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MEETING OF EXPERTS ON THE FORMULATION
AND IMPLEMENTATION OF STRATEGIES FOR
THE EXPORT OF MANUFACTURES
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SOME TRADE POLICY ISSUES RELATING TO
THE EXPORT OF MANUFACTURES

by

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Working paper

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UNCTAD was very pleased to receive an invitation from its sister organization, ECLA, to participate in this meeting of experts on the formulation and implementation of a strategy for exports of manufactures. The work of this meeting has particular relevance to UNCTAD's activities in the field of manufactures and the recommendations which may be formulated here for action at a national, regional and international level, will be carefully considered by UNCTAD in its future relevant work.

With the establishment of UNCTAD, increasing attention has been given to the problems of the developing countries in the field of exports of manufactures and some of the work that has been already done in UNCTAD in this field may therefore be of interest to the meeting.

At the outset attention should be drawn to the fact that last year, mutually acceptable arrangements were drawn up in UNCTAD for the implementation of the generalized system of preferences in favour of the developing countries. These arrangements were incorporated as an integral part of the international strategy for the Second United Nations Development Decade. It is expected that the developed market economy countries will implement their schemes in the course of 1971 and these in general will provide duty-free treatment for the majority of exports of manufactures from the developing countries. The most notable exceptions, however, are petroleum products, cotton textiles and footwear. The European Economic Community has as of 1 July implemented its scheme. Japan and Norway are expected to implement their schemes as of August 1, and a number of other countries are expected to introduce their schemes shortly thereafter. This development is of particular importance to Latin American countries and it should go some way towards the removal of past discrimination in exports from Latin America vis-à-vis exports of manufactures from a number of other countries in the important markets of some developed countries.

It should also be mentioned that UNCTAD considers the establishment of the generalized system of preferences as an important instrument in encouraging an expansion and diversification of exports of the developing countries and believes that it will open up new opportunities for the
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establishment of export oriented industries in the developing countries. In this context, action in developing countries, both at national and regional levels is important in order to ensure that maximum advantages can be obtained from the system.

Three issues which are under consideration in UNCTAD, namely: incentives for industrial exports, the question of restrictive business practices and the role of multi-national corporations in export, and international subcontracting would appear to be of relevance to the work of the expert group meeting.

With regard to incentives for industrial exports, the UNCTAD secretariat submitted to the fourth session of the Committee on Manufactures a study which in the first part dealt with the economics of export incentives and in the second part described the export incentives applied in developed and developing countries. The study dealt with a number of aspects. Export incentives in the context of foreign exchange rates were considered, specific attention being given to currency retention schemes such as are used in Ecuador; export/bonus import entitlement schemes such as are used in certain countries in Asia; special import licences for exporters; foreign exchange allocations to exporters; and multiple exchange rate systems. The latter have of course been used in a number of Latin American countries. In examining the aspects of the exemption and remission of taxes on exports such as production and sales tax, income tax, export tax, other taxes and import duties, it was found that a partial or complete exemption or remission of these taxes is a technique widely used for encouraging exports. It was found there was a great diversity of practice between countries, both in the kinds of tax to which partial or complete exemption related and in the manner in which the concession was linked to export performance.

Inducements to exports can be provided by measures directed towards the factors of production used in the manufacture of exports. Such inducements have been applied to capital, labour and transport inputs in an attempt inter alia to promote exports. The direct aim of such incentives or inducements is to make exports more competitive. One of the most commonly used incentives in this field is the provision of capital
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grants and loans at preferential rates of interest in particular in relation to the provision of export finance on capital goods. In this connexion mention should be made of the facilities of the Inter-American Development Bank for the refinancing of export credits in Latin America. The study also examined incentives in the form of government marketing assistance and other services.

In the consideration of this study, the Committee on Manufactures at its fourth session recognized that some types of export incentives were appropriate and necessary to an expansion and diversification of exports of the developing countries. The Committee also recognized that the developing countries should be aware of the problems connected with the use of export incentives and furthermore recognized that at that stage the use of such incentives by the developing countries had not created a problem. The Committee agreed that it had an obligation to keep the subject under review and to resume consideration of it at future sessions.

Following the Committee's detailed discussions on this subject, and as a result of a number of enquiries addressed to the secretariat of the GATT regarding the application of the subsidy provisions of the GATT to the developing countries, the GATT secretariat issued a note on incentives for industrial exports from developing countries. This stated that paragraph 4 of Article XVI was inoperative for most contracting parties, including all those in the "least developed" category. Furthermore, they stated that contracting parties had refrained in recent discussions on this matter from urging such countries to accept either the Declaration Giving Effect to Article XVI, 4, or an extension to the standstill. They stated that this approach appeared to be related to the objectives set out in Article XXVI of the GATT and in particular to the recognition of the need of such countries for increased access in the largest possible measure to markets for processed and manufactured products currently or potentially of particular export interest.

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Work is currently underway in UNCTAD in examining the efficiency of the various export incentive schemes in order to obtain a clear picture of the impact of such incentives on the economies of developing countries and the degree of administrative complexity that might be involved in the operation of such schemes. A number of the important issues to be considered in this context, especially in terms of cost/benefit analysis, have been raised in the working document prepared by the Trade Policy Division. (ST/ECLA/Conf.37/L.9). It is recognized that it would be extremely difficult and unwise to attempt to establish any one blue-print of export policies that could be applied in all developing countries interested in expanding their exports of manufactures and semi-manufactures. The choice of instruments, such as export incentives, will unavoidably vary being determined in the light of the particular circumstances in each country. On the other hand, appropriate policies for different situations can be distinguished and particular attention is being given to this aspect by the UNCTAD secretariat.

In the field of restrictive business practices, the UNCTAD secretariat is undertaking a study of the effects of such practices by private enterprises in the developed countries on the export interests of the developing countries. A substantive preliminary report on this subject was submitted to the fifth session of the Committee of Manufactures which met a short while ago in Geneva. This preliminary report indicates evidence of import cartels, rebate cartels and agreements on standards that can directly affect the ability of developing countries to export to developed countries. It also indicates the existence of export cartels in the developed countries that can affect the export potential of the developing countries especially if such cartels adopt aggressive export policies. In addition, the report has indicated, on the basis of the information collected in particular developing countries, that a range of restrictive practices, prohibiting or controlling the export activities of firms in the developing countries, is widely used. Such practices or restrictions can be either of an explicit or an implicit nature. In certain cases, such restrictions are explicit in that they are specified in licensing /agreements and

agreements and other agreements involving the transfer of technical know-how by firms in developed countries to firms in developing countries. On the other hand, such restrictions can be implicit through the nature of the equity control of the parent company over its subsidiary or affiliate in the developing country.

In the case of explicit restrictions appearing in licensing agreements, some developing countries, including certain Latin American countries such as Argentina, Brazil, Colombia and Mexico, have instituted, primarily for foreign exchange reasons, registration and screening procedures, which have been used to some extent to limit the number of restrictions that are placed on the export activity of firms in their countries. In general, however, no detailed procedures have been devised to limit restrictions which are placed on the export activities of firms in the developing countries. A beginning in this respect has been made in India. The only developed country which operates screening and vetting procedures for restrictions in licensing agreements is Japan.

In the case of implicit restrictions, derived from the nature of the control by the parent company of the activities of the subsidiaries and affiliates in the developing countries, detailed information is virtually impossible to obtain. In certain developed countries such as Australia and Canada, some evidence has been collected which would seem to indicate that such restrictions on export are widely practised. This should not imply, however, that the foreign firms involved are unaware of the desire of the developing countries to increase and expand their exports of manufactures or act in a manner directly contrary to this desire. In a recent survey conducted by the Council for Latin America Incorporated, it is indicated that of total sales by 650 wholly owned or controlled United States subsidiaries in Latin America ten per cent were exports. More than five per cent of the total sales, or more than 50 per cent of these exports were intra-company exports and the majority of these consisted of motor vehicles and equipment, food products, chemicals and allied products. Professor Franklin Root in his paper dealing with the international company and its role in exports of manufactured goods, (ST/ECLA/Conf.37/L.5), has indicated in section III the importance of screening new foreign investment proposals for their export potential.

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Concern has been expressed in a number of countries that multinational corporations, by virtue of their power in world markets can act independently and at times, contrary to the interests of individual governments. Such concern has been expressed in certain developed and developing countries. Consideration is being given to this aspect in UNCTAD and will undoubtedly be discussed at the third Conference, to be held in Santiago next year.

In another important sphere of activity the multinational corporations can significantly contribute to the exports of the developing countries. This is in the field of international sub-contracting. Whilst sub-contracting arrangements for the supply of components and parts, as well as finished products, are frequent among firms in developed countries, only recently and still to a very limited extent have such arrangements been concluded between firms in developed and developing countries. This question has been considered in the papers presented by Mr. Fajnzylber and Professor Root where it has been indicated that some sub-contracting arrangements by multinational corporations have occurred in certain Latin American countries and the case of IBM in Argentina has been cited. With the introduction of the generalized system of preferences it is hoped that the use of this type of arrangement to promote exports of manufactures of developing countries to developed countries will considerably expand. On the other hand, it is essential that developing countries be aware of the drawbacks of such arrangements, in particular the dependence on economic conditions in the countries where the final product is marketed, and in certain cases, where the capital investments involved are small and the labour content high, the ability of the multinational corporations to move its source of supply from one country to another. Adequate safeguards to protect the interests of the developing countries in such cases are required.

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The multinational corporations, with their world-wide marketing experience and outlets, can make an important contribution in this area of sub-contracting. The arrangements can be in the form of licensing agreements with independent firms in the developing countries or in the form of the allocation of certain activities by a parent company to its subsidiaries in the developing countries. Work is currently under way on the commercial aspects of this question in UNCTAD and close co-operation is being maintained with UNIDO.

