responsible for conducting the external sector should undertake.

4. Foreign sector institutions and their operation

a. Among the existing institutions, the Ministries of Economy and of Foreign Affairs and Worship are at present responsible for foreign economic policy. The need has long been felt of adopting more stable institutional forms to co-ordinate operations between the two ministries. The principal existing institutions responsible for economic decisions and instruments of the foreign sector operate within the sphere of the Ministry of Economy.^{1/}

^{1/} Principally the Central Bank, the Secretariats of State of Foreign Trade and International Economic Negotiations - to which the Trade Counsellors abroad are answerable; the Secretariats of State of Industrial Development and of Agriculture and Livestock; the National Administrations of Foreign Economic and Financial Policy and of Customs, and certain autarkic institutions (The National Grain Board, the National Meat Board, the National Institute of Industrial Technology, and others). The public and private banking system also participates fully among the institutional mechanisms responsible for application of economic and financial regulations.

The above above institutions have legal characteristics and bureaucratic structures. Their flexibility is limited by their very nature.

The rotation of top level decision-makers has been very high during the past few years and this has introduced important effects on the reliability and efficiency of the policy. Nevertheless, the main instruments governing the conduct of exports of manufactures have been in existence for a number of years and it has been possible to acquire a broad experience concerning their actual administration. The inter-connected efforts of government officials have been intensive and the efforts of those officials have tended to offset the adverse effects of the high rotation of top-level decision-makers.

Rationality operates by successive approximations, and the information system is considered weak. Consequently, the institutional complex was activated by the efforts of officials - or of particularistic interests - rather than in terms of objectified factors in stable programmes conducted by means of a control panel^{1/} of the external sector, and mounted at various levels of operation. The effort to be made by unit of result.

^{1/} By control panel is meant a unit that gathers all the pertinent information and relates it in a model which serves not only for controlling current conduction and its performance, but which also has a forecasting capacity, at least in the short term, and an orienting capacity in the medium term.

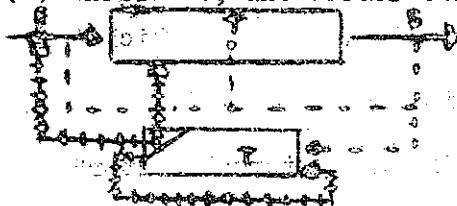
The fact that conduction is not organized strictly as a system^{1/} is believed to affect the cost-benefit ratio of the conduction of exports of manufactures, particularly to the extent that it impedes many exports that would be possible under better basic institutional and operating conditions.

b. The case of Argentina suggests that the institutional system should be reviewed, to determine a useful system to maximize the efficacy and efficiency of the conduction of the external sector.^{2/}

i. The following are basic assumptions of the analysis:

- The country optimizes at the national level and accepts ex-ante basically national restrictions, and only certain restrictions of the environment.
- Production/substitution/export must, without exception, form a single context of policy, of which protection/promotion are important, but not exclusive instruments.

1/ System in the strict sense means the assembly formed by a transformer box (T), on which converge inlets (E), from which there are outlets (S) and which processes information and/or energy and/or matter; and a regulator box (R) which received information, compares it with the plan (P) inside it, and issues three types of orders: feedback to inlets, adjustment of the structure of the transformer box, or self-correction of the regulating function itself.



Information and/or energy and/or matter flows

Information flows to regulator

Regulator order flows.

2/ Las instituciones para la conducción del sector externo ("Institutions for the conduction of the foreign sector") - Background document - Spanish version only), deals with the reasons underlying the proposals on this point in some detail. The road of this revision is fundamental -although not exclusively-, deductive and also takes into account a number of proposals presented in the public sphere during the past few years. The following points should consequently be interpreted as a deductive-constructive approach rather than an attempt to make specific recommendations.

- The external sector in itself constitutes a system in the strict sense of systems engineering. Consequently, it must be operated with unity of conduction, and of control and feed-back.
 - The policy of the external sector, with unity of conduction, should meet multipurpose requests, not only economic ones.
 - The countries cannot fail to conduct, in a centralized manner, a policy on structure of the capacity of decision in general, and in particular on the conduction of the external sector.
 - Only purely economic requests concerning the conduction of the external sector require adequate, flexible and realistic state action.
 - The external sector policy must inevitably be selective.
- 7- Since a critical speed must be surpassed in increasing efficiency, the external sector policy cannot rely only on inducement instruments, but should have a high directional efficiency.

ii. If the above is correct, it is possible to deduce - not postulate - a certain assignment of responsibilities in certain bodies; some of which will have to be established and the context of existing ones adjusted.

The background document on "Institutions for conducting the external sector" includes proposals for discussion concerning a Secretariat of State for the External Sector, whose flexible executive arm would be an External Sector Corporation; a "general staff" to assist in top decisions without interfering with line decisions, and these and other bodies would be integrated

1/ We shall revert to this in Chapter VI.

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in a National External Sector System, conceived and operated strictly as a system. This would imply that exports of manufactures would also form part of the system as an instrument, at a high level of conduction of the country's external sector.

To set up such a system requires co-ordinating dispersed institutions, concentrating the decisions and actions of different bodies under a unified, internally consistent and, as far as possible, self-regulated conduction.^{1/} As regards equality of rank between different bodies the experience of Argentina suggests that where there is a space between the interpretation of two bodies, the "primum inter pares" institution is useful in harmonizing their participation with unity of conduction. Assembling of such a structure is in itself a task of institutional engineering which the public sector in Argentina requires in a more general way than the external sector, but particularly in that sector.^{2/}

A form of institutionalization such as that described in itself, would not necessarily lead to an increase in the quantum of state intervention, which

^{1/} Self-regulation is meant in the sense that the system is responsible for self-analysis and self-correction, both junctural and structural, and both not only in the transformer box but also in the regulator box. This requires that learning be incorporated to the process. In this whole context the technical value of the men who form part of the system is low-bounded at rather a high level and demands that their stability and remuneration shall also be high; this is by no means a trivial matter and ensures the efficiency of key systems such as the external sector.

^{2/} For this purpose, this study has included a partial study covering flow-charts of decisions and actions in the use of instruments to finance exports of manufactures. (See background document: Flujos de decisiones y acciones en el uso de instrumentos de financiación. (Decision and action flows in the use of financing instruments - Spanish version only). This is the diagnosis, on the basis of which the flows may be optimized under alternative hypotheses (minimizing times or costs, maximizing reliability, and so on).

will of course depend on the political preference of the government. It is believed that it will contribute powerfully to improve the suitability of the institutional context that serves the external sector in general, and exports of manufactures in particular.

iii. A final remark on the function of the regulator - the Government, in the case in point - within a foreign sector system. From a systems standpoint, we know there is a power potential relationship between the regulator and the transformer, above which the system is destabilized unless the regulator functions in a very satisfactory manner. This is clearly what occurred in the conduction of exports of manufactures.

To achieve exacting optima or, at least, to obtain that all the relevant variables operate within substantially acceptable margins, demands a certain regulating action. This implies that the regulator must have sufficient power for purely objective reasons, independently of political preference. But, in order that the functioning of the regulator may not to destabilize the system operating in a specific export -private or public- the regulator must have a plan - i.e. to conduct "with" planning and establish reasonably enduring rules of the game. And, in turn, as genuine participation of the actors in the formulation of programmes is required to ensure that the plans will be really operative in their practical implementation, it is inferred - not postulated - that planning and participation would be a necessary part of the institutional and operative scaffolding of foreign trade, independently - we stress - of any pre-existing political preference.

SPECIFIC INSTRUMENTS FOR EXPORTS OF MANUFACTURES1. Purpose of this chapter

Firstly, this chapter identifies the specific goals and overall restrictions that have been taken into account by the top-level decision-makers responsible for the policy concerning exports of manufactures, and then it goes on to analyse the operation of the instruments and their effects on certain relevant variables. It includes the results of meeting and analyses, and contains the views of experts concerning instruments, as well as an interpretation on the efficacy and efficiency of those instruments, and sets forth some opinions which will be discussed in Chapter VII.

The role played by certain instruments such as reimbursements, vis-a-vis the adverse effect introduced by protection and the declining trend of the capacity of competition due to price effects, among other factors, lead to a restatement of the concept of subsidy. This, in turn, raises the problem of disloyalty in the international links, resulting from many causes aside from the "disloyal practices" - dumping and subsidies - legally defined so far.

All the above is the purpose of this chapter.

Strictly speaking, only by taking a liberty can an instruments be qualified as "specific" as has been done in the title of this chapter, as in economic policy all instruments are used for a number of purposes, at least ex-ante. This chapter covers those instruments used directly "at the level" of exports of manufactures, although their effects are diffused towards other fields.

2. Specific goals and some additional restrictions of the policy

a. Within the framework described in previous chapters, the top decision-makers - Secretaries and Under-Secretaries of State - of foreign trade have conceived the specific goals and over-all restrictions of the policy;^{1/}

i. When the area of foreign trade was institutionally covered by a Secretariat of State or a Ministry which also dealt with the areas of domestic trade and industry, the specific goals for export appeared, basically, to be complementary to those established for other areas (e.g., to balance domestic supplies, to obtain large exportable surpluses at competitive prices, etc.). On the other hand, when there was a Secretariat of State of Foreign Trade, goals were more specifically announced in terms of export promotion, diversification by exportable products, and diversification by markets, in the main.

ii. In general, an attempt has been made to maximize total exports of both traditional and non-traditional goods.

iii. However, it has consistently been sought to strengthen the basic manufacturing industry and the export manufacturing industry.

iv. The lack of stability of the export policy is considered fundamental, as well as the fact that foreign purchasers have not been given the assurance that commitments will be complied with. It is recognized that, in consequence, Argentine exports lost prestige abroad.

^{1/} The results of a special survey of former Secretaries and Under-Secretaries of State are given. They are preliminary results, as some replies have still to be received. The survey covers the whole period 1963/74, without stress on any particular years. It does not include opinions of present authorities.

v. This also has been influenced by the lack of interest on the part of many Argentine entrepreneurs in maintaining a specific industry "for" export and by their persistence in maintaining the deep-rooted attitude that the domestic market absorbs their production and that the fluctuation in exchange rates vis-a-vis domestic costs does not afford the necessary assurance to export. Consequently, Argentine industrialists only exported when they had production surpluses or when the domestic demand dropped. Although an attempt was made to encourage national firms, which, in general are small and medium-sized, such efforts were only partially successful, as Argentine companies are not sufficiently strong economically to face the requirements involved in the process of exporting a constant volume of competitive products, both as regards prices and quality, and, at the same time, the frequent changes in economic policy.

vi. There was constant communication with exporters, sometimes personally through the top decision-maker (Secretary or Under-Secretary); at the national level and at regional meetings.

vii. Decision-makers often put forth the argument that instruments are "stimuli". Some mentioned their concern to provide stimuli for exports, and not to export stimuli.

viii. Selectivity criteria have mainly been applied to the value added - on the understanding that the more manufacture a product requires, the greater will be the value added. Furthermore, an attempt was made to diversify markets, in general terms, but without too much selection of specific markets.

ix. Owing to political and ideological factors, for some time there was a feeling that trade with LAFTA countries was not favourable because the commitments affected the country's sovereignty.

x. The secretariat has lacked adequate organization, resources, and specialized personnel, as many experts are absorbed by private enterprise, which pays better salaries.

xi. The problem is to "obtain a place" among traditional exporters in the international market.

xii. What is required are long-term plans on which to base short-term policy; reliable rates of exchange for long-term transactions; industries "for" export, eliminating sporadic exports of surplus production; active participation of the interior of the country, and a pronounced development of sales to LAFTA countries, which are considered to be the most suitable market.

b. The foregoing in part strengthens certain views already stated, and in part gives rise to new ideas. The setting up of an ad hoc Secretariat of State improved matters as regards the specific objectives of exports; but it was not accompanied by sound operating conditions, owing to political and economic changes and the specific factors of resources and organization of the Secretariat itself. The complex nature of non-traditional exports demands that the system of conduction shall have more power and flexibility and an adequate capacity for self-regulation.

Definition of the objectives became increasingly specific, but this implied closer convergence of industrial, technological, financial, protection, decision-making and other policy instruments. It also required that na-

tional companies incorporate exports as a stable variable in their programmes. This attitude has gradually been taking shape and is now recognized by a large proportion of national companies.^{1/}

Some selectivity was incorporated in the objectives; but, in practice, the range of selective goals was small, and the policy of "stimuli" prevailed. Because of the basis for application of the stimuli, the response of national and foreign firms was not symmetrical.

Furthermore, the policy was vulnerable to ideological questions, as mentioned in the case of exports to LAFEA countries, and, of course, to a number of basic conditions due to factors outside the specific field of exports.

c. The above remarks refer to the goals pursued. There are other goals that an export policy should have. The following, or a combination of them, might be some of such goals, although the list is merely enunciative and not restrictive:

- total physical volume of exports; export prices in international currency; or value of exports;
- balance of foreign currency (of goods, of factor payments, consolidated); (book value or real, value, including unrecorded transactions);

^{1/} This is a process that has been taking place during the past few years and has even endured the contingencies of 1975. The Industrial Development Law passed at the end of 1973 authorizes the formalization of contracts whereby the entrepreneur undertakes to develop a plan of his making and the Government undertakes to provide certain support on the basis of the entrepreneur's evaluation. Approximately one hundred such contracts have been signed to date; some of them were more viable, depending on their nature, to the extent that they included exports of their products. The Secretariat of Industrial Development is responsible in this field.

- "forward" and "backward" effects in the production structure;
- total value added, direct and indirect;
- total or national technological content (direct and indirect);
- structure of capacity of decision in exports by type of company (producer or marketer); size; nationality; whether public or private; nature (trading, co-operative, etc.) or other characteristics;
- effect on distribution of income in general, or more specifically, on the generation of employment (total or by type of employment generated);
- effect on scale of production;
- structure by destination (countries or areas);
- structure by origin within the country (regions).

The above would be subject to certain restrictions, such as:

- method of introducing products and raw materials in the world trade structure and relative vulnerability;
- levels and elasticities of foreign demand (price and income) and conditions of access and competition;
- vulnerability of substitution (due to substitute-effect, fashions, technology, etc.);
- minimum exports required and maximum possible exports, by products;
- bounds inherent in each of the preceding objectives.

Each of these goals can be expressed in variables that can be measured in conventional terms.^{1/} In regard to these, the exportation of a product to

^{1/} In some cases conventional units of measurement already exist. In others they would have to be invented (such as the unit of know-how in technology); but conceptual difficulties appear to be no greater than when the metre or the litre were invented.

a market is an instrument. Naturally, not all goals are compatible with one another; but, in any case, it is possible to establish an order of priorities for attaining them; this order of priorities should have a good dynamic expression - which it is also possible to formulate.^{1/} Each objective, with its priority over a period of time, given actual working conditions, requests the action of a given set of instruments. The same instrument may be requested by different goals; and it is then possible to determine the work load of each instrument (whether already existing or to be created in the future), its general features, the performance expected of it, and the institutional and operating characteristics it should possess. Should there be no external restrictions, or incorporating the effect of such restrictions to the problem ^{2/}, it would be possible to identify the optimum export structure for products and the instrument structure that best serves those purposes.

This would lead to a selective formulation wherein the principal optimizer is the Government and the policy is one of "conduction". Consequently, the instruments must have a high directional efficiency.

d. The export policy can also be aimed at merely maximizing the capacity of competition of the country, and opening its doors, so that the maximum exports sought by private actors can more through them. In that case, the principal optimizer is private enterprise and the policy is one of "orientation". Consequently, the instruments should clearly establish the rules of the game in more or less general terms, and should have a real power of inducement.

^{1/} There is interaction between goals, and also between instruments.

^{2/} In the form of bounds for exports of each product or for each destination, for example.

This was the policy followed, in fact, by Argentina, which introduced a permissive system, with some selectivity directed at maximizing the "forward" and "backward" effects, in the understanding that this would lead to maximization of the value added content of exports.^{1/}

Seen from this angle, there are at least two types of limitations to the scheme adopted: those that are inherent in the capacity of competition itself, and those arising from the coefficient of utklization achieved by the private sector, or the export opportunities afforded within the limits of the existing capacity of competition.

It is believed that the coefficient of utilization initially was low, but has been growing significantly.

As regards the "capacity of competition" variable, it can be conceived as a genus which comprises various species. We have repeatedly referred to the capacity of competition due to price-effect, and indicated that it declined gradually. Other species are due to information-effect, marketing-effect, technology-effect, political support-effect, etc.^{2/}

As we shall see, the action of specific instruments tended to expand this capacity of competition, even correcting the adverse effect of certain basic conditions. But the process is one of convergence, and it does not appear that equally effective progress has been made on the different fronts (prices, information, marketing, technology, etc.). Consequently, the lack

^{1/} We have seen that the policy stimulated the outflow of durable and capital goods to maximize the value added; but that the static input-output analysis has shown that this really maximizes the set of "forward" and "backward" effects, while the higher value added per unit, is in the traditional industry. Nevertheless, the greater elasticity of external demand introduces an effect which in any case benefits the higher value added through increased overall exports, in dynamic terms.

^{2/} There is a qualitative proposal in the network contained in one of the background documents (op.cit.)

of concurrence of some factors has partly sterilized the presence of others, and reduced achievements in terms of total exports of manufactures with respect to what might have been possible.

e. The export policy alternatives mentioned in the two preceding points express two basic options with respect to the ideology underlying the economic policy in general:

i. For optimization by the government, conducting policy with instruments having a high directional efficiency, a stable policy at top level was required, as well as use of planning as an instrument of government, and some form of systematic participation by the private sector so that the programmes could be really operative.

ii. For expanding the capacity of competition, leaving optimization to the private sector, with certain restrictions or overall selective guidelines set by the instruments of inducement accessible to anyone able to export and obtain the benefits offered, the requirements of basic political programmatic and participation conditions were naturally lower.

iii. Viewing the process in perspective, Argentina followed the second alternative; and this basic choice is important in judging the design and performance of the instruments used, in respect of certain important goal variables.

3. Specific instruments

a. A detailed analysis of each instrument, including opinions concerning their efficacy and efficiency and certain proposed points for discussion concerning their improvement, are included in Appendix III and in several

of the background documents mentioned in Appendix I. This analysis was the subject of deep consideration in the present study.^{1/} The instruments are considered according to their nature,^{2/} and basically include three sets:

i. Correctors of the rate of exchange and of protection, and instruments governing taxation and administrative conduction (draw-back, refunds, reimbursements, income-tax exemptions, recovery of value added tax and others).

ii. Financing instruments (pre-financing, financing proper, post-financing and export credit insurance).

iii. Information and marketing instruments.

b. Institutionally, the basic instruments first made their appearance around 1962/63, when IAPTA began operations, and draw-back, refunds, temporary admission, certificate of declared quality, pre-financing and financing were instituted. Post-financing, exemption from income tax and the credit insurance system were established in 1965/67. Reimbursements, an additional 8% for new markets, and the register of export contracts, were established in 1971/72. The commitments to purchase Argentine manufactures in certain

^{1/} In November and December 1975, convened by the project officials, altogether ten experts from the private sector met with over fifteen experts of the public sector on a number of occasions for a round-table discussion based on pre-established agendas, designed to obtain their views on the efficacy and efficiency of the different instruments and on concrete problems encountered in their use. The results, in the form of an abstract of the main ideas voiced, were included in the background document on "Instruments for Exports of Manufactures" (Spanish version only). This task was partly supplementary to a survey of exporters, which could not be carried out for administrative reasons.

^{2/} Other groupings are possible (by functions, by effects, etc.). This form was considered the most useful for the present purpose.

trade agreements were included in 1973.^{1/}

c. The following is a very brief summary of the main experience in regard to each specific instrument, based on the discussion in Appendix III and its background documents:

i. Draw-back/refunds, while in force, stimulated exports.

However, draw-back also encourages imports;^{2/} as a general rule it is not effective, except for very specific products, and its administration is

1/ The administrative definitions - we stress their administrative, not economic, nature - are as follows:

- Draw-back: refund of customs duties, additional dues, surcharges and other taxes paid on raw material incorporated to an exported product.
- Refund: refund of taxes paid in the domestic market on exports of promoted manufactures. It might converge with the draw-back.
- Reimbursements: refund of taxes of all kinds, including draw-back, according to the legal definition.
- Exemption from income tax: a deduction of 10% of the FOB value of promoted exports, according to a list of goods, plus the value of refunds and reimbursements collected.
- Return of value added tax: return of tax contained in purchases in the country of inputs used in manufacturing the exported goods (it is a correction of amounts previously over-paid).
- Register of contracts for export transactions: ensures stability of reimbursements in force at time of shipment and does not preclude better treatment.
- Temporary admission: permit to enter, duty-free, imported inputs for use in exported products.
- Samples regime: exemption from the obligation of payment of foreign currency on shipments of samples.
- Certificate of declared quality: certifies that goods comply with established standards for quality, measures, weights, preservations and/or containers.
- Commitments to purchase Argentine products: those established in specific agreements with third countries.
- Pre-financing: financing of production of certain goods and services to be exported.
- Financing proper: financing of exports themselves.
- Post-financing: supplementary financing of exports already effected.
- Export credit insurance: includes business and special risks (political, catastrophes, etc.).
- Information instruments: include information on business opportunities and calls for tenders, commercial missions, fairs and expositions, market studies, use of foreign and local information networks.
- Marketing instruments: include all types of marketing organizations.

2/ Without payment of import duties, imported raw materials would be preferred to domestic raw materials.

difficult and costly. Consequently, its efficacy and efficiency have been considered low, in the view of experts, although it is "the" typical price-effect corrector of tariff protection.

Refunds, in practice, were not only a means of refunding excise taxes but also a corrector of protection and of the gradual decline in the capacity of competition index.

ii. Both these instruments played a significant role until 1971, when reimbursements appeared on the scene and absorbed the draw-back. Since that date reimbursements are the basic taxation and administrative instrument, and play a very significant part in many respects. Overall, it increases the volume of exports. Furthermore, when there is a free market with rates very far removed from official rates for promoted products, reimbursements bring the actual rate closer to the free market rate and discourage smuggling and under-invoicing of exports. This effect ceases and becomes a simulation of promoted exports when the difference between "free" (or "parallel", whichever is highest) rates and the official rate is greater than the rate of reimbursement on the FOB value, adjusted by the cost of financial transfers between markets, and by a provision for the economic risk value-including penal risk- of the simulated transaction.^{1/}

Handled selectively, it constituted an instrument of correction of protection and of the rate of exchange, used to induce the greatest "forward" and "backward" effects, the expansion of the value added content in exports, and the

^{1/} If, for instance, reimbursement is 20 per cent of the FOB value, the cost of financial transfers 4 per cent, and the economic value of the risk-effect of the simulated transaction is estimated at 10 per cent, when the difference between the free and the official market is 6 per cent or over it would be advantageous to simulate a non-existent export transaction.

use of national technology in the export of complete or "turn-key" plants.

Although the law gave it the role of promoting national companies, in practice there is no discrimination as regards type of company.

Reimbursements, and refunds when they were in force, were overall corrective instruments of the effects of protection and low capacity of competition; but they added an important component of selective correction in terms of differentials by products. In the opinion of experts, their efficacy and efficiency are high for what they are required to do, although they could be greatly improved.

However, the information system on which it is based is weak and must necessarily be improved. This improvement is also a prerequisite for a more flexible adjustment of reimbursement levels.^{1/}

iii. The additional reimbursement of 5 per cent for new markets makes it possible to "diversify" by place of destination.

iv. There is an allowance authorized by law, in income tax, on the value of reimbursements and "up to" 10 per cent of the FOB value, which is applied direct without using differential rates up to that 10 per cent, as an instrument of selectivity. It is large in volume and its control is weak.

^{1/} This poses two related problems: the number of steps of reimbursement and the relative weight of automaticity and casuistry in their administration. In the former, it can be assumed that the number of steps must be sufficiently large to cover a reasonable range of different parities, and also sufficiently small to prevent the administration from falling into bureaucratic and inefficient casuistry. Hence, the more flexible and realistic the basic rate of exchange, the clearer will be the rules of the game; and the better the organization of side information based on statistics, the better will it be able to minimize casuistry. This is related to the capacity of competition due to information-effect to which we shall revert presently.

Its definition as an instrument for the expansion of exports is open to question. The opinions of experts range, on the one hand, from considering it an inducement, or a mere administrative correction, because the source of income is partly foreign - consequently the tax should not apply - at least in part - to exports;^{1/} and, on the other, to considering that, since it is an inducement, it forms part of the set of basic conditions, or that it is simply taken advantage of by exporters of manufactures who would export in any case as long as their total profits before taxes increase with exports.

Its importance is significant; and its contribution to selectivity goes no further than that represented by list of products, there being no selection by place of origin, country of destination, exporting firm, or type of technology.

v. Excise taxes, by their very nature, do not tax sales abroad, and a "recovery" of the value added tax is merely a correction of what was incorrectly paid previously.

vi. The register of final contracts for export transactions and of international bids is an effective instrument in long-term sales, which excludes a register of intro-company contracts, and although to date its significance is small, it is considered effective for its purpose.

vii. Temporary admission is rated low in efficacy and efficiency by the experts and only serves certain products. It is not significant and its administration is difficult and costly.

^{1/} If exports were considered as a transaction whose profits are partly of foreign origin, there should be a proportional tax reduction on all export activities, and not only on exports of manufactures. This definition should therefore be taken with caution.

viii. The certificate of declared quality, not much utilized so far, is a potentially useful instrument to give prestige to Argentine technology abroad, and assurance that quality, weights and measures, and other factors are in conformity with those declared. When technological policy is taken into account more actively in the policy for exports of manufactures, instruments of this type will be essential.^{1/}

ix. Pre-financing of exports covers the industrial production of goods to be exported up to 65 per cent of their FOB value and is an effective instrument which could selectively yield more, favouring the establishment of export consortia and operating in terms of scales, areas of origin of production and other attributes.

x. Financing of exports proper defines different groups of goods to which different conditions are granted in terms of credit coverage (basically 85 per cent for capital goods) and terms of payment ranging from 18 months to 8½ years for capital goods and 10 years for ships. Its introduction tends to bring basic conditions in line with those prevailing at the international level.

Its contribution is decisive; its administration smooth and flexible. The experts judge it to be effective and efficient. There are, however, some reservations with respect to the actual value of payments in cases with long terms of payment, both because of the effect of the application of discount rates and of the effect of international inflation. Furthermore, the

^{1/} Commitments to purchase Argentine products contained in agreements with the Eastern countries were discussed in chapter IV. There are other instruments of a complementary nature, such as the samples regime, customs instruments, and a compensation for exports of sugar products and wines. The suspension of exports is used to ensure domestic supplies.

proportion of capital, durable and semi-durable goods financed is still low.^{1/}

xi. Post-financing covers up to 40 per cent of the value of foreign exchange liquidated for transactions which have already been completed, up to 180 days. It is a positive instrument to stimulate regularity of shipments in terms of a list of goods. Its administration is smooth and its effectiveness and efficiency are considered high, although its selective performance could be higher.

xii. Export credit insurance is believed to cover from one third to 40 per cent of its potential market, and is rapidly developing. It is next in order to credit. It is relatively a heavier burden for the smaller companies, which are basically national.

Its administration is smooth and the experts consider that at the present level of policy requirements its efficacy is high. It is a good selector by countries of destination.^{2/}

xiii. The set of information instruments generates certain data flows, but it is not, strictly speaking, a system. It is weak and does not contribute sufficiently to strengthen the possibilities of national companies - particularly those of the interior of the country. It is another particular

^{1/} In 1974, the CIF value of financed exports was made up as follows: capital goods, 27 per cent; durables and semi-durables, 23 per cent, and other goods, 50 per cent. The proportion of the value of financed exports was, in general, 80 per cent. By destination, 43 per cent went to LAFTA, 19 per cent to the United States, and 15 per cent to the EEC.

^{2/} Seventy per cent of the risks covered are in LAFTA countries, the remainder predominantly in the United States and the EEC, and only 4 per cent in other countries; it is the opinion of experts that diversification of exports towards other markets of developing countries would call for a highly dynamic instrument. See other remarks on credit insurance, particularly on risks not covered, in Appendix III.

case of the overall problem of Argentina, in the sense that the information for conducting day-to-day economic policy is revealed through a number of indicators, but it has not been designed as a component of a control panel.^{1/} The experts were agreed that an information system, in the strict systems engineering sense, should be established.

xiv. The set of marketing instruments is also considered relatively weak, except as regards foreign companies. Export consortia are not yet sufficiently developed, taking into account the structure of production; large trading companies are few; state-owned companies as a general rule do not export, and only recently have there been some sporadic attempts at action abroad; and the connection between the government and the private sector was weak, in practice at least, until the end of 1975. The government created conditions that could be used to advantage by the private sector, but the presence of national companies was less dynamic than would have been the case had the work of catalysis been more direct. It is believed that the constellation of companies necessary to achieve specific optima in foreign trade would require a more explicit policy decision,^{2/} particularly taking into account that there is a lower bound to the proportion of national capacity of decision in the foreign sector below which there is no assurance that optima after the activity coincide with those for the country.

^{1/} The concept of a control panel is discussed in chapter V, section 4.a.

^{2/} Unless the solution of this problem were left to spontaneous activity, by a top policy decision. Technically, it is possible to identify the structures that best serve definite optima, taking into account the lower bound of the proportion of national capacity of decision in the external sector, mentioned in the text.

d. As mentioned, the process of building up an institutional system for the promotion of exports of manufactured goods began in the sixties. At that time Argentina already knew "why" it should export manufactures; that is to say, it knew that the balance of payments was the major restriction to growth and that the substitution process was becoming increasingly complex. It also knew, in general, "how" it should proceed; and "where to" had an immediate reply in the establishment of IAFITA.

Towards the end of the decade the system matured, and the fact that there was at least a period of five years of "getting it under way" in a country with relatively high income, technology and capital levels, with no basic labour or natural resources problems, was a good experience. Perhaps the maturation period would have been shorter if government efforts to generate general awareness and action among entrepreneurs had had more catalytic power.

At about the same time, the country had "what" to export, aside from traditional manufactures and basic commodities. Consequently, it exported what it had, although it was not quite what it wanted to export. In any case, it oriented what it wanted in terms of products included in its instruments.

"Where from" - as regards the regional origin of production - began to become important, to the extent that small and medium-sized companies, predominantly national, were relatively more concentrated in the interior of the country.

All the above raised the question of "who", in terms that only began to take shape in recent years.

And, to the extent that the system was successful, concern began to be shown as to "what with" when the fiscal cost became relatively heavy, as it did in 1974/75; and when the question arose as to what should be the proportion of monetary expansion induced by the effect on credit generated by the financing of exports if promoted exports were to increase significantly.

e. The quantitative importance of the instruments used is indicated in table VI-1. Until 1974 variations are significant; for 1975, they reflect an atypical situation, with strong inflation and recession in the value and physical volume of exports.

TABLE VI-1
QUANTITATIVE SIGNIFICANCE OF SOME IMPORTANT INSTRUMENTS

| Instruments | Years | 1970 | 1974 | 1975 |
|---|-----------|---|-------|-------|
| I. <u>Correctors and fiscal type instruments</u> | | | | |
| | | Values liquidated, in millions of pesos, at 1974 prices | | |
| - Draw-back | | 320 | 170 | 30 |
| - Refunds | | 390 | 40 | - |
| - Reimbursements | | - | 2.020 | 780 |
| | Sub-Total | 710 | 2.230 | 810 |
| - Exemption from income tax | | 280 | 620 | 300 |
| | T o t a l | 990 | 2.850 | 1.110 |
| II. <u>Financing instruments</u> | | | | |
| | | Balances at end of year, in millions of pesos, at 1974 prices | | |
| - Pre-financing | | 20 ^{a/} | 2.230 | 1.680 |
| - Financing | | 350 ^{a/} | 1.930 | 2.390 |
| - Post-financing | | 770 ^{a/} | 2.070 | 1.600 |
| | T o t a l | 1.140 ^{a/} | 6.230 | 5.670 |
| - Export credit insurance | | Amounts insured in millions of US\$ | | |
| | | | | |
| - Commercial risks | | 8 | 76 | 90 |
| - Special risks | | 3 | 280 | 340 |

a/ March, 1971.

f. The economics of the system of instruments leads to some general observations which take into account the specific features of Argentine exports of manufactured goods and the basic conditions of such exports discussed in previous chapters.

i. One observation is the significance of the transfer of income contained in stimuli received by foreign companies through tax exemptions and reimbursements when their countries of origin do not exempt them from taxes on such income. This would apparently constitute a transfer from the Argentine treasury to that of the country of origin of the company.^{1/}

However, a distinction should be drawn between the effect of reimbursements and the effect of exemption from income tax. In the first case there is a correction of the cost of protection-effect and/or the capacity of competition index, and if that correction is understood to be necessary ex-ante, there would be no excess profit for the exporting foreign firm and taxation in its country of origin would not imply an improper transfer.

On the other hand, in the case of exemption from income tax, if the exporters were to take advantage of this when it is not a prerequisite for exporting, it would be an improper transfer to the treasury of the country of origin.

There would also be an improper transfer, in general terms, irrespective of the nature of the company and the recipient of the transfer, when such exemption is not one of a set of prerequisites for the export transaction, and, obviously, in any case of factor pricing.

^{1/} Unless the country of origin, in virtue of agreements or on its own initiative, were to grant the company a tax credit equivalent to the tax paid in Argentina.

ii. Another observation refers to financing. Sales on credit, particularly of capital goods, are as a rule established in world trade, at least in the Western World. This rule has arisen in the developed countries, where savings are not scarce. To compete with them, the countries in an intermediate stage of development, such as Argentina, that wish to export manufactured goods, must give credit, i.e., they must export savings together with goods.

This implies a larger allocation of resources to export activities, since credit is the bearer of physical resources; it also implies more promotion to make an activity grow - in this case, exports of manufactures, which, for reasons exogenous to the country, increases its short-term financial capital density. If the industries of origin of the goods have a high physical capital density - because they manufactured substitute goods accepting the technology offered by industrialized countries, without specific economic and technological filters - there is also more density in financial capital for investment.

Furthermore, the longer the term of payment the lower is the actual value of the credit granted abroad, not only due to the effect of the applicable discount rate but also due to the effect of world inflation in countries with convertible currencies. This constitutes a transfer of income from the country that exports manufactures to the importing country - a transfer which, of course, is easier to bear for countries with surplus external savings, which can be expressed in foreign currency than for countries where foreign savings are scarce.

The lower-income countries are thus committed by the system, whose "umbrella" conditions are set by the industrialized countries, which will always gain as a result, by maximizing their reciprocal trade, while the smaller countries can only survive by crawling in their context.

If the smaller countries do not offer credit they cannot export manufactures; and if they do so on the basis of using predominantly external factors, they deteriorate the returns from exports in terms of foreign currency.

This suggests that it is necessary to review the possibilities of broader co-operation at supranational level - be it world, regional, or bilateral - to establish more suitable conditions for the less developed countries to enter the field of trade in manufactures. It also suggests that certain forms of institutionalization of savings in those countries would have to accompany the process of capturing exportable technology and the establishment of a system for conducting exports.

In effect, the capacity of competition due to the effect of export financing must be thought about independently. Will Argentine companies be in a position to compete financially with dominant industrial countries or transnational corporations, or will there always be such a large disparity of power? Is there a maximum bound to the allocation of funds to exports marked by the proportion in which financing endangers the monetary balance and, concurrently, reimbursement endangers the fiscal balance? Can developing countries continue to compete with one another in an attempt to match the conditions of financing offered by the industrial world, even in their reciprocal trade? These factors will be analysed in the study of Latin America as a whole which forms part of this project, and they are particularly valid in the concrete case of Argentina.

The questions relating to domestic financial circuits give rise to other thoughts. Credit is an injection of funds into the circuits. Consequently, depending on where the funds enter the circuit and what they are used for, it will influence the functioning of the system and other variables such as the structure of transactions, the distribution of income, the level and

structure of prices, the transfers of income due to changes in the price structure, the structure of the ownership of decisions and the flows of foreign currency. As the outflows of the financial system receive macro level requests, and as their system of operation has optimum of its own, it is conceivable that an upper bound will be placed on the dimension of the funds that can enter in the financial circuits through exports.^{1/} This bound may or may not be compatible with the lower bound required to finance exports.

It is therefore of interest to attempt a conjectural approximation to the proportion of means of payment that would be committed for financing exports of manufactures, in alternative hypotheses. A preliminary model for this might be the following:

Let FX = net financing of exports of manufactures,

XM = value of exports of manufactures,

XT = value of total exports,

PB = gross domestic product,

MP = average means of payment (currency in circulation and total current accounts)

Then:

$$FX = \frac{FX}{XM} \cdot \frac{XM}{XT} \cdot \frac{XT}{PB} \cdot \frac{PB}{MP} \cdot MP$$

^{1/} Financial circuits might be compared with a hydraulic system with pipes and containers, in which the total flow systematically increases, and the dimensions of such pipes and containers; the increase in total flow being provided by other flows entering the system through different ways.

Therefore, the net increase of external financing possible becomes a function of the proportion of such financing in exports of manufactures, the coefficient of exports of manufactures in the total, the coefficient of exports of the economy as a whole, the income-velocity of currency, and the average for means of payment.^{1/}

Income-velocity (approximately 8, and the official rate of exchange in 1974 for exports of manufactures, 9.93 pesos per US\$) are assumed to be constant. In terms of these, the net flow of money generated due to the effect of credits for exports of manufactures would be the proportion of the average means of payment indicated in table VI-2.

TABLE VI-2
PROPORTION OF MEANS OF PAYMENT EQUIVALENT TO THE FINANCING OF
EXPORTS OF MANUFACTURES, IN ALTERNATIVE HYPOTHESES
(in percentages)

| Proportion of exports of manufactures in total exports | Proportion of exports of manufactures financed (net) | Coefficient of total exports in GDP | | | |
|--|--|-------------------------------------|----|----|----|
| | | 6 | 8 | 10 | 12 |
| 30 | 30 | 4 | 6 | 7 | 9 |
| | 50 | 7 | 10 | 12 | 14 |
| 50 | 30 | 7 | 10 | 12 | 14 |
| | 50 | 12 | 16 | 20 | 24 |

NOTE: The values in the table relate a flow of financing with a stock of means of payment. The ratio of average means of payment to their increase depends on the rate of growth of the GDP, income-velocity remaining constant. Comparing net flows of export credits with annual increases in means of payment - assuming expansion of the GDP and for a given period of expansion - percentages would be higher than those shown in the table.

^{1/} Obviously, other variables might enter. Given the limited purpose of this tentative projection, we have preferred not to make the discussion more complex. With the exception of means of payment, all are flows.

The increase in the net flows of financing depends on the rate of expansion of exports from one year to another and on the average length of credit periods. In practice, the date of the problem will be variable, and the price structure can change significantly.

Furthermore, the foregoing is merely descriptive and some assumptions are open to question.^{1/} For instance, income-velocity is the reciprocal of the liquidity factor of the economy as a whole, and this has been decreasing as a result of the persistent policy of attempting to overcome inflation by monetary restraint. In Argentina there is a visible historical inflation of the order of 25 to 30 per cent per annum, and an additional larval inflation which arises at the least indication of loss of control. If it were to continue systematically to attempt to use monetary restraint to overcome inflation, the need to finance exports and the possibility of the monetary balance resulting from this overall policy might well be incompatible. This is a point that should be included in an agenda for discussion of the problem.

4. Instruments as a factor of subsidy. Redefinition of the concept of disloyal practice.

a. Throughout the preceding discussion it has been stated that the instruments for the conduction of exports of manufactures have contributed significantly to their expansion, that they have formed part of a still incomplete set of "basic conditions" for exports, and have helped to make them dynamic through a promotion effect.

^{1/} Points such as this are natural elements of short-term programming in general, and of monetary programming in particular. Furthermore, in a concrete programme we would have to deal with alternatives of changes in the price structure and exchange rates.

In doing so, some of them have acquired outward forms that might make them appear to be "subsidies". In that case, according to the legal definition prevailing in the international sphere, they might constitute a disloyal practice, liable to the application of countervailing duties by the countries that import the goods.^{1/}

Use of legal norms appears to be more intensive and efficient in the industrial world than in the developing countries. And the power of dissuasion which the mere request that either of these duties be applied has on the conclusion of further transactions appears to be significant, even though they may not actually be applied.^{2/}

b. Attempting an historical interpretation, it would appear that we must turn back to the past century and the beginning of the present one, to consider a world which optimized at the national level and which believed that free trade was a suitable instrument to attain those optima, although it did not necessarily practice it. It then sought to reduce the compartmentalization introduced by protectionism during the Great Depression and by the difficulties of recovery in the post-war period.

^{1/} A background document on the subject is in preparation. In the legal definition prevailing at the international level a distinction is drawn between restrictive business practices and disloyal practices. The former, through monopolies or agreements, distort competition. The latter contain incorrect actions. In fact, from an economic standpoint, both practices contain disloyalties. Among the disloyal practices defined, dumping - a sale at a lower price than a "normal" value and causing actual or potential damage to the production of the importing country, gives rise to anti-dumping duties; and subsidies give rise to countervailing duties (according to the legislation in certain countries, e.g. the United States, the existence of a subsidy is sufficient, although no damage is caused, under certain procedural qualifications). Both are applied in the importing country. Both duties are therefore an exception to the general rule of the GATT which prohibits restrictions to imports. Their arbitrary use would in itself constitute a disloyalty.

^{2/} In practice, exporters of goods suspected of dumping or subsidy appear to defend themselves by giving no information likely to facilitate comparability of their real prices with other values considered "normal". But the countries that offer such stimuli would appear to bear the burden of proof, as they are responsible for demonstrating that such stimuli are not in fact subsidies.

i. Under these basic conditions, the GATT was established after more than a century of protectionism and almost half a century of anti-dumping legislation.

In the long-term historical trend, it would appear that formulations of this type bear two interpretations. One is that it implied recognition of the fact that certain multilateral restrictions had to be accepted in order to minimize the damage to the group as a whole. Another interpretation suggests that it was a generalization of particularistic interests related to originally national conceptions, in a sort of reciprocal non-aggression pact, basically in the interests of the industrial countries and without much thought for the developing world.

Subsequent experience has shown that trade between industrial countries grew most, although this was also due to other reasons than those attributable to the lowering of restrictions, of course.

ii. The Paris Agreement on Trade Marks and Patents contributed to protect the interests of industrialized countries that had, or have, something to patent. In principle, it operates on the criterion of free trade and the protection of individual property. But in practice it benefits the purely national optimum of the industrialized countries and of transnational corporations, whether they produce original technology or wisely copy technology produced by third parties. In either case it enables them to capture the technological markets of less developed countries parties to the Agreement thanks to the protection this affords.

Subsequent experience has shown that technological progress is the key to development, and technological policy is a substantial key, even in the purely political sphere. It is debatable whether the Agreement is a useful

instrument to the world or whether it is the result of a supra-nationalization of particularistic interests.

iii. Transnational corporations are an old actor with new vigour, to the extent that they combine their financial, commercial and information potential with the potential to create technology. Optimization at purely national levels is now juxtaposed on optimization in the sphere of transnational companies, and the manipulation of markets, the use of factor prices, of "bottleneck" patents and other devices constitute current instruments in seeking their own optima.

c. In this context, it is appropriate to pose some questions, such as the following:

i. Are dumping and subsidies the only disloyal practices?

ii. If not, would not certain adjustments be required, which might take the outward form of subsidies as corrective instruments of the effect of all the disloyal practices unfavourable to exports of the developing world?

iii. If legitimacy is the source of legality, what is, essentially, the pattern of values from which the legitimacy of an anti-dumping duty and a compensatory duty stem?

d. The following replies are proposed:

i. Evidently, dumping and subsidies are not the only disloyal practices. Restrictive trade practices - tariff, para-tariff and non-tariff - among others,^{1/} are also disloyal inasmuch as they imply discrimination, or

^{1/} These arguments are substantiated in detail in the document in preparation.

improper use of safeguards; handling of price factors (technology, entrepreneur and capital); technological control, even after expiry of the patents that permit it; control from technology, introducing restrictions; the sale of outdated and even obsolete technology; excessive legal protection of particularistic interests at the supranational level; the introduction of capacity of discrimination at national level over and above the levels of such capacity admitted at the supranational level; the necessary presumption that there must be a normal price; and even the presumption that international trade must necessarily be free when the potential total capacity of competition ^{1/} and of power of decision of the different actors is sufficiently different so that unrestricted freedom means inescapably and increasingly structural inequality. This list is not exhaustive, of course. There are, thus, many other disloyal practices that have not been legally defined; and is true not only in the economic and technological sphere but also in other fields, such as the political sphere.

ii. The factors of disloyalty mentioned in the preceding paragraph imply costs. Since such costs are originated by disloyalty-effect, they must not enter into the calculation of a "loyal" parity of exchange. Consequently, they must be covered by corrective instruments, whose function in this case is to offset the disloyalty-effect. An instrument of this type might have the outward form of a subsidy.

^{1/} "Total" refers to the result, after they are integrated, of the capacity of competition due to price-effect, information, technology, policy, etc., and their interaction.

Reasoning "a contrario sensu", it has not been demonstrated that a subsidy that limits itself to offsetting the effect of other disloyalties is disloyal. This answers the second question.

iii. As regards the third question, it is believed that a distinction should, in fact, be drawn between legality and legitimacy. In substance, only what is legitimate can be legal.

There is, ex-ante, a single conceivable source of international legitimacy: the interests of world society as a whole, since thus we optimize for the man/world. The particularistic interests of certain countries or corporations can generate, through consensus, a supranational legal status, but not legitimate international status. The differences between international and supranational, as well as the differences between legal and legitimate, are therefore considerable.

For the developing world, what matters is what is internationally legitimate, as a source of what will ultimately be legal at the national level for all countries.

Applying this reasoning to the case under study, if the anti-dumping duty or the countervailing duty were an instrument of optimization at the world level, they would be legitimate and, consequently, legal. But if their existence stems from a supranationalization of legal norms that protect the particularistic interests of the industrial world without considering the interests of the developing world, or other converging disloyalties, then they would not be internationally legitimate. They would continue to be formally legal at the national level, but not under a presumptive international law.

If world society has a competitive attitude, and if this attitude is rationally assumed to be genuine, competition free from obstacles is its appropriate instrument. Consequently, to make the defence of any particularistic interest supranational is not a legitimate method of establishing the rules of the game for competitors, because that would constitute a mechanism to create obstacles rather than to eliminate them.

Competition must be loyal. If there are disloyalties, it is not legitimate to penalize some disloyalties and not others.

It is therefore proposed that all disloyalties should be identified and the necessary corrections introduced. Subsidies would not then be discriminatory because of the mere fact of having the outward form of subsidies, save when they over-compensate the effect of the disloyalty they are supposed to cover, or that of any other distortion which it is admitted they should correct. Consequently, no national legislation could legitimately introduce compensatory duties on such subsidies, on the grounds of their outward form, without in turn being disloyal.

If, on the contrary, world society had a co-operative attitude, competition would be one more usable instrument among others, and its space of validity would not be universal, as if it were a goal in itself. Co-operation would thus be the source of legitimacy, and competition would only be the source of legitimacy within its space of validity. Disloyalties could then not only be compensated but they should essentially be punishable because, from being an instrumental leakage - in the case of the competitive society - they would become a flagrant contradiction and an affront to the fundamental values of world society.

f. The efforts made since UNCTAD I, the debates at the Seventh Session of the United Nations General Assembly, and the recent attitude of the United States^{1/} are interpreted as recognition of the fact that the developing countries can have legitimate reasons to introduce correctors having the outward form of subsidies.

In any event, it would be advisable to redefine the concept of disloyal practice and spell out all its forms in international relations, in a practical spirit. Among other things, such a redefinition should contain a unified treatment for all disloyal practices, to determine the necessary corrective action. There would then be no need for a compensatory duty until it is demonstrated that the corrective effect is at least greater than the effect of all the disloyalties which it, in turn, must compensate.

g. It was believed necessary to discuss in detail the pattern of values, so as to judge the case of Argentina in the light of this pattern.

It is believed that, in general terms, fiscal, financial and administrative "stimuli", as they are called administratively did not in themselves constitute what is internationally called subsidies, as disloyal practices.

We have seen, in fact, that at the level prevailing in 1969, effective protection to value added - after being adjusted by draw-back and refunds - had a negative value of 40 per cent on exports and that it was surmised

^{1/} The decision to use domestic assistance rather than restriction of imports in a case where action was requested against a disloyal practice, and the position of the United States in UNCTAD IV and in the General Assembly of the OAS (Santiago, 1976), when it stated that a code to govern the application of compensatory tariffs against export subsidies must recognize the special conditions of developing countries. This means that it is recognized that developing countries can have reasons for correcting adverse effects of certain factors that hamper exports of manufactures.

that at most this value might have been cancelled.^{1/} We have also seen that the capacity of competition index in Argentina has shown a declining trend. The "stimuli" tended to compensate these factors, but without wholly covering them. Therefore, at the overall level, they were correctors which did not constitute subsidies ^{2/}, considering only these two points of correction.

5. Instruments as correctors

a. The discussion throughout this study has been in a form of conceptualization which is based on certain strong assumptions. One of them is the extent to which it is recognized that economic factors are sufficient in themselves to generate solutions of normative value.

In this respect it is believed that either it is accepted that economic factors are insufficient to explain and regulate international trade, because there are also decisive non-economical factors in which case economic theory must also recognize that it cannot impose itself on other fields; or, if we wish to insist that norms can be laid down by economic theory, it must be recognized that there are non-economic factors, the effect of which must be corrected through economic action, in which case this ceases to have optima exclusively of its own.

Another essential assumption is that the process of learning is a continuing one in all fields, and at both the national and world level; consequently, the horizon of world learning maintains a variable distance from national learning, which, as a general rule, implies a relative lag for developing countries. Consequently, these will always be in an "infant" stage:

^{1/} This should be investigated.

^{2/} Although they might be for some product in particular.

infant industry, infant marketing, infant information system, infant technology, are all similar forms of qualifying this lag.^{1/}

An important consequence of our analysis is that, if infant technology were a natural part of the supply of factors, the argument of infant industry would not justify the use of a corrector; but if such infant technology were the result of a disloyalty - due to having sold obsolete technology to the country, for instance - correction of the disloyalty-effect would be legitimate.

The same would apply to the correction of the effect of an infant stage in other fields. Yet the argument of infant industry has been used as justification for corrections.

The definition of "infant" does not depend solely on economic factors, because they are not wholly self-contained. In many countries industry is infant because there is a cultural or political lag. And from a world point of view, the validity of the argument of infant industry can be understood in the light of a dynamic approach: the correction admitted by infant industry is the mechanism to afford equal opportunities to countries which would otherwise be obliged to remain in the infant stage for ever; that is to admit the large gap and to suffer the consequences. It would therefore be an instrument to optimize a functional of justice at the world level, higher than purely national optima.

b. In view of the above concepts and of previous remarks, the instruments of conduction of the foreign sector in general, and those that refer to

^{1/} The lag, depending on specific activities, can go from zero (in exports of processed meat, for instance) to a very high value (in manned spacecraft).

exports in particular, are, apart from other functions, required as correctors of distortions caused by a number of factors. Some of those factors - the list is not restrictive - are the following:

- i. Compensation of disloyalty-effect, discussed in the previous section.
- ii. Correction of the necessary factors to create equal basic conditions for exports of manufactures.
- iii. Compensation of the distortion-effect generated by protection, over-valuation of exchange, and other domestic factors.
- iv. Correction of the effect of certain factors that have a dominant influence on the total capacity of competition (e.g., discriminatory decisions of countries or transnational corporations).
- v. Generation of a specific promotion-effect (in the case of an inducement to enter new markets, for instance).

c. In this way, the "corrective" function is the genus, and the five preceding forms are a similar number of species, defined from the standpoint of the function to be performed.^{1/}

If the above is correct, the mere fact that a benefit granted by an exporting country takes the outward form of a subsidy does not in itself make the

1/ Naturally, other qualifications are conceivable, for instance, according to the sources of the differences (e.g., foreign markets, domestic problems, or others); the entities that cause them, the variables which they affect, the specific instruments they require, etc.

application of compensatory duties by third countries legitimate.^{1/}

It would be a disloyal practice to the extent that it overpaid the exporter and enabled him to maintain forced low prices in international currency.

d. Consequently, it is possible to list a number of effects which must be corrected and work out a list of correctors, as comprehensive and specific as possible, making up an optimum set not only for the country concerned, but also, alternatively, for the international context involved. And this without including instruments implying substantively disloyal practices.

There is also required a certain inescapable selectivity in the policy, therefore the correctors would have to continue operating in a selective manner.

e. The method of operation must depend on each specific case. In some situations it may be an act of sovereignty of a country; in another, an instrument whose use is negotiated.

f. Its operating space is bounded by at least a lower and an upper bound.

i. The minimum protection required for adequate industrial development implies a lower bound to the protection required to export the same that is substituted, for instance. In the case of Argentina it might be argued that it would be necessary to lower protection and promotion concurrently.

1/ This refers to the conceptualization of the problem. It is a well-known fact that, in such matters, for a concept to be useful it must be possible to implement it correctly in practice, and that the above concepts would cause important procedural consequences. However, this is one more particular case of the overall problem, in which procedure must loyally conform to the substance, and the loyalty of this adjustment is decisive, precisely because it affects economic and political relations between nations.

This cannot be discussed here in the abstract; a concrete analysis should be made not only of substitution but also of protection as a multipurpose instrument.

ii. There are several sources of upper bounds which imply restrictions:

- administrative (e.g., generalized draw-back is not administratively efficient);
- functional (e.g., reimbursement can correct over-valuation, but only within a certain limit, beyond which it is necessary to devalue);
- quantitative (there is a maximum of funds that can be allocated to reimbursement in the fiscal budget and another maximum that can be allocated to financing of exports in the monetary programme);
- proposals for very strict selective requirements (e.g., if it is desired to prevent excess benefits of large companies through "umbrella" prices);
- restrictions of a general nature which refer to the general conception of the policy (e.g. if fiscal-type inducements should be reduced according to a given scale for different goods).

g. Some of these restrictions have been present in Argentina's experience. The essential function performed by the instruments has been basically as follows: establishing similar basic conditions for international competition (e.g., financing instruments); correcting the adverse price-effect of protection and of the trend of the capacity of competition index (e.g. draw-back, refunds and reimbursements); and generating a promotion effect (e.g. exemption from income tax and additional reimbursement for new markets).

CHAPTER VII

EFFICACY AND EFFICIENCY OF THE INSTRUMENTS: ASPECTS OF SYNTHESIS

1. Purpose of the chapter and criteria used in the analysis

- a. Throughout this study reference has repeatedly been made to the concepts of efficacy and efficiency, applied to certain factors. The purpose of this chapter is to formulate some aspects of synthesis concerning the problem, quantifying only that which we believe to be reasonably reliable. Obviously, the space of what can be conceptualized is much larger than the space that can be measured.^{1/}
- b. The overall concepts of efficacy and efficiency were discussed in Chapter I. Efficacy, as the ratio of achievements to requirements, includes among its achievements the attainment of concrete goals and the removal of obstacles ("trouble-shooting"); among the requirements, the instruments are analysed in particular.
- c. Efficiency, as the direct and indirect cost-benefit ratio, calls for additional consideration.

- i. In principle, a distinction should be drawn between economic

^{1/} In the present state of metric conventions, and taking into account the limitation of resources of the project and of the information available in the country. It will be observed in this chapter that it has only been possible to make a relatively crude synthetical measurement with respect to the possibilities of conceptualization, as although many variables can be defined in qualitative terms and using the judgment of experts, they are not quantifiable with sufficient reliability. Furthermore, save in those cases in which an input-output matrix could be used, it has only been possible to measure some variables in a relative manner, as to their direct effects and for a given period, but not as to their induced effects in future periods. Moreover, price-effects cannot be clearly distinguished from volume-effects (in the sense that some instruments operate principally through each of these channels) because the available information is not sufficiently disaggregated and reliable to do so. These same factors, particularly the degree of reliability of the figure for exports of manufacturers itself - suggested that we keep to crude overall measurements without even drawing detailed conclusions on the marginal behaviour of the variables. Concern for the eventual normative value led to the decision not to include unreliable explicit measurements.

efficiency proper and integrated social efficiency. The latter, apart from economic variables, would include specific technological variables and variables that reflect the structure of the ownership of decisions, among others. The following observations refer to the concept of integrated social efficiency.^{1/}

ii. Efficiency can be envisaged as optimizing at the national level, or at the level of a group of two or more countries, or at the world level. The reasons for considering only optimization at the national level have already been given. However, certain national optima would be best served by first optimizing, at the regional level, or at the level of LATTA.

iii. Efficiency at the national level can be investigated for several different sets, for example, at the level of activities, or of a set of instruments.

This chapter refers to the level of the set of "specific" instruments of conduction of exports of manufactured goods, which could be measured.

iv. Analysis of efficiency by activities can be approached from different methodological angles: considering each activity as a project^{2/} and using the usual evaluation techniques, at market prices or at social prices, or with other approximations; or for a given period, or considering the fluctuation, over a period of time, of the national currency values required to generate a unit of foreign currency, if this criterion of evaluation is used.

^{1/} Background document on "A model of optimization..." (op.cit.)

^{2/} See Carlos Díaz Alejandro: Nota sobre una metodología para evaluar proyectos relacionados con el sector externo. FEDESARROLLO, Bogotá, Colombia, Nov. 1971.

- An evaluation at market prices which tends to show that, among several dozens of activities, the variation in the capacity of competition indexes and the approximate indexes of benefits to exporters was attempted.^{1/}

- Evaluation at shadow prices in Argentina encounters several problems, without entering into a discussion on its intrinsic usefulness, when the functional of exports of manufactures in the future depends substantively on the capacity to capture new technology and on its separability with regard to the capacity of decision of transnational corporations.

As regards the level of shadow prices, Argentina has been receiving a sustained immigration during the past few years, which suggests that labour is not superabundant. It also exports professionals, although it is believed that this is not due to real "market" problems but to a "prise of conscience" by those responsible for production and due to the lack of a suitable overall policy. The social price of labour, therefore, should not necessarily be lower than the market price.

Furthermore, capital is not scarce, if the popular rumour that there is a very large mass of funds belonging to permanent residents invested abroad is true, and if the real balance of payments shows a structural credit balance in current account after adjustment of spurious transactions. There is, certainly, an outflow of funds

^{1/} Very approximate and only useful as such for a short period. See background document "Capacity of competition due to cost-effect and trends in the benefits of exports of manufactures. A conceptual note and a short-term investigation. This study could only be made with data available for the short term and for the unique juncture of 1974/75. It is a raw material for use in the analysis described in the text.

due to other factors, to a large extent removable. Consequently, the shadow price of capital is not necessarily greater than the market price.

For technology, let it be assumed that there is a price per unit of know-how. The country has ex-ante a capacity to capture technology, although so far it has not systematically used its separability from the investment which carried it. What would be the shadow price applicable to an evaluation wherein technology is considered to have a value that can be differentiated from that of the good that carries it, if the capacity of capture is essentially flexible and dependent in a large measure on political decisions?

v. Purely economic efficiency can be expressed as a cost-benefit ratio, which the numerator and the denominator are the products of prices by volumes. The volume ratio would approximate a measurement in terms of physical resources; and the price structure - which is essentially unstable in high inflation such as that of recent years - might, in certain periods, make activities appear efficient when they really are not, or vice versa.^{1/}

d. Efficacy and efficiency can ultimately be defined with respect to different sets of variables, which can either express the objectives that prevailed during the period analysed, or the objectives that should be attained.

In the latter case, to establish a pattern of values it would be necessary to define the ultimate state desired, and at least a viable strategy to bring about the transformation. It would then be possible

^{1/} The concept of price structure also includes the effects of taxes, subsidies and exchange rates; i.e., of protection and promotion, among others.

to define the contribution of existing instruments both to that ultimate state and to the strategy. But these elements have not been clear and persistent in the period under review. Consequently, the standard pattern for evaluation used was the apparent results of the goals sought by the policy and qualified the attainments: basically, increased exports - with the highest possible value added and the highest possible balance of foreign exchange.^{1/}

e. As the export system is coupled to other systems, it generates in them external economies or diseconomies which to some extent constitute forward and backward effects of a particular type. This is another aspect which requires special evaluation.

2. Efficacy

a. Table III-3 showed the contribution of different groups of activities to certain goal-variables. Chapter VI and Appendix III contain some views on the efficacy of the different instruments. This chapter includes the results of econometric treatment at the overall level, a synopsis of opinions on the contribution of the different sets of instruments to specific variables, and a brief list of relevant obstacles which, in some measure, they contributed to remove.

b. At the macroeconomic level, taking the value of exports of manufactures as a dependent variable, we find that fiscal- and financial-type instruments have had a significant influence in their expansion.

^{1/} However, some opinions have been added concerning the effectiveness of certain instruments with respect to goals that may not have been contained in the prevailing policies, such as a certain amount of selectivity; but which are believed to serve in some measure as instrumental objectives in attaining the ultimate objectives.

1. To explain this relationship we assayed several single-equation models with different degrees of disaggregation and treatment with different units. The variables of the model considered most useful are described below:^{1/}

Table VII-1

Variables considered in the model

| Variable | Description |
|---|--|
| Exports of manufactures | |
| Fiscal-type corrective instruments | Value of draw-back, refunds, reimbursements and income tax exemption |
| Financing | Pre-financing, financing, and post-financing |
| Incitement to smuggling and over-invoicing of exports | Index of ratio of free, or disinstitutionalized, rate of exchange to official rate |
| Cycles of domestic demand | Index of cycle in GDP |
| Technological content | Conjectural index of technology content in exports |
| Time | Linear series, growing from 1969 to 1974 |

^{1/} The model was processed with Enrique Dieulefait, who formulated the stepwise regression programme used, and processed it. The following are some interesting specifications of processing: Units are millions of US\$ or indexes. Only the period 1969/74 is included because prior to that the system was not mature and because 1975 is completely atypical. The capacity of competition index dropped systematically throughout the period, and the processing that included this variable suggested that the parameters of the other variables are forced in their significance by the negative correlation between this variable and exports of manufactures. In 1974 under-invoicing and smuggling appear to become important, according to the indexes; and this would adversely affect the relative validity of the export figure. Other more disaggregated forms of this single equation model were processed, to ascertain the behaviour of the aggregated variables. Different units were processed (Argentine pesos at 1974 prices) in some variables. The number of years is small (six) and this limits the number of variables that can enter in the solution. Preliminary processing suggested aggregating variables, without prejudice to a separate investigation of certain disaggregations. This procedure was adopted.

Stepwise regression was the method used. A linear and a logarithmic approximation were made.

iii. The main explanatory variables are the fiscal-type correctors and the financing of exports, in both the linear and the logarithmic model. In both cases, these two variables explain over 99 per cent of the variability of exports with respect to the mean value recorded during the period of observation. Satisfactory levels were achieved also with the mere consideration of the action of fiscal-type correctors.

iv. The functions chosen to explain the behaviour of exports of manufactures were as follows, in their linear and exponential versions (values of variables are expressed in U.S. dollars, and the figures in parenthesis indicate the standard error of the respective coefficients):

Linear function $X_m = a_0 + a_i X_i$

Exports of manufactures = $191.8 + 2.80$ (Fiscal-type correctors) + 0.64 (Financing)
(0.47) (0.26)

$$R^2 = 0.997$$

Logarithmic function $X_m = a_0 \cdot X_i^{a_i}$

Exports of manufactures = 21.3 (Fiscal-type corrector) 0,60 (Financing) 0,12
(0.09) (0.06)

R^2 of the logarithmic expression: 0.990

v. Continuing stepwise regression as far as the data-points allowed, the index of the technological content of exports of manufactures and the index of domestic demand cycles were incorporated as explanatory variables.

Statistically, the significance of the coefficients of these variables is low, in the linear case for both variables, and also in the exponential case for the index of domestic demand cycles.

However, forcing the incorporation of these low-significance variables we see how the behaviour of the parameters of the significant variables changes. For instance, entering the technological content index in step 3 of the regression and both indexes in step 4, the coefficients of the variables change as follows:

| Concepts | Steps | 1 | 2 | 3 | 4 |
|---|-------|------|------|------|------|
| Ordinate to origin | a_0 | 177 | 192 | 1073 | 183 |
| Coef. of "fiscal type corrector" variable | a_1 | 3,95 | 2,80 | 2,80 | 2,47 |
| Coef. of "financing" variable | a_2 | - | 0,64 | 1,22 | 1,33 |

If an interpretation from the purely economic standpoint were possible, it could be said that, if the above variables operated during the period under review and, consequently, the reality that the model tries to reflect apparently became more complex, it would be necessary to rely increasingly on financing.

vi. It should be noted that although the time variable is strongly correlated with the export values, it was not chosen in the successive steps of the model as it could add nothing further to the explanatory power of the variables already incorporated in the solution.

c. The views of experts and the results of the analysis concerning the contribution of the different instruments and different objective-variables is summarized in Table VII-2.

Table VII-2

SYNOPSIS OF OPINIONS ON THE EFFECTIVENESS OF SETS OF SPECIFIC INSTRUMENTS
IN EXPORTS OF MANUFACTURES

| Contributions to: | Sets of instruments | Fiscal and administrative | Financial | Information and marketing | Agreements and integration areas |
|---|---------------------|-----------------------------|-----------|---------------------------|----------------------------------|
| Reports of manufactures | | A | A | B | A |
| Balance of foreign currency | | A | A/B | B | |
| Value added | | A | A | | A |
| Direct effect on income distribution | | B | B | | |
| Selectivity by: | | | | | |
| - type of goods | | A | A | | |
| - type of technology | | A | | | |
| - scale of utilization | | B | | | |
| - type of company | | B | | B | |
| - region of origin of goods | | B | | B | |
| - country of destination | | A/B | A | B | |
| Other relevant achievements | | Correction of exchange rate | | | |
| <u>Overall opinion concerning their effectiveness with respect to the objectives sought</u> | | <u>A</u> | <u>A</u> | <u>B</u> | <u>A</u> |

A: Positive

B: Doubtful

An empty space indicates that there is no opinion or that it was not possible to identify it.

Note: Opinions referring to selectivity indicate that the set of instruments considered, in the manner in which they were used, have made a positive or a doubtful contribution to the selection by type of goods, type of technology, etc. The first four effects are those achieved, in either a positive or doubtful manner, basically through selection by type of goods.

d. In brief, the different approximations used make it possible to venture a very general opinion to the effect that in Argentina the system of instruments to promote exports of manufactures, bearing in mind the objectives sought, has an acceptable level of effectiveness as a whole and, in some cases, a high level.

e. Furthermore, throughout the period investigated (1969-1973) the system has had to overcome a number of obstacles.

i. In the domestic sphere, the adverse price conditions caused by protection^{1/} and by a basic retained exchange rate, in the face of rising domestic costs, which caused a sustained decline in the index for the capacity of competition due to price-effects, and the consequences of great fluctuations and uncertainties in overall economic conduction. This in itself is an achievement to which should be added the set of obstacles caused by the scale, and by the many infancies discussed in the previous chapter.

ii. In the external sphere, it has had to face a situation characterized by increased international competition, together with a recession and a restriction of demand in many countries due to balance of payments difficulties, and with a relatively weak working bases in information and marketing.

f. Naturally, all components of the system can be improved, both in design and in operation.

The financial instruments require that their catalytic power be used to improve selectivity and contribute to create a more suitable

^{1/} It is, of course, an ex-post effect on prices. Ex-ante, without protection it would not have been possible to export much in the way of non-traditional products. Otherwise, it might be said that protection introduced a positive effect on the volume and an adverse effect on prices.

institutional and marketing image. If these specific goals are added to their task, important structural and institutional adjustments will be required, concerning which some points have already been proposed for discussion.

The efficacy of the instruments of the set we have conventionally called "fiscal and administrative correctors" can undoubtedly increase considerably, although in part this will depend on a realistic and flexible rate of exchange and a sound information system.

The main weakness of the system as a whole has been detected in the information and marketing system. The consensus is that a serious, intensive, speedy and systematic structural and institutional effort is required in this respect.

Finally, the set of instruments grouped under the title of "Agreements and integration areas" have up to the present made it possible to expand exports of manufactures,

g. However, it should be borne in mind that exports have tended mainly to be directed to Latin America; that the role of transnational companies has been essentially in the more sophisticated manufactures, and that this role was a necessary consequence of the previous strategy of industrialization to substitute imports.

If, in future, requirements of greater selectivity by type of technology, type of company, scale of utilization and region of origin were added, it is believed that the correctors and the financial instruments would only with difficulty attain a high degree of effectiveness unless there is unified conduction by activities of the production/substitution/export process, as a fundamental and inescapable condition.

If, furthermore, it were desired to conduct the external sector with

planning;^{1/} at least expressing programmes by goods and by countries of destination, - for the purposes of the external relation itself - not only will it be necessary to adjust certain instruments but also some basic institutional factors.

And if Argentina were to recognize that certain national optima are best served by regional co-operation rather than by isolated action, this would add another factor that would demand certain additional instruments and institutions, such as those referring to the establishment of joint Latin American companies.

Thus, the redefinition of the ultimate state of the external sector which is sought as a goal, and of the patterns of the selective development strategy of the sector, would constitute a different and stricter standard of evaluation to appraise the effectiveness of the instruments; for the time being, they appear to be acceptable in terms of the prevailing permissive system.^{2/}

3. Efficiency in terms of the set of specific instruments

a. As indicated in section 1, our purpose is to analyse the cost/benefit ratio only in economic terms, at market prices, at the national level, in terms of the set of specific instruments for the promotion of exports of manufactures, and taking into account that the main objective

1/ The establishment of a Ministry of Planning has been announced, in terms that suggest that the philosophy of state conduction will in future be "with" planning, in operative terms.

2/ Permissive in the sense that it is open to anyone who wishes to use it, under the general conditions it establishes.

during the period under review was to maximize exports.^{1/}

b. A cost-benefit ratio of this type should be understood as efficiency crudely measured "in terms of" the costs entailed in using a certain set of instruments, and not as efficiency "of" that set. Throughout the study, certain factors have been identified, at different levels of abstraction, to encourage and discourage exports of manufactures which influence benefits and costs, including those analysed here.

c. Accordingly, total exports of manufactures were first taken as a benefit,^{2/} then an adjustment was introduced to estimate the ratio in terms of the balance of foreign currency.

"Gross" exports are initially significant because the coefficient of foreign currency generated by unit of export, after deducting imports of

^{1/} At the risk of appearing repetitive, the following is clarified: in economic and not integrated social terms; at the national level and not at the level of a larger number of countries or at the world level; for the set of specific instruments and not the efficiency of the export policy by activities; considering exports as a goal variable (i.e. as a numerator of the ratio), without considering other variables such as the accumulation of technology or the structure of the ownership of decisions; and for a goal-variable which prevailed basically in the past and not for those to which it would be of interest for exports of manufactures to contribute substantially in the future, or to have contributed in the past. The use of social prices has been discussed in Chapter I. Ratios are considered on a yearly basis, without including carry-over effects over time or between sectors. Consequently, indexes are relatively crude and comprehensive, and only intended to serve the specific purpose of Project RLA/73/053, directed towards instruments; they take into account that we are particularly interested in judging effectiveness in detail; that as a general rule high efficacy implies high efficiency, unless the price structure hides it, and, vice versa, that with low efficacy it is difficult for efficiency to be high. Opinions concerning the efficacy of the instruments discussed in Section 2 also apply in part to this section 3 concerning efficiency. Finally, it is clarified that the variations in the basic conditions weaken the significance of certain types of analysis, such as that of the marginal behaviour of the variables considered. To sum up, only figures whose significance as an order of magnitude can reasonably be relied on have been included.

^{2/} There is a question of reliability, as the values of exports that received different kinds of benefits are different depending on the

inputs, is above 0.8^{1/} and because there is not a good opening of remittances to factors abroad and of the requirements of imports of capital goods by activities.

The values for reimbursements, refunds, draw-back, exemption from income tax and the effect of the difference in interest between the intermediate level of domestic credit and of export financing for comparable operations (Table VII-3).^{2/}

Table VII-3

ESTIMATE OF SOME BENEFITS AND COSTS CONSIDERED
IN EXPORTS OF MANUFACTURES

| Year | Benefit Exports of manufact. | C o s t s | | | Cost/benefit index | Benefits per unit of US dollar cost considered | |
|------|---------------------------------------|---------------------------------------|------------------|-------|------------------------|--|------------------------------------|
| | | Fiscal | Financial | Total | | At free exchange ^{b/} | official exchange ^{c/} |
| | (millions US\$) | (millions of pesos at 1974 prices) | | | Base 1969/ 75 = 100 | US\$ | |
| 1969 | 392 | 1110 | 20 ^{a/} | 1130 | 85 | 5.9 | 5.9 |
| 1970 | 429 | 990 | 30 | 1020 | 103 | 7.2 | 6.9 |
| 1971 | 452 | 1100 | 60 | 1160 | 95 | 7.7 | 5.9 |
| 1972 | 601 | 1470 | 190 | 1660 | 88 | 7.9 | 5.5 |
| 1973 | 950 | 2340 | 330 | 2670 | 87 | 5.0 | 4.2 |
| 1974 | 1309 | 2860 | 300 | 3160 | 101 | 6.7 | 4.1 |
| 1975 | 936 | 1110 | 460 | 1570 | 145 | 14.2 | 5.8 |

a/ Conjectural

b/ "Free": costs considered at peso rate of exchange quoted in international markets.

c/ "Official": at official rate of exchange for promoted products.

Source: Prepared from own data.

^{1/} See Table III-5

^{2/} The fiscal cost of the increase in fiscal income generated by the activities demanded by export industries is not deducted.

i. During the significant period 1969/74,^{1/} each equivalent dollar used in fiscal and financial "inducements" was related to approximately US\$ 6 of exports of manufactured goods.^{2/}

Two periods should be considered within the overall period of 1969/74. In 1969/72, when the level of capacity of competition due to price-effect was about 50 per cent higher than in 1973/74, the requirements of reimbursement, refund and draw-back instruments were relatively lower, and the ratio of incoming dollars from exports of manufactures per unit of costs considered was higher. In 1973/74 the demand that reimbursement should play its over-all corrector role of the lower capacity of competition due to price-effect, owing to the delay in the adjustment of exchange, increased costs and reduced the coefficient.

ii. Taking into account that approximately 60 per cent of the exports of manufactures received some sort of promotion - basically through fiscal-type instruments - and assuming that 80 per cent of the gross value of exports is net income of foreign currency,^{3/} the mean cost/benefit ratio of the order of 6 is reduced to about 3 for the period 1969/74, considering only the balance of foreign exchange of promoted exports of manufactures as benefits.

^{1/} As explained earlier, 1975 is atypical.

^{2/} They are US\$ 5.4 considering costs at the official rate for promoted products and US\$ 6.7 at the peso rate of exchange in International markets.

^{3/} Not including under-invoicing of exports, the value of which should be adjusted. It was not possible to obtain a good estimate of its magnitude.

Table VII-4

MEAN COST/BENEFIT RATIOS

ON VALUES IN US\$, IN DIFFERENT HYPOTHESES

| Costs considered | Benefits considered | FOB value of exports | | Balance of foreign currency | |
|---|---------------------|----------------------|---------|-----------------------------|---------|
| | | 1969/72 | 1973/74 | 1969/72 | 1973/74 |
| <u>I. In promoted exports</u> | | | | | |
| Financial cost | | ... | 11,5 | ... | 9,2 |
| fiscal cost | | 4,0 | 3,3 | 3,2 | 2,6 |
| Total cost | | 3,8 | 2,9 | 3,0 | 2,3 |
| <u>II. In total exports of manufactures</u> | | | | | |
| | | 6,6 | 5,0 | 5,3 | 4,0 |

Notes: The above are simple arithmetical averages of yearly coefficients. Definitions of the costs considered are given in the text. Consequently, financial costs do not include the difference between the value of financing and the actual value caused by the effects of the discount rate and of international inflation. The income in foreign exchange from promoted exports is the result of applying to the values of exports promoted through fiscal- or financial-type instruments (Table A-II-13, Appendix II), a conjectural coefficient of 0.8, which would constitute the net income of foreign exchange per unit of export, and may be over-valued. The coefficients are averages of cost values calculated separately at the official rates of exchange in force for promoted products and the peso rate quoted in the international markets. The ratio for the fiscal cost and for the total promoted exports to exports that received reimbursements, refunds or draw-back.

iii. If in the future there were a realistic and flexible "basic" rate of exchange, reimbursements would be freed from the burden of the overall correction and could then play their role as a selective corrector. This would considerably benefit the cost/benefit ratio.

d. Although the efficiency ratio in terms of costs implied by the use of the relevant instruments answers the specific purpose of this study, it is, of course, very limited. A cost/benefit functional might incorporate effects on a number of other variables.

i. In addition to the value of exports, the following benefits can be computed: the effect on real national income; the effect on the level of employment and distribution of income; the contribution to cancel the external factors that generate domestic inflationary pressure; the scale-effect on costs and domestic prices; the "backward" and "forward" diffusion effects on the industrial structure; the "induction" effects when a new plant is established to produce goods for export; the effects on the coefficients of utilization of installed capacity and of utilization of used capacity; the technology-effect, with all it implies as regards creation, adaptation, innovation and replication at the level of basic know-how and of increasingly advanced combinations; the contribution toward correction of distortions in the price structure and allocation of resources that can arise from the structure of effective protection; the contribution to regional development; the effect on the position of power and prestige and effective bargaining capacity of the country concerned in the international system; the generation of links, in an integrated space or bilaterally, that will contribute to increase effective co-operation and integration; the contribution to the domestic national structure of the power of decision and action on relevant variables - not only economic, but also integrated social variables; the contribution towards creating an internally better integrated set of factors, more capable as a whole of improving the overall efficiency of the economy; the expansion of the horizon of decisions and of the combinative capacity of private enterprise, among others.^{1/}

ii. Among the costs, aside from the fiscal sacrifice (which should be computed in net terms, after deducting fiscal income from activities demanded by exports of manufactures) and from the financial inducement

1/ This list is merely enunciative; some of its components can operate

represented by the difference in domestic interest, the following might be considered: the needs of imports of inputs embodied in exported goods;^{1/} the requirements of foreign exchange for the payment of interest, profits and royalties originated by exports; the wear and tear of imported reproducible fixed capital goods and of the imported content of domestic capital goods used in production for export; the proportion attributable to exports of the fiscal sacrifice incurred in installing plants to produce exportable goods; the transfer of real resources abroad which constitutes the financing of the export itself, the effect of the drop in purchasing power of the credit balances due to world inflation and the effect of a discount rate applied to calculate the actual value of such balances being computed therein; the cost of administration of the system by the State; the requirement that the exporting country of the manufactures should in turn import what it could substitute, to contribute to the bilateral balance of foreign exchange with the purchasing countries; any effect of depletion of domestic supplies as a consequence of exports; in general, the effect of any deviation in the allocation of resources; the deterioration of the proportion of the national capacity of decision in the external sector resulting from the greater export potential of transnational companies; the effect of the necessity to invest abroad to ensure the systematic placement of exports of manufactures, etc.

The above list, also, is merely enunciative and in no way res-

^{1/} This concept and some of those that follow are contained in the conjectural coefficient of 0.8 used.

tractive.^{1/}

iii. The possibility of selecting alternative sets of variables that express benefits and costs is, therefore, great. In the final analysis, the election is political. The choice of a certain functional of cost-benefits in preference to another is a decision that must be supported by a social criterion which, in turn, must be based on a higher system of values. In the case of Argentina this is a task that must be performed, in explicit terms, and for far more than electing a function of exports of manufactured goods.

iv. Notwithstanding the above, in the specific case of Argentine exports of manufactures, in terms of what has been requested of the system of instruments, the overall reply is that exports should be promoted, because it is a decisive variable and because, in terms of the effectiveness and efficiency of the set of instruments, it is an advantageous operation of economic policy.

However, much more effectiveness and efficiency can be obtained

^{1/} Both the above lists are very general in nature; some of the factors listed as apparently independent are in reality linked; consequently, it would be necessary to work out for each variable a network of factors linked to it, duly distinguishing the elements that influence each factor, and then link such networks so as to avoid computing the same effect twice on different variables. In many cases benefits or costs should be considered in qualitative terms, which are not explicitly stated; it would also be necessary to consider the value of relative stability and consequent vulnerability of certain variables, and the costs associated with them; the generation of external economies should be computed; the possibility of counter-measures by third actors, that reduce national benefits or increase national costs (countervailing duties, discriminatory practices, disloyal practices, etc.) should also be taken into account; the progress made in the field of institutions, operation and training of decision-makers, induced by exports should be considered; the fact that costs and benefits that can be economically expressed - for instance, considered at market prices - are charged differently depending on different actors, should be taken into account; the degree of separability of certain costs from certain benefits should be ascertained, etc.

from the system, and this calls for deliberate and scientific action, wherein "conduction" is the genus and "promotion" one of the species, which will become relatively less necessary as the various "incipiencies" (trade, technological, and other) are outgrown or reduced.

Factor endowment is not a datum, but a variable, essentially dependent on the action of the country. This means that it will be necessary to decide explicitly how much, and what kind, of specialization or diffusion trade should have, without repeating past errors of the substitution process and also overcoming the effect of errors incurred, and in such a way that the criteria for promotion exports will be more suitable and precise than those used until now for protection.

e. Therefore, given the basic values, having defined a suitable functional of cost/benefits for them, and having recognized the need to conduct production/substitution/exports in a unified manner, basically by activities, the action of the necessary instruments is deduced - and not postulated according to preconceived doctrinal preferences. The optimum set of instruments, according to these specifications, is the result of an optimum set of goals and of the concrete restrictions of the problem; and their efficacy and efficiency will then be greater than they are at present.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data.

In addition, the document outlines the procedures for handling discrepancies. If there is a difference between the recorded amount and the actual amount received or paid, it is crucial to investigate the cause immediately. This could be due to a clerical error, a missing receipt, or a change in the terms of the agreement.

The second part of the document provides a detailed breakdown of the financial data. It includes a table showing the monthly income and expenses over a period of six months. The data indicates a steady increase in income, which is primarily due to the sale of new units.

The table below summarizes the key financial metrics:

| Month | Income | Expenses | Net Profit |
|-------|--------|----------|------------|
| Jan | 1200 | 800 | 400 |
| Feb | 1300 | 850 | 450 |
| Mar | 1400 | 900 | 500 |
| Apr | 1500 | 950 | 550 |
| May | 1600 | 1000 | 600 |
| Jun | 1700 | 1050 | 650 |

Overall, the financial performance has been positive, with a clear upward trend in both income and profit. This is a result of effective management and a strong market demand for the product.

The following section discusses the marketing strategy used to promote the product. It highlights the effectiveness of social media advertising and direct mail campaigns. These efforts have resulted in a significant increase in sales volume and customer loyalty.

Furthermore, the document mentions the importance of customer service. Providing excellent support to customers is essential for building a long-term relationship and ensuring repeat business. This is achieved through prompt responses to inquiries and the resolution of any issues.

The final part of the document provides a summary of the overall business performance. It notes that the company has successfully met its financial goals and is well-positioned for future growth. The management team is confident in the company's ability to continue to expand its market share and increase its profitability.

In conclusion, the document provides a comprehensive overview of the company's financial and operational performance. It demonstrates a strong commitment to transparency, accuracy, and customer satisfaction. The positive results achieved over the past six months are a testament to the company's hard work and strategic planning.

The management team remains committed to maintaining the highest standards of quality and service. They are confident that the company's focus on innovation and customer-centricity will continue to drive its success in the future.

ANNEXES

- I. Basic documents quoted in the context
- II. The exports of manufactures
- III. Specific instruments for the conduct of the exports of manufactures

(At present only available in the Spanish version)

