

Economic Bulletin for Latin America



UNITED NATIONS

Vol. XIV, No. 1, first half of 1969

Regional development financing, by Henry Simon Bloch ■ International organizations in export promotion in Latin America ■ The transfer of technology and its relation to trade policy and export promotion in Latin America ■

ECONOMIC COMMISSION FOR LATIN AMERICA

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UNITED NATIONS

New York, 1969

UNITED NATIONS PUBLICATION

Sales No.: E.69. II.C. 4

Price: \$U.S. 1.50
(or equivalent in other currencies)

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The Economic Bulletin for Latin America has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included, as well as informative and methodological notes.

The ECLA secretariat assumes entire responsibility for the *Bulletin*. Its content—intended for the information both of public officials and of the general reader—was not submitted to the Commission's member Governments before publication.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. Since 1964, a new publication, the *Statistical Bulletin for Latin America*, has been issued twice a year, to provide the public with a regular flow of statistical data on economic matters.

EXPLANATION OF SYMBOLS

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—300) indicates a deficit or a decrease.

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate partially or totally estimated figures.

“Tons” and “dollars” are metric tons and United States dollars, respectively, unless otherwise stated.

Minor discrepancies in totals and percentages are due to rounding.

The term “billion” signifies a thousand million.

REGIONAL DEVELOPMENT FINANCING

Henry Simon Bloch*

1. Objectives of regional development banks

Regional development banks can serve as focal points for regional and subregional co-operation, thus promoting economic integration. They are institutions whose objectives are neither national nor global and whose leadership and staffs have a regional outlook.

The first and immediate challenge confronting these regional development banks is the financing of regional projects which are beyond the reach of national development banks. The International Bank for Reconstruction and Development (IBRD) has devoted only limited resources to such projects, with a few spectacular exceptions, especially the Indus River project. A purely national approach to planning and financing development does not make sense in most of Latin America and Africa because many nations on these continents are "minicountries", too small to form economic units of development. Many national borders have been determined by political and diplomatic history rather than by economic factors; frequently, they cut across natural development units such as river basins or mineral deposits. Moreover, except in Europe, the very dearth of strong national institutions makes regional development banks important; they provide additional financial intermediaries to be interposed between the developing regions and the world financial centres, as well as between various national financial institutions of the member countries of the regions concerned.

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Thanks are expressed to his colleague and collaborator, Professor W. B. Bassett of the Graduate School of Business, and to Dr. K. E. Lachmann, Chief of the Fiscal and Financial Branch of the United Nations who co-operated on a United Nations report on regional development financing prepared by the author in 1966. This essay is part of a research project on regional banks of the School of International Affairs, Columbia University, New York.

A second challenge facing regional development banks is to provide support to the poorer nations in their regions, which by and large have not received as much aid per capita as the richer ones. The third challenge is industrialization, which involves diversification of production and economies of scale. The long-range goal—closer to realization, perhaps, in Latin America than elsewhere—is that of financing economic integration. The underlying philosophy here is that even national projects must be viewed in their subregional or regional context.

Although they do have basic objectives in common, the differences between the regional development banks themselves are quite strong.

The European Investment Bank, a consortium of donors, must not be considered as a proper instrument for financial integration of the European Economic Community (EEC). Financial integration of the Common Market countries would require a joint monetary system and possibly a joint central bank. It would further require harmonization of financial policies, strong regional financial legislation, and institutions applicable to and operating in all six countries. The arguments which are used to demonstrate the weakness of the European Investment Bank cannot be applied to regional development banks in developing nations. The Inter-American Development Bank (IDB) is already seasoned, and, as the financial arm of the Alliance for Progress, it operates within a framework of regional institutions. Its President has for some time referred to it as the "Bank for Economic Integration". The Asian Development Bank is a partnership of developing and developed nations with the United States and Japan playing major roles in its financing and organization. As the development of South-East Asia may eventually become one of its goals, this study includes a discussion of the so-called Lower Mekong development scheme. The African Development Bank (ADB) is a consortium of recipient countries, *sui generis*

because of its rigid exclusion of non-regional partnerships.

Any examination of regional development banks must, however, be more speculative than historical and more analytical than descriptive because the emergence of these public international banks with development activities devoted to specific regions is so recent (see table 1) that their true impact has not yet been felt.

Before sketching profiles of the regional development banks let us first briefly comment on the World Bank's role.

2. *The World Bank and the regional development banks*

The International Bank for Reconstruction and Development served as the organizational model for the regional banks; yet, the establishment of these banks was the result of a feeling that the World Bank was over-centralized, that it did not give sufficient voice to the developing countries in its decision-making, and above all that its focuses were global and national but not regional. However, in order to be effective the regional banks must have the co-operation of the World Bank; each of them encounters different needs, many of which can only be satisfied through such co-operation.

Indeed, the regional banks have adopted the World Bank's *procedures* and *terms of lending*. Both the World Bank Group and the regional banks adhere to the principle of separation of bankable from nonbankable activities and use separate windows for soft lending. Still, there are striking differences in certain *loan policies*, demonstrating a variation in political coloration, among which the following are most noteworthy: (1) the Inter-American and African Development Banks support publicly owned development banks (the policy of the Asian Development Bank is still to evolve). The practice of the World Bank and of the International Finance Corporation (IFC) is to finance only private development banks. This alternative to the policy of the World Bank Group may become particularly significant in those cases where established government development banks could be used as effective channels for development financing; (2) the Inter-American Development Bank does not insist on strict profit standards in its electricity loans, as does the World Bank (the policies of the African and Asian Banks are still to evolve); (3) the charters of the regional banks allow direct lending to private enterprises and subordinate government units without requiring government guarantees, as is the case with the World Bank.

There are a number of smaller projects which the Inter-American Development Bank finances, and the African Development Bank will certainly deal with smaller projects than does IBRD. It seems to the author, however, that in the long run the emphasis of the regional development banks will not necessarily be on such projects. Once regional projects really get going, the proportion of smaller projects may have to be reduced.

The World Bank has repeatedly announced that it will broaden its policy, and several of its recent activities have given proof of a change in attitude. This is an evolution, not a revolution. It can only be accomplished because the Bank's creditworthiness is thoroughly established and because a staff of competent economists has been developed to undertake macroeconomic analyses. In a recent speech its President, George D. Woods, declared that the World Bank Group now feels that "the country is the project".¹ This is perhaps the clearest endorsement of the "programme" approach as against the mere "project" approach, although the latter still has validity in many cases, both for the World Bank and, especially, for the smaller loans of regional banks.²

The World Bank Group cannot work on the regional principle because its decision-making structure is not designed for decentralization. Sitting in Washington the board of twenty Executive Directors representing over 100 countries makes decisions on proposals submitted by the President. Thus highly centralized, the World Bank has no experienced, well-established, powerful regional field offices and during its over twenty years of existence has set up no network of decentralized regional institutions. This task fell rather to the regional development banks. As shown in table 2 the developing countries have a relatively greater voice in the regional development banks than is allowed by the voting pattern of IBRD. The voting is weighted more in favour of the poorer countries in the African than in the Asian Development Bank and in the Asian than in the Inter-American Development Bank.

¹ The tenth Gabriel Silver Lecture at Columbia University, under the auspices of the School of International Affairs, on 13 April 1967.

² A very significant analysis of the Bank's new policy was presented to the Canadian Political Science Association by Irving S. Friedman, the Economic Adviser to the President, on 7 June 1967. In December 1967, at the annual review of development financing activities by OECD, the Common Market countries criticized IDA for directing insufficient funds towards Africa.

Table I
THE REGIONAL BANKS^a

Bank	Headquarters	Orga- nized ^b	Authorized capital (in millions of United States dollar equivalents)	Membership				
				Total	Developed countries	Less developed countries	Regional countries	Nonregional countries
European Investment Bank ..	Luxembourg ^c	1958	1,000	6	6	0	6	0
Inter-American Development Bank	Washington	1960	3,150	21	1	20	20	1
African Development Bank ...	Abidjan	1965	250	29	0	29	29	0
Asian Development Bank ...	Manila	1967	1,100	32 ^d	16	16 ^d	19 ^d	13

^a Based upon available data as of 30 June 1967.

^b The year of organization is not synonymous with the year the institution was legally created; rather, it is an approximation as to when the bank began to internally function as a going concern.

^c The headquarters of the European Investment Bank was in Brussels until the merger of the European Coal and Steel Community and the

European Economic Community executive bodies into a single Commission located in Brussels. To compensate Luxembourg for the loss of the High Authority of the Coal and Steel Community the European Investment Bank's seat of operations was shifted.

^d Includes Western Samoa.

Table 2
VOTING POWERS^a

(Figures represent per cent of total voting power)

<i>Bank</i>	<i>Developed members</i>	<i>Less developed members</i>	<i>Nonregional members</i>	<i>Regional members</i>	<i>Voting power^b of regional members in the World Bank</i>
European Investment Bank	100.0	0	0	100.0	16.7
Inter-American Development Bank..	42.5	57.5	42.5	57.5	7.8
African Development Bank	0	100.0	0	100.0	6.8
Asian Development Bank	65.3	34.7	37.3	62.7	17.6 ^c

^a Based upon available data as of 30 June 1967.

^b These figures represent Board of Governors' meetings, where each World Bank member may cast its vote. However, in Executive Director meetings the less developed countries have even less voice because an Executive Director cannot split his vote if the countries he represents disagree. In Executive Director meetings the developed countries have 73.6 per cent of the vote, whereas in Board of Governors' meetings they have 66 per cent. Only in ADB, among the regional banks, can an Executive Director split his vote.

^c Cambodia and Western Samoa are not members of the World Bank.

3. *The European Investment Bank*³

In Europe the concept of the Six was a post-Marshall Plan development, and the European Investment Bank was created with the specific objective of becoming *the* bank of the Common Market. It has financed ventures in the less developed areas of the Six, helping them to overcome the temporary disadvantages occasioned by the tariff reductions of the Common Market. It has been entrusted with the management of moneys for the European Development Fund, which is providing Common Market financial support to associated members in Africa and territories overseas. The Bank also has become a potent lender to associated members in accordance with special provisions in the Convention of Association. In Africa it has a large potential, especially if, as is hoped, a close working relationship with the African Development Bank can be achieved. However, its resources are too small in relative terms, and the national financial institutions of Europe are so powerful that the Bank's position as *the* bank of the Common Market does not, in reality, have the importance which its image would suggest. Furthermore, as stated above, conditions for financial integration of the Six do not presently exist.

4. *The Inter-American Development Bank*

The idea of an inter-American banking operation is not new; it initially appeared at the

³ A full treatment of the European Investment Bank and the European Coal and Steel Community (ECSC) will be available in a forthcoming book by Henry Simon Bloch and William Bruce Bassett as part of the above-mentioned project.

First International Conference of American States in 1889-1890 in Washington. Similar proposals came up regularly thereafter but were rebuffed by the United States which objected to competition with private banking. In May 1940 the United States joined other nations in signing a convention for the establishment of an inter-American bank. In spite of strong support by President Franklin D. Roosevelt and Adolf Berle, Assistant Secretary of State for Latin America, the Senate, still opposed to competition with private banking, refused to ratify the convention. The idea was revived at the International Conference of American States at Bogotá (1948) and at inter-American conferences in Washington (1950), Caracas (1954), Petrópolis, Brazil (1954), and Buenos Aires (1957). In every instance the United States took the position that existing lending institutions—IBRD and the Export-Import Bank—were sufficient and that no additional agency would be needed. Finally in 1959 the United States took the leadership in establishing the Inter-American Development Bank, which began functioning in 1960. Incidentally, United States policy during the organizing phase of IFC and the Asian Development Bank was characterized by similar policy reversals.

Among Latin American nations there was a persistent feeling that IBRD was too rigid in its requirements, that its lending policy was too conservative, that it did not furnish sufficient economic and financial assistance in the preparation and execution of national development programmes, and that it did not give them enough voice in policymaking for their region. Moreover, there was a great deal of dissatisfaction with

the amount of aid given to Latin America by the United States, as well as with lack of co-operation among Latin American nations themselves.

It was pointed out that between 1945 and 1957 only 2½ per cent of all United States aid went to Latin America, and of this one fourth was military assistance. Between 1945 and 1960 Yugoslavia, for example, received more funds from the United States than did all Latin American countries combined. From 1945 to 1957 less than 20 per cent of World Bank loans were committed in Latin America. This period covered European postwar reconstruction and it was only after this goal had been accomplished that the World Bank and the United States turned their major efforts towards the developing nations. Since that time IBRD has generated the International Development Association (IDA) which gives soft loans to the poorer countries; it has begun to encourage educational and other social financing activities; it has established the Development Advisory Service and initiated consultative groups which provide borrower participation in the planning and review of projects.

Creation of the Inter-American Development Bank, by itself, brought about more unity among Latin American countries than had any other institution, political or economic, in the hemisphere. Symbolic of this, as well as of the incumbent's prestige, was the re-election by acclamation in 1964 of the Bank's President although during the first election in 1960 there had been a near-deadlock. Since the first election the runner-up has worked closely with the President as one of the Bank's senior officials. Even more illustrative is the fact that at a time when Bolivia had no diplomatic relations with Chile it was a Bolivian governor of the Bank who proposed the re-election of the Chilean President.

Some of the early IDB activities were a continuation of World Bank studies. For instance, the World Bank had already planned for regional projects in telecommunications for Central America and for a Pan-American Highway before IDB began its operations. In these and many other activities the Inter-American Development Bank has co-ordinated its own activities with those of the World Bank. In addition, the two banks have participated together in consultative groups for Ecuador and Colombia, the former headed by IDB and the latter by the World Bank.

IDB's loan activities demonstrate that the choice of objectives by the regional development banks has been determined to some extent by the process of elimination. The World Bank's

position as the most massive lender in the public power field has led the Inter-American Bank to concentrate on agriculture, industry, mining, water supply, education and housing. IDB's financing of transportation and electric power was less than 10 per cent, for each of these sectors, of its total bank authorizations up to the beginning of 1967.⁴ Of striking interest are the Bank's newer activities which are only minimally reflected in the historical distribution of its total loan activities. These include pre-investment studies, credit lines for export financing of capital goods by Latin American countries to other Latin American countries, and also considerable support for the Central American Bank for Economic Integration (CABEI).

In 1967 the Inter-American Development Bank was charged by the Meeting of American Chiefs of State at Punta del Este with specific activities in the field of economic integration. It will take a long time before the specific procedures and methods for creation of a common market in Latin America are agreed upon and longer still before actual economic integration can take place.

It is quite possible that Latin America's experience may be the opposite of Europe's. In Europe the Common Market was the first stage in the process of integration, but progress in subsequent stages has suddenly come to a halt. There is still no integrated European capital market⁵ and no strong regional financial organization; however, the Six have strong national economies and strong national financial systems, while most nations of Latin America (Mexico is a notable exception) lack strong national financial foundations. In Latin America the need is greater than in Europe for strong regional institutions to underpin the weaker national institutions. The Inter-American Development Bank could well be much more instrumental in promoting integration than the European Investment Bank has been.

A regional perspective is kept in sight through the Inter-American Committee on the Alliance for Progress (CIAP).⁶ CIAP sets up goals on a continental basis but with country-by-country objectives. Once the financing of intra-regional

⁴ Transportation, 8.6 per cent; electric power, 8.2 per cent (Inter-American Development Bank, *Seventh Annual Report: 1966*, Washington, 1967, p. 5).

⁵ The Columbia University School of International Affairs is sponsoring a study on European financial integration by E. S. Kirschen, edited by Henry S. Bloch and William Bruce Bassett.

⁶ On CIAP see Raúl Sáez, "The nine wise men and the Alliance for Progress", elsewhere in this volume.

exports of capital goods by the Inter-American Development Bank is sufficiently expanded, it can become an important support action for the development of a capital goods industry on a continental scale. In Europe, where national capital goods industries existed, the problem was one of tariffs and duties; in Latin America the industry itself has to be financed. As of now, the capital export financing programme is far too small. However, in the Central American Common Market (CACM) Latin America has an experiment in economic integration which has already progressed in a manner unique to the developing world.

5. *The Asian Development Bank*

The Asian Development Bank is an association of developed and developing nations. Equity shareholders include the United States, the United Kingdom, the Federal Republic of Germany (West Germany), Belgium, the Netherlands, and Italy, but not France. In addition, Switzerland, normally coy when it comes to joining international organizations, has become a full-fledged member.

The United States-Japanese partnership in the Asian Development Bank, solidly backed by a \$200 million participation by each of the two countries, had two effects. One was a strong financial base and the other the Western image, which was strengthened when European countries, especially West Germany, became partners. The Union of Soviet Socialist Republics (Soviet Union) did not join the Asian Development Bank although it was formally invited, nor did any of the Eastern European countries. Indonesia entered only after a change of Government. Burma and Outer Mongolia have been formally invited but have not accepted membership.

The charter is by no means a United States-Japanese dictated instrument and includes many clauses to which these countries objected. The groundwork was laid by purely Asian committees, advised by an Inter-American Development Bank expert, UN staff and consultants, and a representative of the President of the United States.

The voting pattern was the subject of serious negotiations. The United States and Japan made major concessions to allow the poorer countries a much greater relative voting power than they possess in the Inter-American Development Bank.

The very choice of the Bank's site involved political adjustments: the Philippines granted diplomatic recognition to Malaysia and Singapore when Manila was chosen as the site of the

Bank's headquarters. So important was the prestige of location that Iran made a very attractive offer of participation subject to location in Tehran, and refused to join the Bank when Manila was chosen as its headquarters.

The first elected President is a Japanese, but his election is due at least as much to his personal qualities and international financial standing as to his nationality. It was he who was primarily responsible for Japan's success on the world capital market. The first Vice-President, who is an Indian, is also one of the prominent international financial experts of Asia with World Bank experience.

In its first operations the Bank, like the Inter-American Development Bank, may continue projects already conceived, such as the Pan-Asian Highway. The Indus River project has been pioneered by the World Bank, which has devoted the bulk of its financing in Asia and the Far East to India and Pakistan. Despite this fact both countries acquired major shareholdings in the Asian Development Bank and so, of course, expect the institution to be very active on their subcontinent. A major future challenge to the Asian Development Bank lies in South-East Asia, which is today one of the world's great danger zones. For this reason and because it illustrates the potential benefits of subregional co-operation and economic integration the Lower Mekong Basin development scheme will be discussed in some detail.

6. *The Lower Mekong Development Scheme*

Development of the Lower Mekong Basin could have a considerable multiplier effect on the development of the entire subregion, specifically the riparian nations of Thailand, Vietnam, Laos, and Cambodia.⁷

The riparian countries at present cannot utilize the energy which hydroelectric projects on the Mekong River could produce. This creates a need for phasing of the Mekong's development so as to keep it in step with the economic development of the riparian countries. If development of the Mekong is to proceed by stages, each stage would still require an investment which would not be bankable in conventional terms. As new hydroelectric resources are made available, the problem arises as to how long it will take the four riparian countries to be able to utilize them.

⁷ See the various studies by the Committee for Coordination of Investigation of the Lower Mekong Basin, the so-called Mekong Committee. See also C. Hart Schaaf and Russell H. Fifield, *The Lower Mekong: Challenge to Cooperation in Southeast Asia* (Princeton, N.J.: D. Van Nostrand Company, Inc., 1963).

Two strategies for the development of the Mekong have been envisaged: (1) the first approach would time the development of the Mekong's hydroelectric resources with the development of the riparian countries induced by this process. It would be necessary to assure at each stage a demand large enough to absorb the energy produced over the amortization period applied to the invested capital; (2) the second approach would be to use the resources of the Mekong as a triggering device for the acceleration of the economic growth of the four countries, with a first investment "package" enabling them to utilize the resources put at their disposal by the development of the river and to create financing of future mainstream developments. The first investment "package" would be amortized and reimbursed only towards the completion of the successive stages of river development.

In this perspective investments during the early stages of river development are always maintained one step ahead of the absorption of the newly created resources by the four riparian countries. This presupposes a strategy which implies two prerequisites.

The first is external financial support for the "first investment package", either in the form of grants or in the form of soft loans. There will be need also of local cost financing. Money, however, could only be put to proper use if a long-term economic development plan was devised for the entire subregion.

The second prerequisite would, therefore, be a four-nation economic development plan as a framework for national development plans. This, in turn, would require the pooling of resources as well as of markets. Such pooling of markets would require as a minimum a common market for domestically produced commodities but should lead eventually to effective use of the enormous water resources made available.

The Mekong Committee has mobilized multilateral and bilateral contributions without prejudging future financial policies. These policies will probably involve the Asian Development Bank, possible regional special funds consigned to it, or subregional financing institutions.

While the project is multinational, one of the lessons to be drawn from it is that in the pre-investment phase local contributions to the United Nations Special Fund studies could only be obtained because of *localization* in *one* given country of each aspect of the preinvestment studies. Furthermore, countries which made bilateral contributions were approached with a list of preinvestment projects and were offered a

choice of financing either one complete project, several complete projects, or only a part of selected preinvestment projects. This meant the setting up of a donor consortium but it did not mean—as is frequently believed—a true multilateral recipient organization.

In a politically sensitive area where multinational approaches are extremely difficult, maximum reliance was placed on parallel and externally co-ordinated national activities without multilateral co-operation among the recipient nations.

If it is to be executed effectively, the Mekong development requires, however, multinational investment and managerial institutions.

The following have been proposed: (1) a common authority for co-ordination and planning of regional development, with budgetary powers for the programming of investments; and (2) a water resources agency.

Here, the first and minimal alternative is to organize enterprises for the sale of energy and water to national institutions of the four riparian countries. The second and much more ambitious alternative is to create the key instrument for implementation of a regional development plan. There may have to be subsidiaries for the production and distribution of energy which would function on the multinational level more or less as Electricité de France functions on the national level. There would also have to be a subregional enterprise for the agricultural development of the newly irrigated areas. Finally, there would have to be a subregional transport enterprise. In all of these alternatives the participation of all four riparian States is assumed.

Additional requirements will include: (1) complementary infrastructure investments, such as roads, canals, and bridges; (2) four-nation universities, training centres, and applied research centres to be financed bilaterally or multilaterally or by foundations for which this might be a particularly interesting activity; and (3) multinational industrial enterprises. Without basic industries the take-off stage will be very hard to attain by the riparian countries. Their limited resources are insufficient for effective industrialization. Here is where the Asian Development Bank could play a major role. Naturally, the exact formula which would be acceptable to the riparian Governments and to the Asian Development Bank cannot now be envisioned. Private enterprise might have an important role in this investment programme for industrialization.

7. The African Development Bank

In Africa the situation is very different from that which prevails in Asia and Latin America. Many of the African nations have only very recently emerged from colonial status. Many of them have had access to the Bank only because up to independence the colonial powers served as guarantors and negotiators of loans. Furthermore, the United States did not have as large and well-established an aid-providing activity in Africa as it had in Asia and Latin America.

The African Development Bank was created under the sponsorship of the United Nations after more than two years of negotiations. An African delegation representing most of the continent travelled to the major capitals to elicit foreign interest. Finally, it was decided that in a continent where regional economic activities meant action across currency zones, across linguistic barriers, and across established trade and financial patterns the difficult task of self-help could be better accomplished by an African institution completely free of foreign equity participation.

Twenty-nine independent African countries have, so far, joined the African Development Bank; South Africa is not eligible for membership, and Libya, Madagascar, Chad, Gabon, the Central African Republic, and Burundi have not joined.⁸ Of this latter group it is significant that five are associated with the EEC, and, consequently, have access to alternative financial support. Nevertheless, most of the African associate members of the Common Market (thirteen) have subscribed to membership in the African Development Bank.

The African States had to assume a relatively heavy financial burden to establish the Bank as a viable institution. Although the authorized capital was set at \$250 million, well below the capitalization of the other regional banks, this figure in fact represents a greater contribution than that which the *developing* countries of Asia made to the Asian Development Bank and is almost equivalent to the Latin countries' contribution to the Inter-American Development Bank. While in the Inter-American and Asian Development Banks half of the paid-in capital is in local currency, the one half of African Development Bank capital that is paid in by members must all be in gold or convertible currencies. On the basis of full subscription and payment of original authorized capital (about \$220 million has been subscribed) and with account

⁸ Botswana and Lesotho at the time of writing have not yet decided for or against membership.

taken of the fact that a few African countries, most notably the United Arab Republic, are in arrears the African Development Bank is to receive \$125 million in gold or foreign exchange. The original paid-in capital of the Inter-American Development Bank was \$125 million in United States dollars; and the Asian Development Bank is to receive \$75 million in gold or convertible currencies from developing countries in the region.

Moreover, the African Development Bank has been given the exceptional power to require members to lend local currencies to the Bank; only the European Investment Bank has similar power.

In view of the enormous problems of development in Africa and the Bank's relative lack of capital the African Development Bank must obtain co-operation by non-African Governments and institutions. The Government of the United Kingdom has announced that it will set up a "special fund" in the Bank, and expressions of active interest in participating in worthwhile projects have been received from other Governments. Noteworthy is the expected participation, through a trust fund, of the United States.

The World Bank Group has opened an office close to the African Development Bank's headquarters in Abidjan, and it is hoped that active collaboration between the two will ensue. The United Nations Development Programme (UNDP) is giving the African Development Bank support in its preinvestment and investment promotion activities, but it will be some time before the Bank can borrow large amounts in foreign capital markets on the strength of its own creditworthiness. If the Bank develops its reputation as an organizer of feasibility studies and as a solid financial institution, it will be able to attract additional capital to the region through parallel financing, trust funds, and participation in loans.

The scope and manner of the Bank's operations have been set out by its charter in the broadest and most flexible terms in order to enable the Bank to secure the greatest leverage from its resources, whatever the economic and political conditions it may encounter in years to come. Yet, given the limitations of the small equity capital available, the management is subject to specific rules as to its disposal,⁹ such as maximum lending limits for national and multi-

⁹ Many of which are embodied in the *Text Concerning the Loan and Investment Policy of the African Development Bank and Its Procedures*, approved by the Executive Directors in December 1965 laying the foundation for the Bank's operations.

national projects. Paid-in capital can be lent only for bankable projects and on commercial terms. The Bank does not make loans from its equity capital for social projects such as housing construction, rural water supply, and hospitals. It cannot lend for general budget support, for balance-of-payments support, or for refinancing of existing debts.

The Governments of Tanzania and Zambia have requested the African Development Bank to assist in a project to which the Bank could only make a relatively small contribution: it concerns the financing of a railway from the Zambian copper mines to the port of Dar-es-Salaam in Tanzania. Total cost is estimated at \$300 million. The World Bank previously refused to finance this project, and it is most uncertain whether funds will ever be found for such a heavy investment, as outside help would have to be as politically motivated as the request.

In late April 1967 the African Development Bank announced its first loans. A \$3 million loan was granted for the improvement of two trunk roads in Kenya which link up with existing roads in Uganda and Tanzania. Parallel financing for the project was attracted, with the United States Agency for International Development (AID) contributing an additional \$3 million. Total cost may amount to \$10 million.

This loan, although a national one, was significant for the two neighbouring States and provides an example of how the regional development banks can promote subregional co-operation. In mid-1966 ministerial talks which had been taking place between the three nations on a subregional common market broke down over disagreement regarding the formula by which a proposed East African development bank would disburse its pool of funds. After the African Development Bank loan Kenya indicated its willingness to reopen negotiations on the formula under conditions more favourable to Uganda and Tanzania. Thereafter, events moved swiftly, and on 6 June 1967, the Heads of State of the three countries signed a treaty establishing an East African Economic Community and Common Market, which includes, among other institutions, an East African Development Bank.

At the time the loan to Kenya was announced the African Development Bank approved a small equity investment in a proposed national development bank in Sierra Leone in which the Government holds an equity interest, thus demonstrating that restrictions applicable to IFC investments are not followed by the African Development Bank.

8. *Financing*

Attracting additional foreign capital into its region is one of the most important functions of a regional development bank. Acting alone, developing countries generally do not have the creditworthiness to obtain sufficient long-term development finance on reasonable terms. Acting jointly through a regional development bank, they may increase their borrowing power.

The regional development banks are structured for three types of financial resources: (1) paid-in capital; (2) funds raised in capital markets by borrowing on the security of reserves and callable capital; and (3) special funds. In general, the last two types are resources which a bank attracts from outside the region for use in developing member countries. A bank's success in acquiring such resources reflects its ability to provide additional capital to the region and determines the extent to which it can wield politico-economic leverage in promoting regional co-operation and economic integration.

Mobilization of finance by the regional development banks has brought about joint co-operative action by member countries. The subscribed capital, through its paid-in portion, makes possible the joint use of capital subscribed by individual members. The callable portion of members' subscriptions is payable to the bank in gold or convertible currency if needed to meet bank liabilities on borrowings or guarantees for ordinary operations. The pooling of callable capital enables the banks to offer greater security than that which can generally be offered by any individual developing country. This greater security through joint action attracts more lenders, both from within and outside the region.

The regional development banks are limited in their borrowings by that portion of their callable capital which is fully available and acceptable to potential lenders. The Inter-American Development Bank has made a commitment to lenders not to let its total funded debt rise above the uncalled portion of the United States subscription. In April 1967, when the Board of Governors held its annual meeting in Washington, the Governors voted to increase authorized capital by \$1 billion without requiring additional paid-in capital from subscribing members.¹⁰ Subscription to this increase by the United

¹⁰ All members must pay in a portion of their capital subscriptions. In 1967 the first member of the British Commonwealth, Trinidad and Tobago, met the prerequisite of becoming a member of the Organization of American States (OAS) and joined IDB. This comes as

States would increase the Inter-American Development Bank's United States callable capital to over \$1 billion out of a total authorized capital of \$3,150 million.

On 17 January 1967, the Inter-American Development Bank floated a public offering in the United States of \$50 million, 25-year bonds, paying 5.2 per cent interest. No Latin country—not even Mexico—could command such favourable conditions or interest. This bond issue was the fourth sold by the Bank in the United States capital market and brought the Bank's total bond sales in the market to \$275 million. The Bank has also borrowed or arranged to borrow a total of over \$200 million in capital markets outside the United States.

The World Bank and the Asian Development Bank have the advantage of counting among their members all the major countries where sizable borrowing operations are feasible. Callable capital subscriptions (as distinct from subscribed capital) providing adequate security for the Asian Development Bank include \$100 million by the United States and \$100 million by Japan, \$75 million by other developed countries outside the region, and over \$53 million by Australia and New Zealand.¹¹

The African Development Bank will have to establish its credit standing through its record of operations over a period of years because its callable capital is wholly African-subscribed. The European Investment Bank borrows on the guarantee of \$750 million callable capital from its six members, and its charter allows borrowing up to 250 per cent of this amount.

The Inter-American, the African, and the Asian Development Banks must negotiate step by step to overcome a number of handicaps, including imposition of taxes on the issuance of securities by European national and local governments. The bonds of the Inter-American Development Bank have been made eligible for trust investments in the United Kingdom. In the United States federal legislation has been passed in order to make Inter-American Development Bank securities eligible for investment by national commercial banks. The Treasury has ruled the bonds eligible to serve as guarantee for United States government deposits with commercial banks. Legislation has also been enacted in a number of major states making the bonds eligible for purchase by financial institutions

a result of a major OAS concession: permission for members to receive trade preferences from outside the region.

¹¹ Total capital subscriptions were double the callable amount for the United States and Japan.

which are subject to state regulations. Thus, in the United States, a member country, the Inter-American Development Bank had to obtain, first, federal legislation, then, an executive ruling by the Secretary of the Treasury, and, finally, special legislation by a number of important states in order to be successful on the American capital market.

The World Bank and others have found that the world capital market cannot under its present structure absorb massive additional issues for development purposes, even with government guarantees. It may, therefore, be asked whether there is too much reliance upon flotation in the public markets; perhaps more issues could be better sold through direct placements. In some cases the placements would provide a major saving by reducing registration, underwriting, and management costs.

Whenever capital market conditions ease up, there is a backlog of so-called high-quality issues to be taken up, e.g., top United States corporate obligations (which sometimes include the advantage of a convertible feature, thus adding a speculative promise to financial security) or bonds of developed countries. As the market becomes easier for such issues, it does not necessarily become easier for issues of a less attractive financial character.

In his United Nations report¹² the writer made a case for the use of financing by central banks and public or semi-public agencies as lenders to regional development banks for ordinary resources. Reference was made to the World Bank which for a number of years has been placing short-term and longer-term notes with central banks. Since publication of that report the Inter-American Development Bank has demonstrated that it is able to obtain such financing, and there is no reason why the Asian and African Development Banks should not also be able to use this method.

The World Bank has regularly placed two-year, and sometimes longer, notes and bonds with central banks. These funds have regularly been rolled over as the notes and bonds matured by replacing them wherever central banks have a surplus of dollars. The Bundesbank of West

¹² See "Regional development financing," by Henry S. Bloch, in co-operation with the Fiscal and Financial Branch of the Department of Economic and Social Affairs, United Nations Conference on Trade and Development, 9 February 1966 (UN Document TD/B/AC.4/R.3); and Henry S. Bloch, *Le financement régional et le développement de l'Amérique latine* (No. 315) (Brussels: Société royale d'économie politique de Belgique, March 1966).

Germany has been a major purchaser. These placements furnish IBRD with financial resources which, when combined with long-term borrowings, do not present too great a reliance on short-term funds for long-term investments. The potential of this technique is illustrated by the March 1967 placement of \$100 million, two-year notes, with 43 countries and the United Nations. The 43 countries included a wide variety of developed and developing nations, among them the Republic of Vietnam (South Vietnam), Ghana, Libya, Morocco and France.¹³

The Inter-American Development Bank has begun to use the same method. On 15 April 1966, it sold an issue of \$65 million in short-term bonds. Of these \$25 million were 5 per cent, one-year bonds; \$29 million were 5½ per cent, two-year bonds; and \$11 million were 5¼ per cent, five-year bonds. A total of \$57 million of the issue was sold to central banks or other governmental financial agencies in fifteen of the Bank's Latin American member countries. The remaining \$8 million was sold to governmental entities in Spain and Israel. Again, on 18 April 1967, the Inter-American Development Bank directly placed \$30 million more short-term bonds with central banks and government financial agencies in fourteen of its Latin member countries. This second direct placement with Governments consisted of \$16 million in one-year bonds, yielding 5 per cent, and \$14 million in two-year bonds, paying 5½ per cent.

Let us look briefly at a third type of financial resources for regional banks, namely, special funds. These special funds are comparable to IDA funds: because they are used for loans on soft terms the regional development banks must depend upon government contributions to obtain them. However, unlike IDA, the regional banks may accept special funds which are tied to purchases in the contributing country. In addition, these special funds may be administered in a manner quite different from IDA which grants interest-free loans (with a service charge) only to those countries which meet "national need tests".

The Inter-American Development Bank's Fund for Special Operations and the Social Progress Trust Fund¹⁴ are administered separately from ordinary resources (capital contributions and borrowings). Both funds are principally financed

¹³ For details see press release 67/10, 6 March 1967, of the International Bank for Reconstruction and Development.

¹⁴ The Social Progress Trust Fund is almost totally depleted, and in large part its activities are being assumed by the Fund for Special Operations.

by the United States and are distributed on a soft-loan basis. In the case of the soft loans granted by the Inter-American Development Bank's special funds interest rates vary depending upon whether the funds are used to serve economic or social development. A national need test is not applied. Similar so-called "special funds" are planned for the Asian and the African Development Banks.¹⁵

9. Prospects and proposals

If the political and economic prerequisites are fulfilled, the regional development banks can play a major role in the financing of economic integration. Development financing institutions have evolutionary capacity; they can spawn subsidiaries, create affiliates, and amend their charters. For financial institutions generally the administrative structure is of lesser significance in the decision-making process than for central government authorities. There is an "open form" approach to the administration of such institutions rather than a rigidly predetermined pattern.

Most important, however, financial institutions, national as well as international, are endowed with a high degree of self-determination. Just as central banks, the International Monetary Fund (IMF), and the Bank for International Settlements (BIS) have lives of their own, so the international development financing institutions possess technical independence—though not political independence—from government machineries. Like the voting blocs in the International Monetary Fund they are relatively stable and often continue to function quite satisfactorily while political tension exists between members. Development financing organizations have in many ways proved themselves factors of unity not only in declarations but also in political actions. Governments which have no diplomatic relations with each other may, for example, co-operate in a regional development bank.

The executive directors of these development banking institutions are in practice the final authorities on the interpretation of the charters or articles of agreement. They can, therefore, allow these institutions to reinterpret their terms of reference as conditions change.

If the regional development banks can fulfil their task as banks for integration, they will

¹⁵ Creation of a multimillion-dollar agricultural fund under the management of the Asian Development Bank was approved by the second ministerial conference on Asian economic development, held in Manila on 27-29 April 1967.

acquire an importance far beyond that which their founders have imputed to them. If they prove too weak financially (which is not likely to be the case with the Inter-American and the Asian Development Bank that is a certain danger with the African Development Bank), other institutions will have to bridge the gaps. In any case, the regional development banks, to function as true banks, must rely to a considerable extent on use of finance beyond their own capital and earnings.

Regional economic integration may proceed by development of subregional economic communities. The classic example is the Central American Common Market which is served by CABEL. If this Central American Common Market is to continue on its path towards stronger economic integration of its member States, the evolution must be facilitated by continued close co-operation with the Inter-American Development Bank. In Africa subregional associations have shown a tendency to rise and fall because they are not strong enough to survive political crises on their own. The success of subregional groups depends upon the availability of a reservoir of crisis support from larger regional institutions. The re-emergence of the East African Common Market is a case in point. The new impetus for subregional economic development in East Africa, though it may be short lived, is due to a farsighted gesture of the African Development Bank, responding to an initiative by the Government of Kenya. If South-East Asia is to have the benefits of economic integration, it will be through massive injections of capital and, most likely, with the strong support of the Asian Development Bank, either as a supplier of finance or as a magnet for and manager of external contributions.

The regional development banks will be ineffective if they are not able to tap considerable funds in North America and Europe. The Inter-American Development Bank has shown the way in the use of supplier relationships to obtain external financing, to achieve direct placements, and even to enter capital markets. However, regional development banks must not be dependent on underwriting syndicates and the use of private capital markets because their demands are too great and the motive for their financing activities is frequently too political for the strictly commercial type of national or international underwriting. This, of course, is true only within limits; certainly, callable capital can serve as a guarantee and provide leverage for some publicly underwritten private loans. Nevertheless, the relending of

these resources only on commercial terms cannot meet the requirements of the regions. As this limitation is slowly being recognized, some of the ideas on interest subsidization, so brilliantly advocated by the Governor of the Bank of Israel, David Horowitz, have elicited a great deal of attention. The basic concept of interest subsidization, already effective in various national schemes, may eventually become applicable in some form on regional scales.¹⁶

Recent years have shown a very interesting trend towards use by the World Bank and the Inter-American Development Bank of short-term placements with central banks, which help improve maturity schedules and provide a bridge for short-term needs. There are other governmental and semi-governmental financial institutions holding substantial resources which could release limited assets for purposes justifiable in politico- and socioeconomic terms, below market terms, though not as contributions *à fonds perdu*.

As the capital market is presently organized, there are severe limitations to the methods of bond sales, and only very limited sources of finance are being tapped even by Governments of developed countries. The underwriting syndicates have been widened in recent years, and there has been a resurgence of large transatlantic selling syndicates. Unfortunately, these impressive groups have taken up only miniature amounts compared to the needs of the developing countries. At the beginning of 1967 the World Bank had a funded debt of only \$3 billion and callable capital of over \$20 billion, \$5.7 billion of which was callable from the United States. Thus, the security ceiling of callable capital is somewhat academic as market conditions do not allow massive use of even the highest quality borrowing power.

Two methods to improve the situation are suggested: one relatively modest and one requiring a more innovative approach. The modest proposal envisions better access to capital markets by agreements negotiated between the regional development banks and non-member capital-exporting countries; by obtaining special tax and regulatory exemptions; by qualifying as legal investments in fiduciary situations, and by a more flexible approach to distribution techniques, including direct placements with governmental financial institutions of supplier countries. In this connexion it might be useful to recall the earlier efforts of the "bluechip"

¹⁶ On the Horowitz Plan see the essay by Roy Blough in this volume. See also UNCTAD and IBRD documentation on the subject.

World Bank. In Switzerland, a non-member country, the World Bank had to conclude a special agreement to obtain a legal status facilitating the issuance of securities. In many ways this agreement with Switzerland can be considered a model of the arrangement which the regional development banks should negotiate with non-member capital exporters.

A more ambitious method is a co-ordinated institutionalized approach by the developed countries towards direct lending to the regional development banks, as well as towards assistance in the placement of the banks' bonds. Co-ordination of lending could be accomplished through the central banks of developed countries. Regional development banks could issue bonds to governmental financial institutions.¹⁷ These might be special, non-marketable issues which could only be negotiated between Governments. Such bonds would be held to redemption, removed from the fluctuations of the capital markets. The feature permitting transfer between Governments would give them a reserve attribute which would increase their appeal, allow developed countries to adjust to reserve fluctuations, and provide a consistent source of finance for the development banks at a low rate of interest. In addition central banks could improve and co-ordinate public flotations. To assist in sales of marketable securities the central banks of developed countries should be given explicit power to conduct open-market operations with the public securities of the regional development banks. This would support the market and increase their attractiveness to investors; the regional development banks would obtain greater amounts at less cost.

¹⁷ See Bloch, *Regional Development Financing*, and Bloch, *Le Financement Régional et le Développement de l'Amérique Latine*.

Major developed countries are already members of the Asian Development Bank, the United States is a member of the Inter-American Development Bank, a number of other developed countries are participants in specific financing of Inter-American Development Bank projects, and developed countries may be expected to provide resources also to the African Development Bank. Therefore, future borrowing by these institutions should be co-ordinated. Such co-ordination is vital for the regional development banks if they are to have sufficient and dependable financial resources to promote regional co-operation and economic integration.

The purchase of non-marketable securities and open-market operations in public issues can maintain a steady flow of additional resources to the regional development banks without subjecting them to dependency upon periodic authorizations and appropriations by legislative bodies. At present the central banks of most capital-exporting countries control or influence the amount and number of foreign flotations on their capital markets. It would be highly beneficial to the regional development banks if these controls were co-ordinated through institutionalized co-operation between central banks.

The regional development banks have the arduous task of establishing themselves as financial institutions in order to tackle the complex duties imposed upon them by their member countries. There is great danger in competition for funds by the regional institutions. Eventually, this competition will make itself felt, and there is realization that regional financing without global co-ordination and global approaches could become self defeating. Indeed, regional development banks have the possibility of changing the financial map of the developing world.

INTERNATIONAL ORGANIZATIONS IN EXPORT PROMOTION IN LATIN AMERICA

I. INTRODUCTION

The above title is very ambitious, but the text that follows is much less so, for it aims only at opening the debate on some important aspects of the export promotion activities carried on by international (including regional) organizations and at stimulating others to join in. No one individual or organization will be able to provide impeccable criteria or complete blueprints for such activities, since the field is relatively new, in addition to being very broad and complex. The best that can be done is to pool knowledge gained on various sides through experience with similar activities in the past and to try to keep the margin of error at a minimum. There has already been at least one initiative¹ aiming at the establishment of such a pool through the calling of meetings of experts who could work on the establishment of guidelines for the export promotion activities of international organizations. If these meetings should materialize, it would be helpful if studies were available which might serve to stimulate debate on crucial aspects. Without such guideposts, there would be a much greater danger of the meetings degenerating into mere discussions of generalities.

The present study deals with some of the issues that must be investigated and understood before Latin America's over-all export development task can be seen in perspective and before a rational strategy for regional export development activities can be established. These questions have to do with such themes as the variety of approaches to export promotion and the distinctions between (a) general and specific export development, (b) the promotion of traditional exports and those of manufactures, (c) trade promotion in the framework of a common market and with third countries, and (d) the interdependence and relative importance of export disincentives. Once the analysis of these points has been reviewed and can

serve as background, requirements in the specific fields of (1) research and information services; (2) training; and (3) technical assistance advisory services will be discussed.

The financial resources being devoted to the promotion of exports in Latin America are already great and they could doubtless be invested more fruitfully if their destination was more tightly planned. (Fields in which different international agencies have been working independently of each other include: (a) identification of technical assistance requirements for export promotion; (b) training for export promotion; (c) preparation of manuals of export promotion techniques; and (d) export credit insurance.) The first steps have already been taken in United Nations circles towards the co-ordination of efforts. In early 1967 it was agreed that a concerted action programme (United Nations Export Promotion Programme) would be established for the promotion of exports from developing countries. Agencies and offices associated with the agreement include the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Department of Economic and Social Affairs and the regional economic commissions. Moreover, UNCTAD and the General Agreement on Tariffs and Trade (GATT) are seeking formulas for joint action in the export promotion field and are already co-operating through the UNCTAD/GATT International Trade Centre. These efforts to rationalize the international division of effort should be continued, strengthened and amplified.

It will be noted from the following section of the study that differences in the experience and terms of reference of the various regional and international agencies working in the export promotion field in Latin America have been

¹On the part of India at the second session of UNCTAD.

reflected in varying interpretation of what constitutes this field of activity. These variations have an advantage as well as the obvious disadvantage of giving rise to misunderstandings and confusion; they can facilitate future specialization and the co-operative allocation of fields of responsibility, in harmony with competence, experience, terms of reference and resources. While it would not be appropriate here to attempt to dictate a detailed plan for the division of labour between international agencies, it is possible to describe the work that ECLA sees ahead of it in the near future. The Commission will continue with the task of defining needs for export promotion activities in Latin America, thus following through on the work of the technical assistance regional adviser in this field who has been attached to ECLA and on the studies on export potential in selected industries and countries prepared by ECLA's Industry Division in co-operation with UNCTAD. It is likewise envisaged that ECLA will provide

substantive direction for a United Nations technical assistance programme embracing a combination of market research, improvement of production techniques and foreign sales channelling for specific products in selected countries. The regional commission would also continue with research and analysis in the trade and integration field directly and indirectly related to the aim of increasing exports from the area. (An example of past research directly related to export promotion is the study published in ECLA's *Economic Bulletin for Latin America*, volume XII, No. 1, in May 1967, "Fiscal incentives for export". Current research work includes preparation of a practical guide for the Latin American exporter.) It may of course be expected that ECLA will continue with its training work in the trade policy field. Finally it will co-operate fully with other organizations and agencies working in export promotion and related fields.

II. DEFINITIONS AND DIMENSIONS OF EXPORT PROMOTION

1. *The variety of existing approaches*

It is always desirable to arrive at clear, simple definitions, but over-simplification can sometimes be the enemy of clarity, leading to the creation of new confusion instead of eliminating the old. This is particularly true for the term "export promotion", which has decidedly different meanings for different individuals and agencies. It would in fact be impossible to define what is *generally* understood by the term "export promotion". In some quarters it is considered to be limited to market research, advertising, packaging, trade missions and fairs and other elements related to the demand side of the export operation while in others it embraces the supply side as well. In its narrowest sense it probably would be synonymous with "marketing abroad", "export marketing" or "international salesmanship" and in its broadest would embrace all of the economic, social and political stimuli that could have a direct or indirect effect in increasing a country's exports. Clearly this latter definition would extend the limits of export promotion to include the whole field of a country's economic development and export promotion would become economic development in travel status. While it is necessary to bear in mind this broader definition when working on specific aspects of the problem and to relate these aspects to their global setting, practical programmes of

export promotion must be set up within the limits of what the organizations preparing such programmes can achieve on the basis of their terms of reference and special competence.²

In the absence of better criteria for differentiating between what may appropriately be included in the field of export promotion and what in other fields of economic activity, it might be assumed that export promotion activities were those made necessary solely by export policy goals, to the exclusion of those required for pursuing other economic goals, even though the latter may have great significance for exports. However, the practical significance of such a definition might vary considerably from country to country. In less developed countries, the very effort to find and produce, under economic conditions, new products which would appear to lend themselves to export might be a major export policy goal. Thus in such cases, the definition might embrace certain aspects of production. Conversely an international or regional organization working in the field of industrial or agricultural development might at the same time find itself involved in export promotion. In fact this has occurred innumerable

² A piecemeal approach can, however, be ineffectual and result in a waste of resources. This point, concerning the need to take into account the interdependence and relative importance of export disincentives, will be dealt with in a subsequent section.

times to United Nations and FAO experts working in developing countries.

As indicated above, international institutions must in practice adjust their definitions of export promotion to their terms of reference, i.e., to the nature of the directives that their member Governments have given them. Organizations such as the secretariats of the regional economic commissions, which have already been working on problems directly related to production for export, will probably tend to follow a broader definition of export promotion than agencies established for the express purpose of working on trade problems (such as the UNCTAD/GATT International Trade Centre or the Inter-American Agency for Export Promotion of the Organization of American States).

Another distinction that appears between approaches of different types of organization is the following: institutions organized on regional lines (such as the regional commissions of the United Nations and the Organization of American States) may sometimes be inclined to deal with a particular problem from the standpoint of its implications for the region while international organizations whose activities are not confined to any one region (UNCTAD and GATT, for example) may tend to approach the same problem on an individual country basis. A practical example of how the difference might affect work on export promotion is to be found in the case of market studies. Emphasis on the regional approach can lead to the preparation of a market study for a region rather than for an individual country. If the countries of a region are planning to co-operate in extra-regional exports of a particular product, a market study for the region as a whole may be justified; if not, or in the case of other products, individual country studies would appear to be called for.

The way that an international agency defines its export promotion task will likewise determine whether or not such a task will include studies or advice on the formulation of national or multinational export promotion policies. Although international institutions acting in the export promotion field do not have the function of establishing such policies and must even prepare their plans for practical activities in conformity with existing or foreseeable legislation and institutions, some of them do nevertheless influence policies, in the medium and long run, through their research and other activities. It is assumed here that future export promotion policies in Latin American countries will be formulated in conjunction with national and regional economic

integration and over-all trade policies and that studies made by international organizations, such as the United Nations Economic Commission for Latin America, the Latin American Institute for Economic and Social Planning and the secretariat of the Latin American Free Trade Association, LAFTA, can play a vital role in the orientation of the latter. This work is part of export promotion in its broadest sense, but would scarcely be classified under such a heading by agencies or offices which limit their export promotion activities to foreign marketing problems within a given international and economic framework.

From the foregoing discussion it may be seen that there is no one working definition of export promotion activities that would cover the relevant endeavours of all international agencies, and that, even if one could be formulated, variations in terms of reference would prevent its being followed. The conclusion is an inconvenient one, but if it is not faced great confusion can be created—particularly when two agencies are attempting to co-operate with each other and they start off on different premises or with somewhat differing aims.

Even when the differences described above are in fact recognized in advance they can give rise to difficulties in practice. It is relevant to note the attempts made in the discussions at the second session of UNCTAD to differentiate between the fields of activity to be covered by the newly created UNCTAD/GATT International Trade Centre and the United Nations Industrial Development Organization (UNIDO)—assuming that each would have certain export promotion functions. There appeared to be general acceptance of the premise that the coexistence of the two entities both to be active in the export promotion field and of the functional and conceptual division between: (1) activities related to “industrialization of the developing countries”; and (2) activities related to the “trade aspects of such industrialization”. However, the very fact that repeated efforts have been made to establish a clear distinction between the export production and the export marketing function indicates it is no simple task to make such a distinction. After all, when it comes down to the practical task of trying to export some specific product from a designated production centre to a selected buyer, both functions will be dealt with by the same firm within the exporting country. Once the results of export promotion activities of national and international bodies filter down to the “working level” of the producer and exporter, it will not

be long before possible discrepancies and discord between one approach to export promotion and another will make themselves felt.³ Every effort should be made to foresee and prevent such discord before it has an opportunity to become a reality.

2. *A broad view of export promotion functions*

In the preceding section it was pointed out that different regional and international institutions have different concepts of export promotion and that there is considerable variation between them in the scope and nature of the activities undertaken in this field. In the present section an attempt will be made to consolidate in one broad outline all the different types of functions that might be included, according to one concept or another, under the heading of export promotion. These functions would appear to fall into the following categories:⁴

(a) *Creation of the external and internal climate for exports*, which includes, *inter alia*, efforts to reduce trade barriers abroad; stimulation of the desire to export; provision of an export infrastructure; information services; training; establishment of fiscal incentives; removal of procedural and regulatory handicaps; and provision of export credit and insurance, shipping insurance, etc. It is understood that the climate for exports would have to be created with some precise, defined export promotion goals in view, and that these goals would have some rational link with over-all economic development goals, plans, policies and programmes;

(b) *Discovering and developing demand for exports*, i.e., market research and the establishment of channels and operations for promotion and sales;

(c) *Identification of new export production opportunities*. This point refers both to possibilities of orienting towards exports the product of existing operations, and discovery of new fields of production the output of which might be exported (new export-oriented industries, as

they are now referred to in United Nations documents). Point (c) is inseparable from point (b) since one refers to the exploration of demand and the other to that of supply possibilities;

(d) *Modification and improvement of techniques in production for export*. Certain types of adjustment must be made in existing production processes to make the product acceptable on the export market. Since the goal of these adjustments is exports, and such exports cannot be realized without modifications in the product or its presentation, then in a broad sense the modifications would form part of export promotion efforts.

In some cases certain tasks that might be performed in a country in connexion with the export promotion functions mentioned above might at the same time benefit production for domestic consumption. This might be the case, for example, when the characteristics of a product are modified in order to make it more acceptable abroad. Likewise training for export might very well have some side benefits that would be reflected in production for the internal market. This would not mean that the activities in question would lose any or all of their export promotion character or that it would be inappropriate to consider them in that connexion. The point is made here since there has been some confusion concerning it in the past. It has been argued, for example, that standardization and quality control do not form part of export promotion activities, even though they may be essential for developing exports. On the other hand, if one wishes to have a broad general look at all fields which must be covered if export promotion efforts are to be comprehensive, modification of the product to suit export goals would have to be included. Moreover, as was pointed out at the beginning of the present section, an attempt would be made to consolidate in one broad outline all the different types of functions that might be included, according to the concept of one organization or another, under the heading of export promotion.

The point just discussed is related to another problem, which is one not only of classification, but of planning as well: it might be expected that some of the functions of export promotion listed above would be included in the work of a national, regional or international export promotion office and others would not. This is due to the fact that some of the functions which are essential for effectively increasing exports necessarily come under the governmental jurisdiction of offices that are independent of the national export promotion machinery and may not even

³ There could, for example, be a conflict between the work of export promotion information services on the one hand, and an agency responsible for export feasibility studies on the other; or there might be a contradiction between policy recommendations and short-run practical needs.

⁴ The classification was prepared before reading the UNCTAD document, "A possible programme for the promotion of exports of manufactures and semi-manufactures from the developing countries" (TD/21/Supp.1), 27 November 1967, which, although employing different terminology, classifies "problems in the fields of export promotion and marketing" along similar lines.

maintain liaison with it. However, it should be stressed that the need to link machinery established for functions that are related by their very nature cannot be avoided merely by the fabrication of conveniently limited definitions of export promotion.

This leads to the consideration of the need for a certain amount of export planning and co-ordination of such planning with a country's other economic development goals and plans. This subject has been dealt with in a recent document of the United Nations Economic Commission for Asia and the Far East,⁵ in which it is pointed out that "the choice of export industries has occasionally been disregarded by planners partly because it was felt that export prospects for most developing countries are gloomy but also because the international demand for exportables is not within the control of national planners...". However, the document also states that there are valid reasons for trying to plan exports to the extent possible and gives some suggestions on how to go about it. It is also affirmed in the document that "it is... essential to work out which particular industries should be expanded to generate an exportable surplus. This exercise has nowhere been done and makes the most important lacuna in current planning techniques".

Carrying out this task would involve (a) the difficult exercise of estimating future world demand and prices for selected products that might appear to have favourable prospects for export from the country concerned when looked at from the supply side; (b) sufficient diversification of the pattern of exports to compensate for the uncertainties inherent in such estimates; (c) a calculation of the volume of combined export and internal demand required to permit production and distribution on an economic scale. One of the elements that will determine this scale will of course be the world price estimates referred to in point (a).

To the extent that Governments of Latin American countries foresee that actual decisions to continue, expand or initiate export activities will be left to the private sector (granting certain external governmental stimuli and environmental influences), it can be anticipated that *entrepreneurs* will inevitably be paying some attention to points (a) and (b). However, achievement of sufficient diversification of exports, or even

sufficient volume, may not be possible if private initiative does not respond adequately to the external governmental stimuli and environmental influences or if these are ineffective. The depth of governmental planning of exports that can be expected will probably depend on this response.

It is important to note that in facing international competition all Governments are in much the same position as the private *entrepreneur*, however much their internal political systems may differ from one another. In planning exports they must subject their targets to most of the same conditions abroad that prevail for the private exporter. In other words, in many aspects of the export planning process Governments have to make the same estimates, calculations, judgements and even guesses that so tease the talents of private businessmen.⁶

Where government would differ from private export planning is in that: (a) it would be aimed, as indicated earlier, at co-ordinating export goals with those established for other sectors of the economy; and (b) it would be concerned with the export operations of the country in general—the entire national export scene—whereas this is not true for private exporters.

One question arises, however: if the decisions to continue, expand or initiate export activities are taken by the private sector (influenced and oriented by government policies and measures), to what extent can Governments in effect plan exports?

3. Needs of developing countries

Before examining the role of international organizations in export promotion in Latin America (and thereafter making some practical suggestions for its fulfilment) it is advisable to refer to the existing needs associated with the export promotion functions, outlined above. The UNCTAD document already mentioned⁷ provides a brief survey of such needs in the majority of the developing countries and attempts to distinguish between what might be done by the developing countries themselves and what external assistance they might require to satisfy their export promotion requirements. If duplication of this effort is to be avoided, a review of the pertinent material must be the starting point. The needs described in the document fall into eleven types as follows:

⁵ United Nations Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East 1967—Part One: "Policies and planning for exports"*, preliminary draft (E/CN.11/L.208/A), 14 March 1968, pp. 1-37 *et seq.*

⁶ A bizarre example of this is socialist countries that behave like capitalist countries in accumulating gold.

⁷ "A possible programme for the promotion of exports of manufactures and semi-manufactures from the developing countries", *op. cit.*

- (a) Awakening of interest in exporting in less developed countries;
- (b) Information on overseas markets;
- (c) Contacts between exporters in less developed countries and importers abroad;
- (d) Training in export matters;
- (e) Enlargement of scales of production;
- (f) Export credit and export credit insurance facilities;
- (g) Improved product design;
- (h) Market surveys;
- (i) Establishment of overseas marketing channels;
- (j) Publicity media and public relations services abroad;
- (k) Participation in trade fairs and exhibitions.

The discussion of needs in these fields is associated in the document just mentioned with that which took place in two meetings of experts in which UNCTAD personnel participated and reports of which were attached as annexes. A much more detailed list of requirements was appended to one of these reports but the scope covered in the UNCTAD document itself was designed to "concentrate on those areas where reasonable results could be expected within the immediate future".⁸ Moreover, the eleven fields listed above can be subdivided to cover most of the details included in the longer list.

The general nature of these requirements is by now well known to those working on export promotion in Latin America and scarcely needs further elaboration. It has been dealt with in the documentation for the Meeting of the Special Committee of the Inter-American Economic and Social Council (IA-ECOSOC) on Manufactures and Semi-manufactures, held in Mexico City in 1965, in reports of United Nations technical assistance experts in Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Central America, in answers of Latin American Governments to questionnaires concerning export promotion problems, in the report of the first session of UNCTAD, in documents of the United Nations Centre for Industrial Development (UNCID) and UNIDO on export-promotion agencies and those of LAFTA, the Inter-American Development Bank (IDB), the Latin American Institute for Economic and Social Planning, ECLA and other sources. GATT periodicals, re-

⁸ "A possible programme for the promotion of exports of manufactures and semi-manufacturers from the developing countries", op. cit.

ports and studies have likewise contributed to the growing literature on the subject, and relatively comprehensive coverage of requirements in the export promotion field in Latin America is to be found in documents relating to the establishment, by IA-ECOSOC, of an Inter-American Export Promotion Agency.⁹

If, as stressed in the preceding paragraph, the general nature of export promotion requirements in Latin America, and indeed in most developing countries throughout the world, is well known and widely accepted, this is not the case with specific details of such problems, which may vary from one developing country to another and from one economic sector, industry or firm within a country to another. (One of the results of this variation is that technical assistance is frequently required in order to determine what needs to be done to increase exports in specific instances or even to determine further technical assistance requirements.)

Another aspect of export promotion requirements that is less familiar and where there is still room for further detailed observation and study relates to the interdependence and relative importance of export disincentives or, expressed in more positive terms, of export promotion requirements. Such a study can only be carried out effectively in the context of specific projects and aims in a given country. However, some general remarks on the interdependence and relative importance of export disincentives may serve to orient subsequent practical work by technical assistance experts and others working on export promotion in developing countries. With the same aim of broadening and deepening the background against which Latin American export promotion needs may be assessed in specific instances, the present section will include, in addition, some discussion of the following: certain ways in which the promotion of exports of primary products differs from that of exports of manufactures and semi-manufactures; distinctions between trade promotion in a common market and in trade with third countries; and

⁹ See especially IA-ECOSOC, "Bases para la creación de una agencia inter-americana de promoción de las exportaciones" (CIES/1143), 21 May 1967 and "Recomendaciones sobre las bases para la estructuración del Centro Interamericano de Promoción de Exportaciones" (CIES/1257), 19 June 1967; "Proyecto de Estatuto para el Centro Interamericano de Promoción de las Exportaciones" (OEA/Ser.H/XIV and CIAP/143/Rev.2), 27 October 1967, and "Informe del Relator de la Reunión de Expertos Gubernamentales para Elaborar los Estatutos de un Centro Interamericano de Promoción de Exportaciones" (OEA/Ser.H/XIV and CIAP/176), 27 October 1967.

differences between general and specific export promotion.

(a) *The interdependence and relative importance of export disincentives*

In order to find the specific weakspots where export disincentives might yield most readily to decisive attack, it is advisable to take into account the interdependence and relative importance of these disincentives, and to avoid limiting the investigation to the study of each obstacle in isolation. Failure to recognize that a more obvious difficulty might disappear or greatly diminish in importance if less obvious ones were attended to can create undue pessimism, besides preventing the concentration of trade promotion measures where they will be most effective. Some of the interrelationships that are of special importance in the case of exports of non-traditional products are those that prevail between high prices, low productivity and excess capacity; between inadequate export-mindedness and insufficient information services and training; between credit unavailability and poor or unknown market prospects; between fiscal incentives or disincentives and exchange rates; between high transport costs and inadequacy of export surpluses; and between the absence of export initiative and the initial cost of on-the-job training to satisfy more exigent foreign market requirements.

Difficulty in appreciating the subtle links between one problem and another has been one of the causes for the emergence of a number of popular theories regarding what are considered to be the most important obstacles to increasing exports in Latin America and the most pressing needs associated with them. They are to be found in newspaper articles, speeches, replies to questionnaires and other sources. Often no distinction is made between requirements for expanding traditional exports and those for non-traditional products. The general desire to see, as rapidly as possible, what is the nature of the challenge sometimes leads to over-simplification and to laying the blame for sluggish exports on one, two or three so-called "key obstacles". A year-round favourite is that Latin American producers "*no quieren complicarse la vida*". Another over-simplification is to be found in the excessive importance attributed to the non-competitive level of prices.

While the difference in emphasis derives partly from inadequate analysis of the dynamics of export development, it also stems from the fact that individual countries have their own varieties of the common problems and are at different

stages in solving them. Replies to inquiries made to determine what are considered by Governments and producers to be the most important reasons why Latin American countries are not exporting more semi-processed and manufactured goods are illustrative of this. While they reveal unanimity of opinion on some subjects, they display also divergencies on certain points, which apparently arise from disparities in development levels. An example of the first phenomenon (unanimity) is that quality deficiencies, some very real and others imaginary, are uppermost in the minds of exporters and businessmen in the less-developed countries of Latin America. Even if such deficiencies did not exist, the notion of them has become so ingrained by now that the very concept constitutes an impediment to export initiative.¹⁰ As for divergencies in views, among countries with a medium level of development there is a tendency for Governments and the private sector to emphasize the importance of trade barriers in other Latin American countries, and among the more developed much more emphasis is placed on trade barriers in other more-developed areas of the world. Most countries have stressed the relevance of inadequate production of export surpluses, the insufficiency of the financing of export production and operations, and the need to institute or strengthen export credit insurance.

In analysing relationships between specific export disincentives, vicious circles frequently appear. So far as the insufficiency of financing for export development is concerned, it is often argued that really worthwhile projects never lack financing,¹¹ and that money goes begging all over the world owing to the shortage of sound investment projects. On the other hand, financing

¹⁰ Studies of the type now under way in ECLA's Industry Division on prospects for specific commodities that appear to have export potential may serve the valuable purpose of bolstering the confidence of some Latin American producers who have not yet dared to believe in such a potential.

¹¹ See United Nations, "Industrial development: problems and issues", note by the Secretariat, mimeographed document prepared for the fifth session of the Committee for Industrial Development (E/C.5/75), 19 April 1965, p. 30. The document argues: "Since the developing countries can never become self-supporting at a high rate of growth if they do not create new capacities for the export of manufactures, technical assistance and economic aid should be directed in a more conscious manner toward this objective . . . It has been suggested that there are fewer suitable industrial projects available than there are national and international resources to finance them. A new momentum is needed in assisting developing countries to determine where their best industrial opportunities lie . . .".

for general goals, such as a scheme for financing exports in general, can be much harder to arrange than financing for a specific firm that appears to have sound prospects. Domestic financing for such prospects often cannot be obtained, however, except at high interest rates, owing to stringency in local money markets and, often, to inflation. Part of this stringency, in turn, stems from the fact that local capital has flown abroad owing to the shortage of interesting local investment opportunities. The channelling of direct private foreign investment into Latin American export activities requires the verification of reasonably sure demand for the products in question, in addition to favourable local treatment for such investments. The verification of demand, in turn, is related to the inadequacy of present market research efforts. Thus what appears to be purely and simply a lack of financial resources may be partly other problems in disguise.

In countries with chronic inflation, interest rates on local capital resources can be expected to continue high until this problem is overcome. Investors are of course interested in real rather than nominal returns. If there could be a firm guarantee that exchange rates for exports in countries suffering a significant degree of inflation would continually be adjusted to reflect the actual rise in the price level, inflated interest rates would be somewhat offset.

As to the question of high prices and low productivity as a hindrance to exports, the existence of excess capacity in Latin American plants has been recognized as widespread. The very process of producing exportable surpluses would increase productivity by reducing excess capacity and thus lowering unit costs. Moreover, the larger volume of sales realized by *entrepreneurs* could provide the same level of profits despite a reduced unit profit margin.

On the other hand, comparisons that lead to the conclusion that Latin American manufactures cannot compete abroad in price are sometimes based on a certain degree of overvaluation of the currency, which is susceptible to correction. This handicap to exports is very closely related to action taken by Governments to overcome the burden placed on potential exporters by internal taxes on production and sales and import duties on raw materials and other inputs. Despite recent widespread exchange reforms in the region, it would still be possible to cite an example of a Latin American country with a generous drawback régime for encouraging exports of manufactures and semi-manufactures that at the same time maintains an overvalued

exchange rate which is most effective in discouraging them.

The significance of the price-quality relationship can easily be distorted. It is sometimes said that prices of Latin American products are too high in relation to the quality of the products, as though products that were of inferior quality could find a market if the prices were right. Often they cannot. (In fact, studies have shown that many consumers take price as an indication of quality and are reluctant to spend too little.) Consumers in more industrialized countries will not eat peaches presented in a tin that has a visible defect, such as a stain at the seam, even if the product is given away. They would become equally suspicious about the safety of their health if the uniformity of the product that they are accustomed to was replaced by great variation in size of the units in the container. As for clothing fabrics, even low-priced garments in industrialized countries find a steady market only if they are as colour-fast and shrink-proof as garments of similar fabrics in higher price ranges.

Improvements that have already taken place in the quality of manufactured products in Latin American countries and the high standards attained by some are proof that quality obstacles are surmountable where there is interest, education, experimentation, access to patents and the incentive of a broader market to make the efforts worthwhile.

There is an important degree of interdependence between the need for information services, the need for training in export promotion, and the lack of export-mindedness. (Likewise there is a relationship between the degree of development of the country and the type of training and information services required.) So far as government officials and *entrepreneurs* are concerned, part of the cost of training facilities could be reduced if more of the printed information they require were available for study and consultation in a systematic, organized form. With better written training materials, relatively high-level trade promotion officials who have had more experience and are better able rapidly to assimilate new information might even provide training locally to middle-level personnel, thus avoiding the expense, in terms of time and money, of sending them abroad for training. Perhaps the greatest handicap to effective training in export promotion that has existed thus far has been the shortage of properly organized handbooks, catalogues, bibliographies and other printed material in Spanish on subjects related to trade promotion. If such material were readily

available it would greatly simplify the training process, and in the case of at least some particularly experienced and fairly sophisticated officials and *entrepreneurs*, make it unnecessary.

The connexion between training and information services and export-mindedness is very obvious. Lack of initiative in expanding operations to permit exports or in undertaking new production for export is based at least partly on ignorance of how to go about the process and on the lack of just the type of external impulse that is provided through education.

(b) *Differences between the promotion of primary products and promotion of exports of manufactures*

A further point to be borne in mind in considering export promotion needs of developing countries is that the international sale of primary products differs from that of manufactured products in a number of ways that have a bearing on their promotion. In the first place, the physical properties of primary products are in general easy to identify and therefore brand names or trade marks are not usually necessary. These products are sold on the basis of specifications and properties that are known and, with a few exceptions, the public does not have to be instructed on, or reminded of, their properties. (An exception is advertising of the benefits of natural products when their sale is threatened by the increasing use of synthetic substitutes.)

In the second place, primary products were sold internationally and traditional trade patterns established long before modern export promotion techniques were developed. In the case of the Latin American countries, the need to diversify production and exports was recognized before Governments became interested in trade promotion techniques as such, and this is an additional factor tending to make them place more emphasis on promotion of non-traditional exports.

World competition in exports of primary goods has come to be governed more by political considerations, negotiating talents, and bargaining positions than by publicity measures related to the merits or advertising of the products. In cases where supply and competition are limited, the extreme is even reached where buyers look for producers instead of *vice versa*.

Another way in which the international sale of primary products differs from that of manufactured products is that it is much easier to adjust production to demand in the latter case. Agricultural production depends on seasonal and other natural factors that make planning

of output much more difficult, and it is harder to anticipate the pattern of demand. Unexpected surpluses and scarcities can mean that promotion efforts are either wasted or unnecessary. The very uncertainties just mentioned have given rise to the international commodity agreements through which an attempt is made to prevent their disconcerting effects. In addition to uncertainties affecting production, many primary products are perishable, and this is another factor that has a bearing on their marketability and indeed the whole economic pattern of their production and storage for domestic or foreign consumption.

There are important differences in protectionist policies of importing countries for basic materials and manufactured goods. For fairly obvious economic reasons, there is a tendency for import charges and other restrictions to increase with the rise in the degree of processing. On the other hand, when the production of a primary commodity is considered to be particularly important to the economy of one of these countries, import charges, quota systems and other restrictions, or a combination of these with production subsidies, can conspire to make imports prohibitive. It is often easier to negotiate lower duties for certain specific manufactured goods than to change a country's policy on a touchy basic commodity. Political pressures arising out of the operations of lobbying interests aggravate the difficulties of exporting countries that are trying to break the policy barrier.

A further element to take into consideration is the fact that the impact of exchange rates on exports of manufactures is not the same as on those of basic commodities. Exchange rate policy in Latin American countries has frequently been geared to international prices prevailing for primary goods and to the need to strengthen the fiscal position in the short run. In countries where a major percentage of exports is constituted by primary products, where there is pessimism concerning prospects for an early increase in exports of manufactured goods, and where fiscal deficits are a pressing problem, the temptation to gear exchange rates to the highest possible valuation consistent with prevailing international prices for primary products is great. An exchange rate that is adequate for ensuring continued exports of traditional products may sometimes be so overvalued in terms of price parities between countries that new exports of non-traditional products are critically discouraged. On the other hand, the reluctance to resort to multiple exchange rates for different categories of exports is due not so much in

difference to the needs of the manufacturing sector as to the fear that the public international borrowing position might be jeopardized by resorting to a practice that has fallen into disfavour among powerful potential creditors and which has, moreover, been found to be incompatible with the requirements of free trade blocs and of GATT. Whereas the manufacturing sector may gain something in the form of lower prices for imported equipment and materials resulting from an overvalued exchange rate, this advantage affects only a part of costs and may not compensate for the low return, in national currency, for goods shipped abroad. It should be pointed out that in the past year several countries of the area have undergone currency reforms which, for the present at least, correct the adverse effects of exchange rates on exports of manufactured goods.

The foreign marketing of manufactures and semi-manufactures presents certain technical difficulties that do not arise in the case of traditional exports. Often demand must be created for a particular product or brand not consumed in the past. For some types of manufactured goods, repair and maintenance services and spare parts must be provided. Moreover, exports of manufactures sometimes suffer more from complicated procedures and regulations, owing precisely to official efforts to stimulate such exports through involved systems of exemptions and reimbursements of taxes.

An additional point of difference is that the export of manufactures is the goal of all countries. International competition in exporting primary products is limited by the natural resource structure but this factor has much less significance in competition in exports of manufactures.

Perhaps the best way to appreciate the difference in strategies required to promote exports of manufactures and those to be applied to stimulating trade in primary products is to observe that, aside from technological backwardness which hampers both sectors, a number of the major obstacles that appear in the first case either are absent in the second or else present themselves to a lesser degree or with different characteristics. Obstacles to exports of manufactured goods from the Latin American countries that might otherwise be competitive in price include: (a) lack of knowledge of what might sell abroad and of the techniques of international salesmanship; (b) lack of confidence abroad in the quality of Latin America's manufactured goods and inadequate measures to overcome that lack; (c) overvalued exchange rates combined

with the failure to adjust them adequately to inflationary processes; (d) transport costs; (e) insufficient development of export marketing organizations and co-operatives to channel dealings with distributors abroad; and (f) import charges and other restrictions in potential-client countries. Other difficulties related to credit, credit insurance, simplification of documents and procedures, etc., could doubtless be overcome even in the short run if these major barriers could be surmounted. With the exception of point (f) and to a lesser extent (d), the obstacles listed are not those which are handicapping the growth of traditional exports. These are affected more by the slow growth of world demand, in turn influenced by the more vegetative nature of the growth of consumption of agricultural products under the best of conditions. (The inadequacy of individual purchasing power in large areas of the world to satisfy even normal demands of growing populations is sometimes blamed for the slow growth of trade in primary commodities, but in reality it affects all categories of exports.) Other factors discouraging exports of basic materials are: (a) the development of synthetic substitutes; (b) economy in their use due to improved technology; and (c), increasing self-sufficiency in their production, influenced partly by new discoveries of natural resources and new techniques that permit more economical exploitation than formerly, and partly by political considerations. A further element that inhibits activity directed towards expanding exports of primary goods is the unpredictability of sudden and sharp price changes, some of these related to the piling up of surpluses and others to unexpected shortages.

(c) *Trade promotion in a common market and with third countries*

Some aspects of trade promotion needs will vary depending on whether exports to other members of the projected Latin American common market, or to third countries are involved. In the first place, techniques for negotiating reductions in import barriers in customer countries will be different, since in the case of the common market they will be subject to automatic and regulatory features of the free trade movement and will encompass certain common goals that will be non-existent in negotiations with third countries. On the other hand, negotiations with third countries will doubtless be based increasingly on the advantages of a common bargaining position, whereas this element will be absent in area negotiations, except for the consciousness of mutual advantages to be derived from mutual concessions.

In the second place, whereas countries which are not members of GATT might not have any guilt feelings concerning subsidies for exports to third countries, such subsidies are not permitted within the integration movement. This is an important consideration in relation to fiscal incentives to exports.

In the third place, the nature of competition within the common market will be influenced by special arrangements and considerations that will not prevail for trade with third countries. These can include, for example, industrial complementarity agreements, subregional agreements, special concessions to less developed countries of the area, and margins of preference against outsiders. Moreover, competition between countries forming part of the projected Latin American common market will take place between firms producing under more similar conditions and with a more homogeneous level of experience than will be the case with Latin American products competing in third-country markets against those of the more industrialized countries of the world. This is true despite the disparities in industrialization levels between the Latin American countries themselves. Another relevant consideration is that in the case of certain products manufactured in a Latin American country with a high content of inputs imported from third countries, the Latin American country might conceivably be able to compete in third countries' markets but not in that of another member of the integrating area, owing to rules of origin that will prevail for many years until the Latin American common market becomes a reality.

On the other hand, it can be expected that competition between Latin American countries for shares of third-country markets will eventually be modified as it becomes subordinated to the achievement of economic integration goals. It is not conceivable that such goals would be compatible with unbridled extra-area competition in all fields among Latin American countries. It is anticipated that the latter will undoubtedly experience greater difficulty in expanding exports of non-traditional products to markets of more industrialized countries outside the area than to other countries that are members of the economically integrating region. As pointed out in a document¹² of the United Nations Industrial Development Organization, the former appears to require more advanced production and organizational techniques than

¹² "The need for an export-oriented pattern of industrialization" (ID/CONF.1/56), 25 August 1967.

those employed for satisfying local demand, and thus an export-oriented pattern of industrialization would be required. (For obvious reasons, prospects for exporting surpluses of existing production based on present techniques are more promising within the Latin American region than elsewhere.) It is possible that the ability to establish an export-oriented pattern of industrialization capable of significantly increasing non-traditional exports of Latin American countries to countries in other areas may depend on co-operation rather than on competition among the former. Thus for a number of reasons the forces of competition in Latin American exporting may operate, and be restricted, in differing ways, depending on the destination-targets for exports.

The differences noted will gradually have more importance as time goes by and the aims of the common market are approached. In this connexion it will be recalled that the harmonization of trade policies between Latin American countries is laid down in integration plans and proposals and that certain aspects of export development in Latin American countries are likely to become subject to regional economic planning goals.¹³ (In fact, plans for development of frontier areas between some of the countries of northern South America are already under consideration.) In general it can be expected that export development and promotion among the Latin American countries will be increasingly subject to a variety of formulae for co-operative action at the regional level with a view to speeding up the common market movement, and those formulae that are envisaged will have to be taken into account in planning export production and promotion at both the firm and the national level.

The influence of the integration movement on export promotion requirements will have repercussions on the types of information services that will have to be provided to exporters, on training requirements of both *entrepreneurs* and government officials, and also on research and technical assistance needs. It implies the development of new specialties in fields of trade policy formulation and export promotion.

(d) *General and specific export promotion*

Some forms of encouragement and aid to export production and to foreign marketing are applied to the exports of a country, area or

¹³ "Progresos y problemas en la consideración de la integración económica en los países de desarrollo" (document presented to the Third Interregional Seminar on Development Planning, Caracas, December 1967).

sector in general, and others are applied at the level of the individual producing and exporting firm. Both are important, but in the past work of international organizations attention has been concentrated more on the former aspect, i.e., the problems and obstacles that handicap exports in general and the incentives that are required in general. (Such incentives include, among others, organization of export credit and insurance schemes, tax stimuli, simplification of procedures and documentation, information services, and training for *entrepreneurs*, labour and government officials.) Recently, however, there has been a tendency to give increasing importance to specific export development at the enterprise level. It is becoming recognized that the greater the extent to which measures taken at the national level to promote exports in general can be allied in a practical way with measures to solve specific problems affecting individual firms and products whose exports it is desirable to encourage, the sooner visible results will be achieved and the broader will be the scope of success attained.

Some obstacles and incentives to exports become much more important than others when viewed in the context of specific aims related to specific products, and when funds available for export promotion are limited, first priority should be given to determining which incentives are absolutely essential and relevant to products with export potential and which are merely desirable in order to follow some theoretical scheme of an ideal export promotion programme. It is conceivable, for example, that in some cases funds devoted to market research and quality control for specific products or the formation of a trading company might be more urgent and more effective than providing additional tax incentives or official sources of export credit to existing exporters who have so far managed without them. On the other hand, it is necessary to strike a balance between the need to establish priorities for optimum use of trade promotion resources and the equally imperative requirement that measures taken should not fall below the minimum that is indispensable for achieving results. The allocation of inadequate resources to important aspects of export promotion may often be more harmful than taking no action at all.

A real handle to export promotion in any country—developing or developed—is the decisive technical job of finding concrete production-market combinations for existing or proposed individual firms and export products. If produc-

tion on the necessary scale is possible and market prospects exist at the c.i.f. price that is feasible for a commodity, certain other barriers, the importance of which can be overemphasized, may often be overcome. Some of them—particularly the credit barrier—are much easier to surmount at the specific than at the general level. If sufficient production-market combinations cannot be found or attained, the cost of setting up agencies to provide incentives to exports in general will not be offset in terms of the effect of these combinations upon national income.

There are a number of reasons why insufficient attention has been given to the task of stimulating the right production-market combinations. In the first place, it is a technical job, similar to the work of consulting engineers or promoters, which is usually done for a fee. Many of those concerned with institutional aspects of trade promotion in Governments and international agencies are economists or administrators who would feel reluctant or else unqualified to get down to specific cases. Moreover, the terms of reference of institutions are such that their officials cannot achieve co-ordination between the production and marketing efforts at the individual firm or product level. This in turn results from a certain rigidity in existing notions concerning the extent to which governmental catalytic activity should be exercised. Although industrial and export planning are accepted in principle, the closer government assistance or intervention comes to the actual decision levels of the *entrepreneurs*, the more delicate the problem becomes. This is understandable; even when it is a case of assistance rather than intervention or regulation, rivalries prevail and criticism can be harsh.

It is precisely the type of difficulties described in the previous paragraphs that can make it hard for public agencies to operate with the agility, precision and forcefulness that can be found in private industrial and trade promotion efforts. A non-political, non-charitable private organization such as Atlantic Community Development for Latin America (ADELA) simultaneously investigates production, transport and market potential for existing or new enterprises that fulfil certain characteristics and, if prospects are positive, channels private local and international investments into the establishment or expansion of such activities. (Some of ADELA's investments are from its own capital of over 32 million dollars, which come from well over a hundred firms in fifteen different countries.) A formula might be sought for this type of practical programme of direct promotion on the

part of, or stimulated by, the national and international public agencies.

In an effort to relate activities more closely to the practical problems of the *entrepreneur*, Latin American countries which have recently been overhauling their export promotion machinery have been putting more emphasis on participation of the private sector in this work. Moreover, attempts to create a regional trade promotion institute (or firm) in Central America encountered the same need to close the gap between the public and the private sector that necessarily arises when one sector does the selling and another a large part of the promotion. The question of whether the institution would be public or mixed public and private, or whether two separate bodies would have to be set up with separate sources of financing, was debated for some time. On the other hand, participation of the private sector in the planning and organization of indirect public promotion activities is a necessary but not a sufficient condition for satisfying the need for assistance at the specific level of the firm. It might be asked whether the logical conclusion of the present trend in South and Central America towards greater participation of the private sector in export promotion activities at the national level might not be the actual formation of trading companies. Whether or not such companies would be private, mixed private and public, or fairly autonomous public companies might be less important than the way they are organized, the functions entrusted to them and the personnel working in them. These could not have, in the Latin American environment, the very comprehensive functions of the Japanese trading companies, but much can be learned from the techniques of a formerly less developed country that increased its exports of manufactures by over 320 per cent between 1955 and 1965, when the corresponding world average increase was 140 per cent.¹⁴

Another way of looking at the distinction between general and specific export development is to see it in relation to the functional and psychological gap that exists between private export production and sales activities and public promotion of exports. The very nature of sales activities is such that within individual firms producing for the local market sales and promotion activities are very closely co-ordinated and sales goals determine the type and volume of promotion work that is to be done. The situa-

¹⁴ For a description of the operations of such trading companies, see *The Economist*, vol. CCXXIII, No. 6458 (3 June 1967), pp. xxv-xxix.

tion necessarily changes when exports are involved; the producer or exporter inevitably becomes more dependent on government services and assistance in selling abroad, which brings with it an element of disadvantage. The disadvantage is that at least part of the promotion function is institutionally removed from the jurisdiction of the individual firm, while the latter continues to establish the specific sales goals. The danger arises that government export promotion activities may acquire goals of their own which are more abstract than those of the actual sellers of the commodities to be exported. The likelihood of this is enhanced by a number of elements, including the following: (a) government policies are interrelated and export promotion policy can in practice be subordinated to other governmental objectives, not all of which may be in harmony with the sales goals of the producers and exporters; (b) a Government's export promotion programme is likely to be guided by its conception of an ideal programme, and these in turn may be influenced by the strongest prevailing winds of national political and economic thinking. If great care is not exercised it is possible that an export promotion programme considered ideal at the national level may not be the form of assistance producers and exporters most need in order to increase their sales; (c) many promotional activities carried out by the Government will be directed towards export promotion in general, and there is the danger indicated earlier that only some of these may be related to specific products and even fewer to the problems of specific firms; (d) the traditional role of government is regulatory and authoritarian, which can be at variance with the businessman's requirements in a foreign sales agent supposedly at his service. The gap between sales efforts and promotion work may be partially closed through increased working contact between the private and public sectors, increased participation of the former in promotional activities, and special training courses organized for both groups with a number of subjects in common.

The preceding paragraphs of this section are not intended to detract in any way from the importance of export promotion activities at the national level designed to stimulate the export sector in general or to reorient economic activities in such a way that new export activities will be developed.¹⁵ Since the significance of

¹⁵ It will be noted later that some of the fields of technical assistance recommended for priority attention in the present study do in fact relate to stimuli for the export sector in general.

these activities has already been stressed and restressed elsewhere, the intention here is to emphasize the corresponding need for individual "case-study" activities that could have an immediate impact. Some direct assistance has been given to industries and firms through technical assistance programmes but frequently the terms of reference of technical assistance experts—even those assigned to specific industries—have been either too broad or too narrow to permit them to be instrumental in bringing about actual export sales. When technical assistance experts are requested in fields directly or indirectly related to export promotion, they tend more often than not to work either on problems of general export promotion at the national level or else mainly on production techniques at the industry level. The recommendation made later in this study that in technical assistance work priority should be given to the provision of export feasibility studies arises out of the considerations expressed in the present section.

Direct assistance to actual or potential producers in overcoming their short-run difficulties in exporting can prevent postponement to the long term of the results of general export promotion activities carried out at the national level. In some cases it can be the only way to prevent such postponement, and in this connexion it may be reflected that great achievements in the long

run inevitably turn out to be the total of smaller successes realized in a series of short-run periods.

There may or may not be instances in which export activities successfully stimulated in 1969 or 1970, on the basis of the existing production pattern and economic policies followed, are no longer feasible a few years later, when policies may be different or economic integration more advanced. However, even in these cases, it might be impossible to prove that such exports were not justified *in their time* and that they did not make their contribution to positive, longer-run development. Some export activities would require such large new investments that their initiation could be justified only if successful sales abroad over a period of several years could be anticipated in order to permit necessary amortization. However, for many other industries this limitation does not exist. Export feasibility studies would have to take into account future, as well as present, prospects for selling abroad, including the anticipation of the impact of any new trade, integration, industrialization or economic policies that appear likely to be adopted. On the other hand, they obviously cannot take into account abstract economic targets not yet adopted by Governments and not reasonably foreseeable as likely to be adopted—regardless of the theoretical standing of such targets.

III. THE TECHNICAL TASK AHEAD FOR INTERNATIONAL ORGANIZATIONS

Before turning to suggestions for practical export promotion projects which could profitably be undertaken by regional and international organizations, it may be as well to present some brief comments on the types of functions which are appropriate for such organizations. In this connexion, it may be noted that, despite the fact that different organizations may be working in different substantive fields, the types of functions they perform are, for the most part, the same. A review of the UNCTAD document¹⁶ cited earlier shows that all of the suggestions for activities by the United Nations to solve the problems defined may be classified according to a few basic types, such as technical assistance, information services and training. Similarly the broad types of activity in which IA-ECOSOC has envisaged that all inter-American regional export promotion agencies

should engage include research, information services for both exporters and potential importers (including provision of the results of market research), technical assistance, and training.¹⁷ These activities have a common denominator—the imparting or transfer of knowledge and information—and are particularly appropriate for action by international organizations and agencies at the regional level.

The acquisition of information and know-how is one of three major types of reinforcement that less developed countries need for the development of their export activities. The other two types are pragmatic and political rather than theoretical. These other two types of reinforcement are: (a) financial resources for export development efforts (including expensive infrastructural demands) and (b), political strengthening of national trade negotiating positions.

¹⁶ "A possible programme for the promotion of exports of manufactures and semi-manufactures from the developing countries", op. cit.

¹⁷ "Bases para la creación de una agencia interamericana de promoción de las exportaciones", op. cit.

Although their attainment may be made somewhat easier as a result of information services, technical assistance and training provided by international organizations, or through other co-operative efforts among the nations concerned, much of the burden falls heavily on these countries themselves. International organizations, with the exception of such lending agencies as IDB and the International Bank for Reconstruction and Development (IBRD) do not possess investment funds of their own and cannot finance individual production and export projects; nor can they make national political decisions that might influence trade negotiations.

There is another significant function that international organizations are fulfilling. It consists in the provision of forums and the facilitation of international contacts, bargaining and co-operative action between countries. This catalytic function is particularly apparent in the work of organizations established for the purpose of providing a trade forum (UNCTAD, GATT, and intergovernmental trade associations) or organizations dealing at least partly with political questions (such as the OAS, the Special Committee on Latin American Co-ordination (CECLA) and LAFTA), but it is also to be found in many aspects of the work of other institutions whose terms of reference are limited to technical fields. For example, international meetings are arranged by these institutions to permit businessmen, government officials and specialists from different countries to meet, broaden their knowledge, reach common understanding and find means for future fruitful association.

1. *Research and information services*

Practical tasks in which regional and international agencies could engage in order to help fill the research and information requirements of Latin America's existing and potential exporters might include the following:

(a) Co-operation with Governments in the preparation of really practical national exporters' manuals. Such manuals should not be merely a collection of the country's trade laws with notes on their interpretation in specific instances and lists of export charges, although this information may be a necessary annex to them. The most important thing the manual should contain is a list of the export procedures required in particular countries, with clear, simple explanations that tie them down to pertinent facts, such as those concerning offices and officials to deal with, hours of attendance, and

time-limits for completions of the formalities required. In addition, it should show how to determine the profitability and possibility of exporting, how to investigate tariffs and other import restrictions abroad, including those pertaining to marketing and advertising, how to find markets and establish relations with importers, how to procure additional information locally, how to organize for export, and how to mark, pack, insure and ship the merchandise. It should clarify the significance of co-operation among exporters and the meaning of official trade policy, describe sources of export credit and export credit insurance, provide information on aids and incentives available to the exporter, give some interpretation of the relevant legislation, advise on foreign registration of patents and trademarks, and include a minimum bibliography;

(b) Preparation of a publication, that would serve as a regional trade fair in print, publishing data on goods offered and goods sought by Latin Americans, similar to a service included in the United States official trade publication *International Commerce*. This service lists products which importers in other countries are searching for, providing names and addresses of importing firms, and similar data, for United States imports. Some of the smaller export agencies in the United States owe a significant part of their business to just the type of lead that can be gleaned not only from Department of Commerce's publications but even from newspapers, such as *The New York Times*.

While a service of this kind might not be justified in the case of one individual Latin American country, if it were organized on a regional basis it would have sufficient scope to repay the effort. The regional trade fair publication would serve as a Latin American clearing house of information where buyers and sellers could state their interests. Firms in Latin America which might be planning to import from a traditional non-Latin American source might be encouraged to advertise their needs in the organ of the clearing house. National chambers of commerce could undertake the responsibility of circulating the publication to local businessmen to ensure broad coverage;

(c) Publications of a regional Latin American trade digest that would include material from all available sources, screened, condensed and translated for consumption by businessmen;

(d) Organization of a loose-leaf service that would keep trade associations, export associations, producers and exporters up to date with changes in export and import regulations. The

service could be classified by countries in such a way that individual exporters could subscribe only for those countries of special interest to them and consult the service for other countries in trade and export association libraries;

(e) Since it will not be possible to include in the trade digest or the exporters' manual mentioned above all the information of possible interest to exporters, it would be advisable for the latter to have access to a regularly revised, annotated bibliography of foreign trade books and periodicals, and market commodity and industrial studies. GATT has already undertaken work in this field, and it is important that it be continued and expanded and, above all, that ways should be found for its fruits to come to the attention of those who can put them to practical use. For example, an exporters' manual could include this type of source material in a bibliographical appendix. Likewise, librarians of local exporters' associations could be encouraged to assist businessmen in making better use of the facilities available;

(f) Regional and international organizations could provide assistance in the organization, reorganization and development of adequate libraries to serve export promotion requirements. Although exporters can accommodate some reference material in their own offices, they will from time to time require information that goes beyond the scope of what they can practically keep on their own shelves.¹⁸ Moreover, the number of inquiries referred by businessmen to government officials could undoubtedly be reduced if other reliable sources of information could be developed.

A number of the services referred to above could become self-supporting, through subscription charges and advertising income;

(g) International organizations and regional bodies can help close the information gap by continuing with the type of market research studies (investigating possibilities for Latin American export products in specific markets) which have already been undertaken by GATT and the OAS. Special market information of interest to only one firm would on the other hand form part of export feasibility studies,

¹⁸ For example, they might or might not have their own copies of an award-winning service called "International yellow pages", a catalogue now published annually by Reuben H. Donnelly Telephone Directory Co., 225 East 45th Street, New York, listing more than 200,000 businesses in 150 countries, classified under approximately 3,000 industrial and service headings. The importance of this service for the preparation of international mailing lists can readily be appreciated.

mentioned subsequently in relation to technical assistance requirements.

In connexion with the above suggestions, countries outside the Latin American area that have already achieved a high level of industrialization spend substantial sums annually collecting and publishing data in their own language which not only is of great interest to their own *entrepreneurs* but, if translated into Spanish and Portuguese, would be of inestimable value for their counterparts in Latin America. Information on export opportunities prepared in the United States, for example, reaches government officials and librarians in Latin American countries, but does it reach the potential exporter? This type of material is "hot" for only a very limited time. However, it is not secret; it can be subscribed to and quoted, and with ingenuity, dexterity and the aid of airmail, producers in other countries could participate in the competition.

GATT publishes material of current interest to *entrepreneurs* and also other data of longer term interest that is of value to trade promotion officials. The former includes the publication *International Trade Forum* which, in addition to other useful information, prints "Trade opportunity notes" classified by demand and supply and giving names and addresses of firms offering and seeking specific types of goods. Other work of current interest which it also includes is market studies on specific products, such as a study published by them in January 1966 on *El Mercado de contrachapados y de chapas de madera en Europa Occidental*. In addition, GATT has published (Geneva, 1966) a catalogue of *Manufacturing and Trading Associations in Twenty-eight Countries*. The information is classified by countries and by branches of industry. Of interest to both exporters and government trade promotion officials is GATT's *A Select Bibliography for Export Promotion Services in Developing Countries* (Geneva, 1966). The bibliography is an example of wheels within wheels, since it includes references to other bibliographies and reference works, such as *Basic Bibliography on Marketing Research and Dictionary of Advertising and Distribution Terms in Dutch, English, French, German, Italian, Portuguese, Spanish and Swedish*. Of special interest to government trade promotion officials is GATT's *Manual de Técnicas de Fomento de la Exportación* (Geneva, 1966), which gives detailed information on export promotion techniques used in eight developing and nineteen developed countries. Another GATT work that is useful to trade

promotion officials is a report on a symposium organized by its International Trade Centre (*Training in Export Promotion*, Geneva, August 1966). The report includes not only the highlights of the discussion that took place in the symposium but likewise a survey of existing trade promotion training facilities in thirteen countries, and indications of future courses in six of these and two additional countries. Two recent publications that deserve mention here have appeared under the auspices of the UNCTAD/GATT International Trade Centre. They are: *Manual on the Compilation of Basic Information on Export Markets* and *The Organization of Trade Missions by Developing Countries*.

Publications of Latin American countries in the trade field contain material on trade promotion that is often of interest to more than just one country of the area. A good trade promotion library at the service of exporters would of course include these publications. (An example is *Comercio Exterior*, published monthly by the Banco Nacional de Comercio Exterior S.A. in Mexico.)

A number of bibliographies currently available contain data on many books and other publications of potential value to Latin American exporters. The perusal of an extensive bibliography included in the *Foreign Commerce Handbook* of the Chamber of Commerce of the United States resulted in the selection of over fifty books and publications of practical interest for exporters in other countries, some of value for those aiming at United States markets and others of broader applicability. In addition exporters should be aware of, and have easy access to, lists of publications of the International Chamber of Commerce designed especially to facilitate international trade. Further relevant bibliographical material is contained in *The Dartnell International Trade Handbook*, the second edition of which was published by The Dartnell Corporation in Chicago in 1965. Moreover, the Organization of American States has prepared an extensive bibliography for use in its international marketing courses. GATT's bibliography on export promotion has already been mentioned. A bibliography of twenty-two English- and Spanish-language periodicals, published mainly in the Western Hemisphere on subjects related to Latin American production, trade, finance, economics, marketing conditions, transport, etc., has been prepared by the University of California at Los Angeles. This institution has also published other reference works on Latin

America of potential interest to exports, such as a statistical abstract, a bibliographical guide to studies on Latin America and a directory of organizations within and without the area that are interested in its development. Additional bibliographical material of interest to Latin American industrialists and exporters is contained in "Latin America: a checklist of industrial development data" prepared by AID/PEP (Agency for International Development: Private Enterprise Promotion) and published in volume 135, No. 9 (September 1966) of *Industrial Development and Manufacturers Record (The International Guide to Industrial Planning and Expansion)*. The bibliography is a careful selection of over 500 current publications related to Latin America's industry.

Assisting Latin American exporters to take advantage of material already prepared or in preparation by agencies and organizations with experience in the trade promotion and related fields is only part of the task of establishing and improving information services. It will also be necessary to develop new sources of information and to investigate markets and conditions for specific products which either are already exported or else appear to have export potential and could be produced in sufficient quantity to provide the volume of export surplus that would be marketable and remunerative.

It is useful to differentiate between trade information of general interest that Latin American exporters require and data on aspects of specific interest to an individual country or producer. Much of the information included in the first category will relate to conditions and regulations in target importing countries and will be of interest to all of the Latin American countries; thus it would probably be most economical and more effective to have it collected, selected, and made available on a regional basis. The Latin American countries have common trading partners and all will be interested in changes in regulations and conditions of trade in those countries. Many of them are exporting the same products or else are interested in potential exports of the same products. Data on prices, processes and other conditions affecting trade in these will be of mutual interest. On the other hand much of this information of common interest to Latin American countries is likewise of value for other countries outside the Latin American area and is of the type that they are already providing periodically to their own importers and exporters. A regional trade promotion agency

could select, rearrange and, where necessary, translate the appropriate material and add to it in areas where it is considered to be inadequate.

New studies will have to be developed for some trade promotion subjects of general interest but this will be even more the case for problems and products of specific interest to one or a few countries or producers. They will involve the prospecting for trade opportunities in very concrete cases where there are substantiated reasons for believing that if market and transport conditions would permit, a producer or producers in a particular country would be able to compete successfully. At this point, market research and sales promotion come very close together; if conditions are sufficiently favourable they merge. It is at this stage that the element of time is particularly important and delays in exchanging information, ideas and estimates can discourage initiative or open the way to competition from other sources. Likewise it is here where government promotion efforts must be co-ordinated with those of the *entrepreneur* himself, if export is to be made directly, or with those of the export association, co-operative or trading company, if export operations are to be indirect. Obviously detailed investigation of the export possibilities of specific national industries and firms cannot be carried out in the same way as research and information projects for the benefit of a region in general, but would have to be restricted to the national sphere.

Aside from research and information services of direct interest to producers and exporters such as those described above, some international or regional organization might consider that research of interest to Governments in the orientation of national policies of increasing exports would fall under the heading of research for export promotion. As pointed out earlier, this is a matter of interpretation and of definition, and these vary widely, depending not only on points of view but also on terms of reference and fields in which experience has developed confidence. Under the very broadest interpretation of what constitutes research for export promotion, such as one might find in an organization concerned with regional economic integration problems, the following future tasks might be included:

(a) Studies of possibilities for industrial specialization at the regional level;

(b) Investigation of possibilities for the development of new export-oriented industries.

The experience in Central America demonstrates that trade policy measures to broaden markets present both opportunities and threats which can force a significant number of existing *entrepreneurs* to take measures to increase their exports, regardless of whether Governments, or regional or international organizations, are assisting through the provision of information services. However, studies and the development of strategy are required in order to bring about the establishment of new export-oriented industries;

(c) Studies leading towards the strengthening of Latin America's trade policies vis-à-vis the rest of the world;

(d) Research leading to the harmonization of trade policies. This would include analysis of alternative means of ironing out conflicts between export promotion policy in one country and another, especially in the matter of what may be considered to be acceptable subsidies and incentives to exports;

(e) Research showing which industries, if any, depend so much on fiscal incentives that they might not be competitive internationally, should such props be removed as a result of regional harmonization of fiscal incentives to exports.

Needless to say, any agency wishing to limit the consideration of export promotion activities to those related to post-production activities would never agree to the inclusion of the above studies under the heading of research for export promotion. Still, they represent work that will have to be done in Latin America if export stagnation is to be avoided in the medium and long run. Post-production export promotion activities can be very helpful in the short run, which is in itself very important, but more is required for long-term export growth in the area.

2. *Training for export promotion*

Training in the foreign trade field is not a new activity but with new developments and changing requirements, novel approaches are being employed. Until recent decades such training has been limited mostly to academic and theoretical aspects. Subsequently attention to more practical elements started with the preparation of diplomatic personnel who would be devoting themselves to commercial tasks abroad. Only in recent years has a broader consciousness developed of the unsatisfied needs in the field of training for export. Undoubtedly previously

neglect of the practical aspects of such training was due to the fact that export activities were viewed by many Governments as a residue of other economic endeavours. Exports of a specified product were considered as a branch of the over-all enterprise covering its production and sale, and whatever professional training might be required for that enterprise had to suffice to cover export processes as well.

New requirements for training have developed out of the great changes that have been taking place in the direction and composition of world trade flows and in the characteristics of distribution networks. The increase in the intensity of international competition and in the relative importance of manufactured products in trade flows on the one hand, and the consolidation of internal distribution into great national networks on the other, have made indispensable the development of export activity as a specialized technique. In the more developed countries it is frequently found that firms that carry out export operations are not the same as those that produce the goods, the task of exporting being left to firms specializing in this field. In the Latin American countries, where exportable surpluses of individual firms are relatively small and often do not make up the minimum volumes that would be required for doing business with a large-scale distribution network in the importing country, specialization in export activities is likewise of great importance. This specialization calls for the technical training of the personnel that will be engaged in it. In the public sector new training requirements for government have developed out of the increasingly important role that Governments have been called upon to play in stimulating and regulating exports, arising partly out of the unfortunate economic effects of increasing stringency in the external sector and partly from the need to diversify exports. In general the greater complexity of the process of exporting manufactured goods, as compared with the simpler, more familiar ground of exporting primary commodities has contrived, with other factors mentioned, to enlarge the scope of export training needs.

Training is required at various levels and aside from the general considerations reviewed above, each level has its own special motivation. The three main categories of practical preparation cover: (a) *entrepreneurs*; (b) manpower; and (c) government officials. The categories may of course be subdivided for a more refined analysis.

(a) *Entrepreneurs*

Although the need to increase Latin America's exports of non-traditional products has been widely recognized, there still remains the task of developing to a sufficient extent the whole complex orientation towards exports that producers require before they can become successful exporters of manufactures and semi-manufactures. This orientation does not consist only of the desire to export, but of this desire combined with an understanding of what has to be done to convert it into a reality. The *entrepreneur* is the key figure who, in the final analysis, makes the decisions and acts directly, once government authorities have removed institutional obstacles and provided incentives, and when he has at his disposal the necessary resources. What type of orientation does the exporter need in order to be in a position to play his decisive role? In order to answer this question it is necessary to consider the factors that are inhibiting him at present.

In some cases, for example, the *entrepreneur* realizes that he would have to change certain characteristics of his product in order to satisfy foreign market requirements. However, he may have no concrete ideas or knowledge concerning those requirements, or perhaps he has an erroneous notion concerning the potential ability of his labour force to adjust to modifications in the production process. At times he may overestimate the difficulties, with the result that he sinks into discouragement and inertia.

In other cases producers know that they would have to find some form of co-operation with their national competitors in order to be able to offer their exportable surpluses on an economic scale, thus fulfilling the requirements of distribution networks in other countries; however, impediments arise from the very fact that these national competitors are at the same time their traditional adversaries. Hence the need for external stimuli in order to attain the necessary co-operation, reorientation and, in some cases, the formation of an autonomous export firm, independent of the producers, which would have the specific task of marketing their products abroad.

Another disincentive is the fact that the requirements and complications of the export process increase daily, which means that the potential exporter loses himself in a maze of measures, procedures, laws, and even the frightening number of national and international organizations that are being established to facilitate or control operations of the external sector.

Still another factor that discourages export initiative is to be found in the ways in which mass markets have developed economically and socially; the growing importance of super-markets, consumer co-operatives and other mass distributors has given rise to conditions and requirements of ever-increasing complexity for products marketed through them. While new techniques eliminate some of the intermediaries in the marketing process, they have resulted in stricter requirements with respect to uniformity of the product, packaging and regularity of deliveries.

Of the three broad categories of personnel that require training in export procedures and techniques (*entrepreneurs*, government officials and manpower), it is the *entrepreneurs* who will probably have most difficulty in finding time to attend training courses. It is quite possible that they will likewise have the least initial interest in them. Moreover, there are limits to the resources available for training in this field. Hence the great need to provide existing and potential exporters with organized literature, carefully prepared bibliographies, catalogues, and other written materials that may serve for study and reference. This aid will not only minimize training needs but contribute to making training activities much more effective.

Among lectures at courses addressed to *entrepreneurs* it would be advisable to include exporters with practical experience who know the field well and national and international officials who can explain and clarify the relation between the work of the Government and international agencies and the practical operations of the *entrepreneurs*. Among the subjects that might be included in training courses for businessmen, the following are suggested:

- (a) The significance of exports for the country in general;
- (b) Economic and social characteristics of selected foreign markets of special importance;
- (c) Ways in which importers and consumers in other countries react to a lack of standardization; flaws and quality irregularities; failure to meet delivery dates; and other deficiencies that might be familiar and accepted characteristics in domestic trade;
- (d) The need to develop a favourable national image for export products;
- (e) Market research techniques, i.e., determination of present and future demand, taking into account foreseeable increases in population and income; changes in age distribution of

consumers; fashion trends and leisure activities; elasticity of demand, etc.;

(f) Ways in which exporters in other countries co-operate among themselves in order to facilitate or control operations or reduce prices;

(g) Advantages of co-operation through export associations and co-operatives;

(h) Techniques of wholesale and retail trading abroad and of finding agents and representatives; differences in techniques of trading in manufactures and those for exporting primary commodities;

(i) How to take advantage of publicity services abroad and participate in international trade fairs;

(j) The relation between transport services and export potential;

(k) How to calculate export costs and prices;

(l) Controls and procedures in the exporting country and ways of verifying those that prevail in importing markets;

(m) Public services at the disposal of the exporter;

(n) The functions of national and international institutions working in the foreign trade field;

(o) Available sources of export credit and credit insurance;

(p) Procedures for securing technical aid and assistance in training manpower;

(q) Review of sources of information on prices and markets abroad;

(r) The use of statistics;

(s) Special considerations to be borne in mind in trading with countries participating in the Latin American economic integration movement;

(t) International agreements and arrangements for trade in basic commodities.

It has been suggested that in areas where there are free trade agreements (such as Latin America), training of exporters should be supplemented by training programmes for importers. The suggestion was based on the impression that the present ignorance of importers in Latin America regarding how effectively to increase imports from other countries of the area is an impediment to intra-regional trade.

However, such training might be labeled "import promotion" rather than "export promotion". The two activities have the same general goal from the standpoint of the region as a whole, i.e., increased trade. It is only when

they are seen from the viewpoint of an individual country that they mean different things. It is doubtful, though, that one country in a free trade area would want to stimulate its imports through training programmes if the other countries would not do likewise. Perhaps the only feasible way of bringing about such training would be through the organization of a regional training programme for Latin American importers.

(b) *Manpower*¹⁹

It can in general be expected that the lower the level of a country's economic development the more inadequate will be the level of training of manpower for tasks in industry and the more difficult the task of adjusting production techniques to meet foreign demand characteristics. On the other hand, experience during the Second World War has shown that when other disincentives, such as non-competitive prices and difficult access to markets, were removed, some relatively less-developed countries were able to increase their exports of manufactures to a surprising extent.²⁰

This phenomenon is due in part to the fact that the countries had already achieved a certain level of industrialization through import substitution during the nineteen-thirties, but it is also due to the manual specialization that is characteristic of many industrial processes and which permits the training of labour on the job in a relatively short time. The significance of this factor is more apparent when it is recalled that in a number of Latin American countries there exists the paradoxical situation where an important proportion of manpower that might be working in modern industry is employed in artisan tasks of low economic yield but requiring an agility and manual training far superior to that which would be demanded by specialized work in a machine-equipped factory.

While accelerated stop-gap training activities are not a long-term substitute for a manpower training policy and programme conceived of from the point of view of the needs of national industry as a whole and subordinated to the goals of national industrial development plans,

¹⁹ It could be argued that retraining of manpower has nothing to do with export promotion but inasmuch as labour will play a crucial role in the adaptation of production techniques to foreign demand, such retraining has been included in the present broad interpretation of export promotion.

²⁰ See United Nations, *Proceedings of the United Nations Conference on Trade and Development*, Geneva 23 March-16 June 1964, vol. IV, *Trade in Manufactures*, New York, 1964, p. 80.

and while it cannot be claimed that they would be adequate under all circumstances or for all types of industry, nevertheless, they serve an important purpose and sometimes are indispensable for the development of an industry within a reasonable period of time. An example of what can be done with unskilled labour through on the job training is provided by certain Italian industries that were granted State subsidies for the purpose.

The period required to retrain manpower to produce for export represents an initial expense for the *entrepreneur* and a corresponding risk. Consequently it is of great importance that an effort be made to identify the sector where problems and deficiencies in manpower training impede the expansion of production necessary for obtaining export surpluses and that priority be given to finding solutions. It is quite possible that investment of public funds in the training of government officials might not be compensated for by an increase in exports if it is not accompanied by an improvement in the technical ability of those who will actually have to produce the goods. It will be necessary to verify in individual cases to what extent *entrepreneurs* may have technical problems that impede the training or retraining of manpower, and to what extent the basic problem may lie in the disincentive constituted by high initial costs of production during the training period.

(c) *Government officials*

The training of government officials in fields related to exports appears to have received relatively more attention thus far than the training of *entrepreneurs* or manpower for the external sector. Nevertheless there are noticeable weak spots. One is the inadequacy of the training provided to diplomatic personnel in this field. Another is the obvious difficulty of training really top-level officials working on subjects related to export promotion. Export Promotion Training Symposium organized in Geneva in May 1966 by GATT's International Trade Centre resulted in the preparation of a kind of inventory of courses offered to trade promotion officials in many European countries, Oceania, Japan, India, Pakistan and the United States. In the description of the symposium that appeared in GATT's *International Trade Forum*, volume II, No. 3 (August 1966), it was stated that the "course-giving agencies were ... feeling their way forward" and that the courses represented a relatively new experience. However, the inventory of courses and the report on the discussions that took place in the sym-

posium give the general impression that considerable progress has been achieved.

In those discussions stress was laid on the need to train those who work in auxiliary services such as insurance, banking and shipping, those engaged in export promotion in private organizations (trade associations, chambers of commerce, export councils) as well as government officials working in the export field. The need to train middle-level officials was likewise emphasized. Other suggestions included: (1) the participation of importers and wholesalers in developed countries in the process of training people from less developed countries in techniques of trade promotion; (2) practical marketing studies to be made by individual trainees for specific export of their countries; (3) variations in international courses according to the individual needs of the trainees and the countries they come from; (4) in-service training with exporting firms, following a general introductory course.

In the above-mentioned issue of GATT's *International Trade Forum* it was stated further: "Bearing in mind that the courses under discussion were for trade promotion officials and not directly for export managers, a considerable debate developed around the extent to which instruction should be given in the basic mechanisms of exporting and marketing With the possible exception of certain traditional export commodities, trading firms in many developing countries have not built up an effective export organization, nor acquired all the necessary know-how about export practices In point of fact exporters were relying on trade promotion officials for very practical help and advice in a variety of matters such as export documentation, the type of packing required, handling and warehousing facilities, freight rates and sailing lists, location of suitable representatives, etc."

Limits to the field in which trade promotion officials need to receive training are determined by the functions they will have. In the Symposium the question arose as to how far trade promotion officials could or should enter into the technical field of market research. Should they engage in complicated demand projections, for example? Should they not engage professional consultants to undertake specific research projects and market feasibility studies as and when needed?

In practice, government trade promotion officials need to be familiar with many types of problems of interest to the exporter, particularly since, as indicated above, exporters do rely on

officials for help and advice. Consequently it could logically be expected that their training requirements would include many of the subjects mentioned under training of *entrepreneurs* as well as detailed suggestions concerning their own special functions and those of other officials with whom they will be working. The reference to their own special functions reaffirms the suggestion made earlier that training needs will vary according to the level and position of the officials. However, it must be taken into account that changes of position are not infrequent in government services of developing countries, and therefore the scope of training should be considerably broader than the minimum required for any one level.

One of the most important fields of training for government officials who will be concerned with export promotion is trade policy. All efforts of Governments to increase their exports are one form or another of implementation of the country's trade policies; consequently the scope of understanding of the officials carrying out those efforts cannot be limited only to such matters as market research, publicity, credit facilities and technical assistance to exporters. Officials must be able to see how their own functions fit into the over-all picture of the country's trade aims. The secretariat of ECLA provides a regional course in trade policy which attempts to give such an over-all picture. The syllabus includes such subjects as: (1) world trade and economic development; (2) trade policy: its instruments, formulation and execution; (3) international institutions, agencies and groupings connected with trade policy; (4) Latin American institutions and agencies connected with trade policy; (5) evolution of the trade policy of the Latin American countries; (6) objectives for a Latin American trade policy; (7) trade policy in relation to regional economic integration; and (8) negotiation techniques.

It is also worth noting that plans are under way for a co-operative effort of UNCTAD, UNIDO, and the regional economic commissions of the United Nations in the field of trade promotion, which, according to the report of a recent meeting of the Executive Secretaries of these commissions, would include training activities in developing countries.²¹ In the past, both the United Nations and the Organization of American States have co-operated with GATT in organizing training in trade promotion. In

²¹ United Nations, "Report of the meeting of the Executive Secretaries of the Regional Economic Commissions" (E/4410/Add.1), 18 July 1967.

the future, it will be necessary to achieve sufficient co-ordination of export promotion activities in Latin America so that assistance may be concentrated with a view to attaining maximum effectiveness within the possibilities of total available resources.

Just as in the case of training programmes for *entrepreneurs*, course requirements for government officials would be simplified and training less costly if adequately organized printed reference material were available in Spanish. On the other hand, the effort and expense involved in preparing much of this material could probably be minimized if the part that is of interest to all countries were to be prepared on a regional basis.

Training of export promotion officials and related government personnel lends itself to action at the regional level more readily than training of *entrepreneurs* and manpower. Both of the latter groups generally have to remain close to their base of operations. In addition their fields of activity tend to be more specific, and consequently in their training greater emphasis would be placed on practical problems and their special local characteristics.

(d) *Academic training*

In addition to the three categories of practical export promotion training just mentioned, it may be as well to consider what might be done to ensure that education and training in export promotion receive sufficient attention in academic circles. If this can be done, then less-developed countries will gradually be able to cover their own practical training needs. Moreover, instruction of economists and others who will be working in related fields can include courses that will help to give them a better understanding of the significance of export promotion in relation to their own work.

The development of comprehensive courses in export promotion (as the term is understood in its broadest sense) will not be easy. Even in the most industrialized countries, this is one of the fields that has been somewhat neglected in academic circles. Whereas instruction in international marketing and other specialized aspects of the export development process has been provided in detail, the broad subject of the dynamics of increasing a country's exports and the interrelationships between the various tasks involved has apparently not been dealt with. At the international level an export development doctrine is gradually emerging—mainly through the work and documentation of UNCTAD and other international and re-

gional organizations. However, it is at the national level that such a doctrine would have to find its practical adaptation and application and its local counterpart. An important training gap must be filled within individual countries if such an application is to come about.

The gradual growth of export development as a discipline within the broader field of economic development is a task that can be speeded by perceptive and imaginative research and analysis on the part of those international organizations that have the experience, the competence and the terms of reference to carry it out. In addition, it may be possible to utilize practical experience already acquired by such organizations if those who have served as technical assistance advisers in export promotion could be invited to act as visiting lecturers at academic institutions.

3. *Technical assistance advisory services*

The extent to which it is possible to generalize about technical assistance requirements in the export promotion field in Latin America is rather limited. These requirements vary considerably from one country to another and, as is well known, technical assistance is frequently needed in order to determine just what they are. It can be said however that certain technical deficiencies are commonly found in countries of the area and consequently it appears reasonable to expect that assistance will be requested by at least some countries in order to overcome them. On the basis of a knowledge of these deficiencies it can be foreseen that technical assistance will be required in connexion with all four categories of export promotion functions mentioned in section II, 2 of the present study, from which it follows that the assistance would have to be rendered at both the national and the enterprise level. Some tasks will be related to creating and improving the climate for exports, and others to perfecting and moving specific products within that climate. The temptation to devote a disproportionate share of technical assistance resources to the provision of advice on the former aspect to the neglect of the latter may be great in the beginning, but it should be resisted.

The specific fields in which it can be foreseen that technical assistance will be requested by at least some Latin American countries are the following: (a) export product improvement, particularly through quality control and standardization; (b) organization of export associations, co-operatives and similar facilities for concentration and channelling of export func-

tions; (c) analysis of fiscal and monetary disincentives to exports and possibilities for improving the situation; (d) the preparation of export feasibility studies (including market research, production prospects and potential financing) for specific firms and products; (e) simplification of export procedures and documents; and (f) public relations for trade (advertising, presentation and contacts). In the pages that follow suggestions and data will be given on these points which it is hoped may provide some background or ideas for those who will be concerned with the provision of technical assistance.

(a) *Export product improvement, particularly through quality control and standardization*

There are two major points to be considered in connexion with the need to guarantee consistent quality of goods exported; they must not only conform to the standards of the importing country but must also be uniform in quality. Government action to ensure this is particularly important in the case of developing countries, which are newcomers to the field of exports of manufactures. In the first place, the quality of their goods will be suspect simply because they are newcomers and because past experience with changes in suppliers has not always been favourable. In the second place, these countries are entering a buyers' market, where competition is so keen that even unessential trimmings or "extras" sometimes determine the choice between one offer and another.

Technical assistance is required at the plant level to improve the quality of production and introduce techniques of quality control. In addition, government controls at points of shipment need to be brought into line with the demands of the national interest in increasing exports.²² This task involves not only vigilance but likewise the establishment and revision of standards.

Argentina has an applied research institute (Laboratorio de Ensayos de Materiales y de Investigaciones Tecnológicas of Buenos Aires Province—LEMIT), largely financed by the Ministry of Public Works of that province, which was originally created as a quality-control laboratory for products purchased by the government of the Province. The activities

²² It has been pointed out elsewhere that certification of the quality of Latin American products by foreign-controlled firms costs the exporting countries significant sums in foreign exchange, which could be saved if local controls were developed to the extent necessary.

of the Institute were subsequently expanded to cover research in raw materials and industrial processes and by now it has acquired substantial experience in a broad range of fields. LEMIT is the outstanding example of its kind in South America, and its experience may serve as an example for similar efforts in Latin America as a whole whether at the national or the regional level. It should therefore be studied by specialists recruited for similar work elsewhere in Latin America.

A recent Arthur D. Little study on the management of technical programmes²³ has some interesting things to say about the changing status and role of quality-control techniques in the United States. Some of these concepts, resulting from long experience in this field, will be of interest to countries which have only recently been employing quality-control techniques in manufacturing and for those called upon to give technical assistance in the field. For example, it points out that this type of control has developed its own way. In earlier years it enjoyed little professional prestige because it involved repetitive use of standardized techniques which can be applied by employees with little or no technical training, and because the results were used only to determine whether the product could be allowed to leave the plant or not. Now, according to this study, "introduction of sophisticated instrumentation requiring skill in operation and interpretation, use of statistical methods of analysing results, and application of the findings in improving efficiency of operation are all forces towards greater recognition of the professional aspects of quality-control programmes.... It has become ... common to have a quality-control co-ordinator, reporting to a member of general management, who is responsible for establishment and dissemination of quality standards, summarizing and analysing data from different plants, and supervision of methods for enforcing specifications throughout the company."

The study also points out that even in countries that now have advanced economies, quality in certain types of industry has until fairly recently been judged by production supervisors largely on a subjective basis. This has been true of the type of industries which are the first to be established in less developed countries (textiles and food processing). Recently, however, these industries have established testing

²³ Lawrence W. Bass (Arthur D. Little, Inc.), *The Management of Technical Programmes, with Special Reference to the needs of Developing Countries*. Praeger Special Studies in International Economics and Development. (New York, Praeger, 1965.)

laboratories or secured the services of an outside technical group in order to make quality judgments more objective. Newer uses of quality control that have evolved with experience show that planning and carrying out improved control familiarize scientists with the technological problems of an industry, and quality-control results can be combined with quantitative data on flow of materials to improve yields, conservation of raw materials and general efficiency of operations.

Quality control and competition, at both the domestic and international level, are intimately related. Refined methods of quality control practised in more industrialized countries will be a factor discouraging competition from the less developed, just as exaggerated styles in packaging and novel promotion techniques will play their part. To ensure the sale of high quality products, some department stores in the United States have established their own laboratories to test the products they sell. This is carrying quality control out of the laboratories of the production units and into the merchandising and distribution units and in practice is a double check on quality. A further refinement of the system, representing still a third point of control exercised over the quality of the goods, are the consumer organizations themselves, dedicated to research, testing and publication of recommendations concerning products with have yielded the best results in practice. Exports from less developed countries to the great industrial centres must either have special compensating characteristics of their own, or else compete with all the rigid standards already developed in the markets where these countries seek to place their goods.

It can be anticipated that the best use of scarce personnel available for technical assistance assignments in the field of quality control and standardization will probably be to assign them to advise on the organization or strengthening of government-sponsored applied technological research institutes and bureaux of standards. Once such facilities are well established technical assistance to individual firms can be introduced at the national level. In the case of some countries it will be found that large sums are already being spent annually by universities and others carrying on technological research that is rather far removed from the practical needs of existing or potential industries which might have export possibilities. This situation may exist side by side with a tiny and quite inadequate corps of underpaid technicians struggling with such practical problems

as quality control of exported goods. The diagnosis of inadequate financial resources for carrying out this type of work sometimes disguises the real problem of poor distribution of a country's resources between academic and applied research. This is an aspect that should be carefully studied.

Another possibility that should be examined and which would imply some measure of regional co-operation in the field of quality control is to what extent certain technical facilities might be shared by a group of countries. More elaborate technical facilities may be required by countries with a higher level of technological achievement, and it might not be advisable for the less-developed countries of the area to go to the expense of providing themselves with equipment or services that they might require only occasionally and that they might have access to, for a fee, in the more developed countries. Experience in Central America with the provision of technical services at the regional level (through the Central American Research Institute for Industry—ICAITI) has been good and relatively inexpensive in terms of total population served and in comparison with similar expenses elsewhere for smaller populations. All avenues should be explored for achieving savings in this field through regional co-operation. The first step would be a technical evaluation of requirements of the countries of the region, and the next would involve bringing representatives of the countries together to discuss means of co-operation.

No matter how effective technical assistance for improving quality control and standardization may prove to be, it is going to take time to develop controls and systems to the point where they will be adequate for correcting the bulk of present quality deficiencies. Meanwhile, a stop-gap measure that could be applied to exports to gain the confidence of foreign buyers might be the establishment of a quality insurance fund to indemnify importers against defective shipments. Details of the indemnifications could be published to discourage future infractions. The payments should be made, however, only when failure of the shipment to meet specifications would mean that the marketability of the merchandise would be prejudiced. Goods could be inspected locally prior to export in order to qualify for a recognized quality mark, and the insurance could be applied to merchandise bearing such a mark. A number of practical difficulties would arise in the operation of a scheme of this kind. More difficult than the problem of financing would be determining what

authority should inspect the goods and decide on individual cases. Nevertheless, the problem of lack of confidence in products coming from unknown or doubtful sources is too great to be ignored or just disregarded in the pious hope that it will eventually take care of itself. (There have been cases where buyers in Europe and the United States who previously purchased non-traditional Latin American products have ceased to do so, explaining that the deciding factors were either the failure of the shipment to conform with the sample or the fact that some finishing processes were not actually finished. Similar experience could be cited in cases of shipments between Latin American countries.)

Another stop-gap measure might be the establishment of trouble-shooting machinery. Experience could be pooled at the regional level to determine which exports importers have had problems with, and which therefore require special efforts to improve or standardize them.

(b) *Assistance in the organization of export associations*

Many Latin American producers who desire to export are handicapped by the fact that the volume of production of their individual firms is not large enough to justify the additional expense of export activities or to satisfy requirements of large-scale distribution networks abroad. Some countries of the area have already taken steps to group producers of the same type of commodity in export co-operatives. In view of the importance and magnitude of the work still to be done, there appears to be little doubt that organizing for export is a field where technical assistance needs will arise frequently.

It is not necessary to describe here the various direct and indirect organizational patterns for carrying out the export process. This ground has already been covered in a document presented by the secretariat of IA-ECOSOC to the meeting at Viña del Mar.²⁴ However, there is one aspect that may require more stress than it has received in the past: for some types of products and situations, export co-operatives and associations dealing with homogeneous products will not be enough to bridge the gap between producer and buyer. For goods produced by only one or a handful of firms in a country it may be necessary to have recourse to a trading company dealing in a variety of commodities and offering services that go beyond the scope of an export co-operative or association. Moreover, even in

²⁴ Fifth Annual Meetings of the Inter-American Economic and Social Council at the Expert and Ministerial Levels, Viña del Mar, 15-26 June 1967.

the case of export co-operatives and associations, the functions they perform may have to go beyond the export process and include technical and even financial services for producers.

(c) *Fiscal incentives and disincentives to exports*

In the report of the Consultative Meeting of Experts on United Nations Technical Assistance Relating to Exports of Manufactures and Semi-Manufactures from Developing Countries,²⁵ one of the fields in which it was considered that technical assistance advisory services would be required was that of fiscal incentives to exports. Shortly thereafter ECLA published a study of the problems involved in such incentives.²⁶ A brief summary of relevant material in the study is presented below as an indication of elements that will have to be taken into account in specific cases of technical assistance to Governments in this field.

Fiscal incentives for exports have to do with the exemption of reimbursement—in whole or in part—of import duties and internal taxes on raw materials and other inputs used in the manufacture of products for export, and of taxes on the final product. Since these charges affect the cost and price of exports, the exemption and reimbursement are for the purpose of improving their ability to compete in world markets. Some of these incentives may be applied to exports of primary products, but they have much more importance for manufactures and semi-manufactures. Frequently, exports of primary products not only do not qualify for tax incentives but are even subject to taxes or a less-favourable exchange rate.

The various types of fiscal incentives are defined in the study referred to and the definitions will not be repeated here. The principal problems that arise in their application are the following:

<i>Incentive</i>	<i>Problems</i>
Reimbursement of customs duties and other import charges (drawback) ...	(a) Difficulty in determining content of imported raw materials when relatively complicated manufacturing processes are involved (b) Discouraging effects of complicated procedures

²⁵ ECLA, "Note by the Secretariat presenting the Report of the Consultative Meeting of Experts on United Nations Technical Assistance Relating to Exports of Manufactures and Semi-Manufactures from Developing Countries" (E/CN.12/781), March 1967, annex 5.

²⁶ "Fiscal incentives for export", *Economic Bulletin for Latin America*, vol. XII, No. 1 (May 1967).

<i>Incentive</i>	<i>Problems</i>
	on present and potential exporters
	(c) Delay in reimbursement of duties paid means a loss of the real value of the reimbursement, which is particularly important in countries with a significant degree of inflation
Temporary duty-free admission of inputs	Difficulty in controlling the movement of the merchandise admitted under duty exemption and in ensuring that it is re-exported, with the result that in most countries the régime is not applied to raw materials and other inputs that are to undergo further processing in the country
Free zones for the establishment of export industries	Of limited importance, owing to the economic factors that determine optimum location of industries
Controlled storage with suspension of duties . . .	Appropriate only when the manufacturing process is relatively simple
Compensatory duty-free import of raw materials to replace stocks previously imported, processed and re-exported	(a) The difficulty of determining the content of imported raw materials in cases where complicated manufacturing processes are involved (b) Relatively high initial costs for the new exporter
Reimbursement of internal taxes	(a) Difficulty, in the case of cumulative sales or consumption taxes, in determining the real incidence of the taxes on the product exported (b) Delay in reimbursement of taxes paid means a loss in the value of the reimbursement, which is particularly important in countries with a high degree of inflation

From the above it can be seen that in different countries and different situations there will be variations in the preferences for one technique over another. Some of the problems listed can be overcome in practice by choosing one particular technique instead of another, according to the local requirements or by modifications or elaborations of a technique (such as the "typification" process associated with the use of drawback in Argentina). Some countries have tried to solve the problem that arises from the difficulty of determining, in the case of cumulative taxes on sales or consumption, the true incidence of taxes on the product exported, by adopting a tax on value added at each stage of processing from the importation of the raw material up to export of the final product. Argentina applies a tax of this kind to a limited extent and the members of the European Economic Community (EEC) have chosen it as the remedy for certain disparities in tax practices, and discrepancies between the charges actually paid and the amount reimbursed.

Aside from the difficulties that arise in the application of fiscal incentives, there are others, related to decisions concerning their adoption. One of the most important is the possibility that the stimuli might constitute subsidies. A general principle that governs international trade, which is contained in the General Agreement on Tariffs and Trade and other world trade instruments, is that the quantity that may be reimbursed may not exceed the total amount of charges actually paid. Any excess is to be considered a subsidy and may give rise to the application, in the importing country, of anti-dumping or compensatory charges. In addition the reimbursement of certain types of charges is considered to be a subsidy, although there are areas of disagreement on the classification of charges according to this concept (social security payments, taxes on fuels). On the other hand, subsidies that do not have prejudicial effects on other members of the trading area—whether GATT, a free trade zone or a common market—are in general not considered objectionable.

In the case of products already being exported without special fiscal incentives, the result of the application of these would depend on conditions of demand as well as on efforts to take advantage of the incentive. If demand for a product were relatively inelastic, the result of the measure might not be a reduction of prices but rather higher profits for exporters than at present and a loss of revenue to the Government.

Any technical assistance that may be given to Latin American countries in the field of fiscal

incentives to exports will have to take into account likewise that LAFTA and the Central American Common Market have undertaken action looking towards the eventual harmonization of such incentives. As progress towards an all Latin American Common Market is made, this action will be enlarged and have increasing importance. Consequently it would not be advisable to stimulate industries through types of fiscal incentives that temporarily might give one country some unusual advantage in conditions of competition while there looms on the horizon the probability that such an advantage might suddenly be withdrawn and thus remove an essential support from the industry.

For the reasons expressed, serious consideration should be given to the possibility of combining technical advice to individual Governments with assistance at the regional level to aid attempts to achieve gradual harmonization of such incentives to exports. It is necessary for example to arrive at definitions of the types of fiscal stimuli which are and are not permitted within the integration programme. At present some countries are avoiding certain practices defined in free trade treaties as subsidies while other countries subject to such treaties are using stimuli not mentioned or prohibited in the treaties but having the effects of a subsidy (working, for example, through the direct tax structure).

(d) *The preparation of export feasibility studies*

Assistance in this field would be related to the need, described earlier in this study, to ally export promotion activities with specific problems affecting individual export firms and products (both existing and proposed). It would be project work involving the investigation of all factors on both the supply and demand side that might make export to specified destinations feasible or unfeasible for a firm or group of related firms. To understand what is meant by the demand side of export feasibility studies it is necessary first to define one aspect of it that has varying interpretation, i.e., market research. Investigation of prospects in foreign markets can be carried out in such a way as to determine whether a product of one country or area with certain given characteristics would be likely to be in sufficient demand in another country to warrant attempts to enter the market. In this case the results will be of interest to an indefinite number of firms but will not answer certain questions of burning interest to one firm in particular. On the other hand, it can be carried out on the basis of precise investigation

of details of special interest to one specific producer or exporter, involving research into probable costs of shipment, handling, services, interest, etc., anticipated returns in a given market, relationship of potential export production volume to minimum distribution requirements, probable consumer reaction to proposed form of packaging, brand name, finishing processes and other details and credit conditions required by the prospective importer or importers. In this second case it forms part of an export feasibility study. The term "export feasibility study" is in reality just another way of referring to the work of inquiring into production, transport service, and foreign marketing possibilities and conditions and calculating the returns that may reasonably be expected. In practice this work can be much more difficult and involved than would appear from the preceding condensed description, particularly in cases where complex technological processes are concerned. For this reason, feasibility studies are often entrusted to consulting firms with a staff of specialists in a broad range of fields.

The cost of having recourse to private consulting firms can be high for a firm not producing, or planning to produce, on a relatively large scale. On the other hand, the government assistance that is available for feasibility studies can contribute only a very little towards filling the need for them that exists. These conditions of cost and scarcity mean that either export possibilities are lost simply because they are not investigated or else the potential exporter must make all of his own inquiries and calculations, often under conditions where the complete picture is so complex that it is easy to overlook some factors that, while less obvious, have an important bearing on export possibilities. Some firms will be able to make their own export feasibility studies and arrive at sound judgments and others will not.

Technical assistance that may be given in this key area will in many ways help to determine the effectiveness of aid in other export promotion fields. At the same time this is perhaps the field in which it will be most difficult to extend such assistance. It constitutes a form of direct help at the enterprise level and is a service traditionally provided for a fee. Should a public agency providing or arranging technical assistance of this kind charge a fee, either to help cover its own expenses or to compete with private consulting firms that do so? In the past, international institutions have provided private firms with technical assistance on production problems upon government request without

charging any fee. There are also precedents for the hiring of private consulting firms by international agencies. Another question is where to draw the line between free technical assistance and that given for a fee. It could be argued that export feasibility studies at the enterprise level entail a comprehensive form of co-operation and responsibility vis-à-vis the specific *entrepreneur* or firm which will be the sole beneficiary of the service and that therefore such service should be remunerated. As a stimulus to improving the quality of the service and its results, the *entrepreneur* could be given a choice of paying either a flat fee or a percentage of profits over a specified period of time. The payment requirement would doubtless serve also to discourage frivolous and inconsequential requests.

(e) *The simplification of export procedures and documents*

Cumbersome practices and regulations play their part in discouraging exports from a number of Latin American countries, the complexity of documents and procedures varying in accordance with policies followed and other factors. In some cases it is necessary for an exporter to take steps to acquire and negotiate practically a dozen documents before his merchandise may be embarked. For some types of control he may be able to handle the documentation from the town where he resides—perhaps a small port city—and for others he will have to travel to the capital or else maintain or send an agent there. The documents and procedures cover such requirements as registering the exports for statistical purposes and possibly other controls (quantitative, exchange, etc.), giving evidence of the validity of the purchase contract, securing letters of credit, and obtaining quality certification. Carrying out these steps can involve visits to a number of different offices.

In some countries less attention has been given by Governments to the need to simplify the procedures through which exporters can take advantage of tax exemptions and similar stimuli to exports than to the simplification of steps involved in the actual embarkation of the merchandise.

Export procedures require not only simplification but in some cases decentralization and stabilization. With respect to decentralization, it is not enough to ensure that financial arrangements related to exports can be taken care of in the provinces and smaller trading centres at some distance from the capital. All export procedures

should be sufficiently decentralized so that prospective exporters are not discouraged by having to make costly and time-consuming journeys to other parts of the country merely to obtain documents related to quality control of the merchandise or some other requirements for embarkation. Frequent changes in export procedures are one of several factors which cause exporters to take the short- rather than the long-run profit view. The prospect of impending changes in government regulations, based on similar experience in the past, leads *entrepreneurs* away from making decisions to accept short-term losses in favour of long-term gains. The President of the Chilean Export Association has said that the authorities responsible for regulating foreign trade have to be convinced that regulations relating to exports must be stable and not subject to violent changes, and must not include conflicting requirements which breed uncertainty.²⁷

Export documentation must be simplified in order to avoid useless repetition of the same information. Often the information that is repeated on the forms involves more clerical work than the inclusion of the few items that vary from one form to another. In the past few years European countries have been working out solutions to this type of problem; in view of the savings in administrative expenses thus realized, it is worth examining these solutions with a view to assessing what might be transferable to Latin America.

The United Nations Economic Commission for Europe (ECE) has published, in Spanish, French, English and Russian, a manual entitled: "Guide on simplification and standardization of external trade documents". An outstanding feature of the task has been the preparation of a master form (layout key) which permits the adoption of a single-run procedure for the preparation of international trade documents. This results in a substantial reduction of the time required for filling in the forms and, above all, for checking. In a description of the system published in the supplement to GATT's *International Trade Forum*,²⁸ the principal and practical advantages of the systems are explained as follows: "The principle behind the layout key is that certain basic (standing) items of information, such as the names of the consigner and the consignee, the declaration of goods, etc., are as-

²⁷ *El Diario Ilustrado*, Santiago, 30 June 1965.

²⁸ S. Simonsson, "Export documents and their simplification", published in GATT International Trade Centre, *International Trade Forum*, vol. III, No. 2 (May 1967), Supplement, p. 5.

signed a definite area of space, the same on all documents. The forms are then aligned so that the 'one-run' procedure can be adopted. There are a number of technical alternatives for this procedure, but the general principle is, briefly, to write each item of information only once on a master; by an appropriate method of reproduction this information is then automatically carried over on the various other forms." In Sweden, companies using this procedure realized considerable savings in costs within a short time. One company found that it had reduced costs of shipping documentation by almost 70 per cent. Another reduced personnel in the export department from fifty-one to thirty-eight persons. Still another company was able to transfer seven stenographers to other types of work.

The procedures formulated by ECE have already been adopted by various Governments and international agencies. The Brussels Customs Co-operation Council has recommended that its members apply a version of the new system to shipping declarations. The Universal Postal Union has accepted a new form of despatch note aligned on the ECE layout key, and the International Railway Transport Committee has prepared a new form based on the ECE model for the international consignment note for rail transport.

Unduly complicated export procedures and documents have more importance for potential than for existing exporters. These formalities may be increasing the clerical expenses of the former, but at least the exporters have not been discouraged by them and presumably can find their way through the maze. On the other hand, there are undoubtedly other *entrepreneurs* who simply do not want to complicate their lives by having anything to do with the complex function of exporting. While it may be argued that the latter may change their attitude through re-education under training programmes, information services and improved exporters' manuals, all these tasks would be simplified, facilitated, and more likely to yield satisfactory results if procedures and documents could be compressed, rationalized and kept to the minimum.

The proliferation of export procedures is usually related to the way in which official functions are distributed throughout the public administration and to the type of liaison between these and related private activities. If export promotion and regulatory functions are distributed throughout several agencies or ministries located in different parts of the city, the physical and jurisdictional distance between one office and another will be a factor com-

plicating both procedures and documents. There is every reason to expect that dealing with three independent offices will involve more steps, more time, and more paper work than would be the case if only one agency were involved. In other words, procedures that would appear as duplication and unnecessary if export regulation could be centralized under one agency will actually appear essential for the same regulatory functions where they are divided among several agencies. It can be seen therefore that the task of advising a Government on simplification of export procedures is almost inseparable from that of evaluating the soundness of the institutional framework for regulating export activity.

A serious problem that arises not infrequently in trade promotion institutions in Latin America is the delay in taking action, when technical assistance has already been provided and it is known what has to be done, resulting from disputes over which agency should carry out the task. An effort could be made in connexion with simplification of procedures to establish principles and criteria for the institutional division of the tasks connected with national trade regulations which could serve as an impartial frame of reference for jurisdictional disputes. One of these criteria might be that offices which have only one or two simple functions to perform in relation to exports might assign an official to the central trade or export agency of the Government in order to carry out those functions.

(f) *Public relations and trade intelligence*

Technical assistance in public relations required for export development can be expected to include advice on a host of details that combine to make products more readily acceptable abroad. It has to do with advertising, packaging and presentation, trade-marks, forming and developing contacts abroad, and all of the historical, cultural and political factors that make it necessary to alter sales appeal techniques according to the environment of the target country markets. Proficiency in creating sales appeal depends not only on imagination and initiative but also on detailed knowledge of a given market. For some products (particularly consumer goods) general information on the market gleaned from printed sources is not enough for an exporter who has had no personal contact with his ultimate buyer.²⁹ So far as

²⁹ As the British Board of Trade put it in an advertisement in *The Economist* (15 April 1967), "It's hard to sell your product overseas if you don't know the local shopping habits".

packaging is concerned, for example, colour can be the decisive factor in the choice of one brand in preference to another and the reaction of the public to colours differs from one country to another in accordance with cultural symbols. Likewise, trade names may sound fine in one language, but ridiculous or inappropriate in another.

An article in *Business Abroad and Export Trade*³⁰ stresses the importance of knowing about local attitudes, taboos, beliefs, customs and symbols. It points out that even between two English-speaking countries (the United Kingdom and the United States) symbols differ greatly in meaning. For example, in the former a black cat crossing the path is considered to be an omen of good luck and in the latter of bad luck. In Thailand feet are regarded as despicable and a package showing a picture of feet would be unadvisable and even in poor taste. Showing pairs of anything on the Gold Coast would be flouting a cultural taboo. Colours for mourning vary from country to country, as do rules for what advertising can claim. The article points out that "in France... pharmaceutical advertising must be approved by the Minister of Public Health. In Italy the advertising of cigarettes and tobacco is prohibited. Western Germany has restrictive legislation which forbids the use of all superlatives and all comparatives in advertising."

One of the functions performed by good agents in more developed countries is to advise prospective exporters regarding minor changes in the product or its presentation which may greatly enhance its sales potential. It is preferable, however, to be able to count on at least some elements of this kind of advice in the exporting country as well. In the United Kingdom an exporter can call upon the Trade Intelligence Office of the Board of Trade for advice in a broad range of fields, including packaging, pricing, advertising, introductions to foreign buyers and agents and participation in fairs. The developing countries, with their much more limited experience in selling manufactured goods abroad, have an even greater need for this kind of service to exporters. Many of them could probably benefit from technical assistance in its establishment.

It might be possible to combine a regional trade intelligence service (functioning within a regional trade promotion institution) with technical assistance to those Governments that

wish to establish their own services. In other words, in addition to advising on the establishment and organization of these local services, the regional unit might correspond directly with exporters in Latin American countries who require access to specialized knowledge on some point related to publicizing their goods or improve the presentation of them. Most of the problems of a public relations and trade intelligence nature that arise for the individual exporter are concerned with details that are not broad enough in scope to call for prolonged study or assistance or justify the visit of an expert to the country. What is needed is a service that can cover a wide range of such details for a large number of firms.

(g) *Past technical assistance*

Until fairly recently international technical assistance in the field of trade promotion *per se* had been requested and provided on a relatively limited scale. On the other hand, technical advice in trade promotion has often been provided as a by-product of assistance in stepping up activities of a specific industry or economic activity. (In fact it has been estimated that in 1965, before they were merged in the United Nations Development Programme, the Expanded Technical Assistance Programme and the Special Fund were supporting 100 technical and pre-investment projects with a direct bearing on, or a close relationship to, the objective of expanding the exports and tourist trade of low-income countries.³¹)

In recent years GATT has been offering technical assistance services to developing countries, and in March 1966 it was decided that its International Trade Centre should provide a Trade Promotion Advisory Service. Experts coming mainly from existing national trade centres have been sent to countries requesting assistance from the Centre in improving promotion services, and their action has been coordinated to ensure that they would apply certain general principles which may be said to constitute the policy of the Centre in this field. According to these principles, the functions of an export promotion service are to:

1. Obtain and provide information on products and markets;
2. Maintain contacts with administration offices concerned with foreign trade, on the one hand, and with exporting firms and other pro-

³⁰ Edward M. Muzzle, "How to push a body abroad without making it a corpse", published in *Business Abroad and Export Trade*, 10 August 1964, p. 16.

³¹ See United Nations, "Proposed UNCTAD/GATT International Trade Centre" (A/6879), 30 October 1967, p. 1.

fessions involved in exports, on the other (transport, banking, insurance, etc.);

3. Try to reduce obstacles to exports by:

- (a) Simplifying procedures;
- (b) Simplifying documentation;
- (c) Reducing causes of disputes—adopting model contracts, introducing arbitration clauses, unifying terminology, etc.;
- (d) Training new exporters.

In plans for the Service, it was stressed that the expert's advice must be adjusted to the particular situation he finds in the individual country and that he must always keep in mind the need not to impose a burden out of proportion to the country's contribution capacity or to the results that may be expected.³² During the first year of operation of the Service a number of advisory missions to developing countries were organized and financed by individual developing countries.

The technical assistance advisory activities of the OAS in the export promotion field in recent years are described in one of their reports.³³ They include arrangements for a mission to study possibilities for developing exports of certain manufactured products from Ecuador, provision of an expert to Costa Rica to investigate technical assistance requirements and priorities, assignment of an expert to Colombia to advise on the organization of an export promotion fund, and the initiation of other activities preparatory to the assignment of experts to the National Foreign Trade Information Centre (Centro Nacional de Información sobre Comercio Exterior) in Mexico and to organizations concerned with developing non-traditional exports in Uruguay.

A number of Latin American countries have requested and received the services of United Nations experts in trade promotion fields (Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay). In several instances, the assignments of these experts were defined in very broad terms, and concentrated attention on specific aspects of trade promotion was not facilitated by the terms of reference under which they worked. A noteworthy exception was the Trade Promotion Mission to Mexico in 1966, organized with the co-operation of GATT, which concentrated on specific prospects for Mexican

exports of forest products, pulp and paper, petrochemicals and textiles.

Thus a considerable amount of technical assistance for export promotion has already been furnished to Latin American countries in recent years and the experience gained through this work should provide some lessons for the future. One of these lessons is that efforts of United Nations experts to change the institutional framework and establish or modify export promotion offices have met with very serious difficulties. On the one hand, it must be recognized that there are deficiencies and gaps in the existing institutional set-up vis-à-vis export promotion requirements but, on the other hand, it is necessary to try to overcome them in ways that are different from those that have been tried and failed. It has become clear that institutional changes cannot be recommended in a vacuum but must be related in a practical way to requirements and programmes in specific fields. Suggestions for institutional changes can generally be depended on to arouse bureaucratic rivalries but if they are supported by unchallengeable technical criteria, the restrictive and delaying effects of such rivalries and jurisdictional disputes can be diminished. It would be worth the effort to review the extent to which institutional changes suggested in past reports of generalists in export promotion have actually been carried out in Latin American countries.

So far as technical assistance to Governments in the general improvement of their transport and other infrastructural facilities for exports is concerned, many surveys of over-all requirements and studies of specific projects have already been made in Latin American countries by national and international specialists but their findings often do not lead to action for reasons that have nothing to do with their technical soundness. It is anticipated that one of the results of the export feasibility studies recommended elsewhere in the present paper would be the highlighting of transport needs in relation to specific projects and that in this way transport projects already studied and proposed would receive an impetus for their implementation.

The fields for technical assistance advisory services dealt with above do not include a special heading for aid that might form part of efforts to mobilize and develop export credit and export credit insurance. One reason for this is that the major problems and requirements associated with such mobilization do not appear to lend themselves to solution through

³² See GATT International Trade Centre, Supplement to *International Trade Forum*, vol. II, No. 3 (August 1966), pp. 10 and 11.

³³ IA-ECOSOC "Informe sobre el Progreso del Programa de Trabajo de la Secretaría en el Campo de la Promoción de las Exportaciones" (OEA/Ser.H/X.11, CIES/1143, Add.2).

future programmes of technical advisory services in credit and banking fields *per se*. The basic problems are: (1) how to improve the competitive position of export activities in bidding for capital resources, a large proportion of which is attracted by high interest rates to other activities; and (2) how the Latin American countries can reach a position of sufficient mutual confidence to experiment with: (a) spreading risks through multilateral credit insurance, and (b) increasing complementation possibilities through multilateral credit arrangements. (The limits on the amount of export credit that can be expected from non-Latin-American sources are rather narrow: export credit is a weapon of international trade competition common to all trading countries, and even developed countries do not show signs of abandoning their competitive stance. Moreover, for political as well as economic reasons Latin American countries are becoming reluctant to increase their already very large debts to the more-developed countries. It is considered that those regional programmes that will involve some degree of external financial assistance or regional financial co-operation will continue to be based on studies made by the few interna-

tional institutions which have financing functions.)

With respect to export credit techniques and practices, surveys of the general outlines of the effect of export credit and credit insurance systems in many countries of the world have already been published by both OAS and the United Nations in recent years, thus giving Governments an opportunity to study, and profit by, the exposition of how problems have been dealt with elsewhere. The specific technical questions that can arise in the local banks' implementation of new systems have been examined by competent local bank personnel in many Latin American countries, and channels for export credit and credit insurance have been or are being developed.

As indicated before, the ideas included in the present study are neither all-inclusive nor authoritative, but are merely intended as suggestions. The field of export promotion—or export development, broadly speaking—is one that is still relatively unexplored academically and one in which there is a great deal to learn through practical experience. The learning process will be facilitated by exchanges of ideas between those accumulating such experience.

THE TRANSFER OF TECHNOLOGY AND ITS RELATION TO TRADE POLICY AND EXPORT PROMOTION IN LATIN AMERICA

1. Introduction

In 1966 Latin America provided 5.7 per cent of the total value of merchandise entering into world trade that year, which compared very unfavourably with the situation recorded in 1956, when the region accounted for 8.3 per cent of the total world export value. During this ten-year period the value of world exports¹ rose at an annual average compound rate of growth of 6.7 per cent, while the annual rate of growth of the value of Latin American exports was only 3.0 per cent. However, in more recent years the export performance of Latin America has shown an improving tendency. During the period 1960-66 the value of world exports grew at an annual average compound rate of 8.0 per cent, while the value of Latin American exports grew at an annual rate of 5.2 per cent. But when this improved export performance is contrasted with that attained by certain other developing countries, in which an extremely determined export drive has been mounted since 1960, then the Latin American export effort must be viewed with serious disquiet.

During this same period, 1960-66, annual average compound rates of growth of export value amounting to 40.0, 22.0, 14.6, 11.5 and 9.2 per cent were registered by Korea, China (Taiwan), Israel, Hong Kong and Thailand respectively.² It is true that certain special factors strongly influenced the export realization of these countries during this period, such as the enlarged demand for military supplies stemming from war or the threat of war in the Middle East and in South East Asia; special capital investments and purchasing operations undertaken by the United States Government in these countries; tariff preferences available in certain developed country markets; and generally high and sustained rates of capital inflow (private and official). But the export efforts were also beneficially influenced by many general factors, such as: the existence of particular social relationship within these societies; po-

litical stability; adequacy of basic infrastructure; abundant supply of industrious and skilled labour; strong entrepreneurial initiative; and well-designed, effectively implemented government policies.³

Amongst the government policies successfully implemented in these countries for purposes of export stimulation, the most important were those related to investment in basic production capacity, exchange rate stabilization, export credit facilities and export incentives. Other government measures which also had a favourable impact upon export performance were those designed to effect improvements in raw material procurement, product design, quality control, product standardization, export price fixing, overseas marketing, external commercial representative, trade agreements and trade fairs and publicity. It is clear also that the combined effect of all these various government policies wrought a profound change in these countries in the general business and commercial climate prevailing and assisted in stimulating the creation of a strong and pervasive general export consciousness.

It is also instructive to examine the composition of the export trade developed by these countries during the nineteen-sixties, particularly with reference to the export of manufactured and semi-manufactured products.⁴ As might be expected, products of a light industrial and labour intensive character figured prominently in the enhanced export flow, especially cotton textile yarns, fabric and garments; woollen piece goods and garments; wood, leather and rubber products; processed food-stuffs and flavourings; human hair, wigs, beards and clothing accessories; toys and games, artificial flowers and household decorations.

However, there were other exported products from these countries which were growing in importance during this time period, that were of a more sophisticated and capital-intensive

¹ Including those of the centrally planned economies.

² See annex, table 1.

³ See supplementary paper No. 25 of the United States Research Organization, the Committee in Economic Development, *Economic Development Issues: Greece, Israel, Taiwan, Thailand* (New York, 1968).

⁴ See annex, table 4.

nature. For example, chemical products, fertilizers, metal goods, machinery, tools, electrical equipment, transport equipment, transistor radios, components for radios and television receivers, watches and clocks, scientific instruments, jewellery, paper and paper products, printed materials, glassware, sewing machines and components, and travel goods. Such products generally displayed a fast rate of growth in world trade during the first half of the nineteen-sixties,⁵ and the movement of these countries into the production of these dynamic export products is a further explanatory reason underlying the marked export successes recorded.

Furthermore, the fact that the bulk of the export trading of these countries was conducted with the industrially developed economies of North America, western Europe and Japan indicates that exporters, many of whom were newcomers to external marketing, did succeed very quickly in meeting international standards of price, design, quality, presentation and general competitiveness with respect to their products.⁶ Thus, appropriate government policies designed and implemented in a co-ordinated fashion were apparently successful in eliciting a strong and favourable response from producers with respect to the expansion of exports.

It must be readily conceded that the trading experience in international markets of a few selected developing countries extending over a relatively brief time-span does not constitute a sufficient basis for the drawing of far-reaching and universal conclusions applicable to *all* developing countries in the field of export promotion. However, the two important aspects of the trading experience outlined in the preceding paragraphs do seem to merit special attention, and to warrant careful consideration with respect to the future development of industrial policy, trade policy and export promotion in Latin America—namely, the creation of industrial capacity for the production of goods characterized by some degree of technological sophistication and displaying a dynamic movement in world trade; and the acceptance of the necessity for a strong and integrated government strategy for the expansion of exports.

If Latin American countries were to attempt to emulate the export success of the countries selected for illustration in the previous discussion, by adopting a broadly similar trading strategy, very profound implications would follow in the field of industrial policy in the region. For

⁵ See annex, table 3.

⁶ See annex, table 4.

a strong emphasis upon new industries and new exports would necessitate the abandonment of import substitution as the prime mover of industrial development, and the acceptance of an outward-looking trade strategy would undoubtedly strengthen the economic integration movement within Latin America. Therefore, if the development of industry and the expansion of external trade are conceived of in the future as constituting two objectives of economic policy, national and regional, which are inextricably intertwined, then it follows that Governments may cease to think of export promotion as simply a short-run mechanism operated to improve the balance of payments on current account, and may begin to accept export expansion policies as a necessary means to structural change and general economic development.

It may be argued that within Latin America at the present time there are too many supporters of import substitution and too few enthusiasts for economic integration to enable an optimistic view to be taken of the prospects for developing a technologically dynamic industrialization and an outward-looking trade policy for the region. But traditional attitudes and existing institutions can be changed provided there is the political will to do so and it is the implicit argument of this paper that such changes, although admittedly difficult to foster, are absolutely imperative if Latin America is to attain a satisfactory rate of economic growth during the next decade. However, although the adoption of an export-oriented trade policy is chiefly a matter for political decision within the region it is also dependent for its success on the readiness of the industrially advanced nations to allow Latin American exporters of manufactures access to their markets. Similarly, although the creation of a technologically dynamic industrial sector within Latin America is primarily a task for the private and public sectors of the member countries, it is also a matter of crucial interest to foreign suppliers (public and private) of capital, technology and know-how.

It must be emphasized at this point that the efforts currently being made by many Latin American countries to enlarge the exportation of processed products and other labour-intensive types of manufactures and semi-manufactures are recognized as being useful, necessary and highly important, especially in the short run as a means of improving the balance of payments, and that such efforts deserve commendation. In the long run, however, it is extremely doubtful whether the countries of Latin America can adequately energize their export trading by rely-

ing principally upon the promotion of these simpler forms of manufactures which constitute the primary new export potential for almost all of the 117 developing countries.

It is obvious that until real and substantial progress is made towards the formation of a single regional market in Latin America many of the smaller countries will be forced to rely heavily upon the simpler manufactures in their efforts to expand and diversify their export trade, but if Latin America is to acquire an adequate, modern and efficient industrial base to underpin a growing regional economy it will be necessary to create new industries. Such industries should be designed to serve both the regional market and the markets of third countries, and should be characterized by their capacity to stimulate backward and forward linkages with other branches of industrial activity. For example, industries producing automobiles and vehicles and other transport equipment, special metal products, electrical and non-electrical machinery, electronic goods, chemicals and plastic products. Such industries could exert a highly catalytic effect within Latin America in the importation and diffusion of international standards of industrial skill, efficiency and organization, which would tend to spill over to the benefit of other forms of economic activity.

Furthermore, when account is taken of the technological gap which currently exists between the advanced industrial countries and Latin America, and the extent to which this gap appears to be widening over time, it is clear that major industrial advances must be effected in the region during the next decade if Latin America is not to be doomed to a permanent peripheral position in relation to the world economy. Such major industrial changes will obviously not be forthcoming if the effort to export more manufactured products is to be chiefly concentrated upon products like tinned fruit, plywood, refined edible oils, animal feedstuffs, footwear and furniture, important though these products may prove to be in gaining primary access to new markets.

Accordingly, the rest of this paper will be concerned with the discussion of some of the problems associated with the effective transfer of modern industrial organization and techniques from the advanced technological centres of North America, western Europe and elsewhere to Latin America. Various policy proposals designed to encourage such a transfer of technology, with or without supporting capital resources, will also be considered, and the implications of these proposals for the future trade

policy of the region will also be explored. Finally, the impact of the acceptance of a strategy of industrial dynamism and export-propelled growth upon existing national export promotion institutions and programmes in Latin America will be examined, and some policy proposals in this field will be outlined.

2. *The transfer of technology*

Technology in its broadest sense encompasses technical and managerial know-how, which is embodied in physical and human capital and in published documents, and it is transmitted from one region to another in various ways. Amongst the most important ways of transferring of technology are: (a) the flow of books, journals and other scientific and technical publications; (b) movements of people between countries; (c) direct importation of machinery and equipment by industrializing countries; (d) the flow of direct foreign investment accompanied by movements of equipment and specialist personnel; (e) the utilization of licensing, patent and know-how agreements; and (f) the operation of technical co-operation programmes (bilateral and international). These different forms of transfer are not mutually exclusive, and a particular industrial project may require the use of all or most of these diverse methods of transmission in order to effect the successful incorporation of productive instruments and ideas into the project.

However, in order effectively to bridge the widening technological gap between the advanced industrial countries and Latin America, what really needs to be transferred from the former to the latter is not simply the latest technological processes, but more fundamentally the technological capacity, or the competence to engage in continuous innovation and adaptation. Indeed, a strong movement towards a higher level of technological capacity than that currently prevailing in Latin America must be initiated within the region, if only to ensure that an increased flow of foreign technology may be satisfactorily absorbed and properly adapted to the resource endowments and the economic framework existing within the various member countries of ECLA. Thus, the discussion below will be partly focused upon the need to strengthen the technological capacity of the region, and partly concentrated upon the issues associated with the selection of appropriate technology for importation, and the determination of the most satisfactory methods of transfer from the Latin American point of view.

(a) *The technological capacity of the region*

It may be fairly asserted that although the existing technological capacity of Latin America is probably much superior to that generally prevailing in the African and Asian developing regions, it is nevertheless inadequate to serve as the basis for the absorption of a rapid inflow of new industrial technology from abroad. The capacity which exists is too fragmented, both within the region as a whole and within the member countries. It is also often found to be highly fragmented within industries, owing to the prevalence in the past of the "closed circuit" type of technological importation by Latin American enterprises, and the lack of appropriate national and regional institutions for the wider diffusion of imported technologies and for the training of technicians. The relative weakness of the private sector in many Latin American countries, and the debilitating effects of the import-substitution form of industrialization with respect to product and process improvement, have also contributed to the prevailing weakness and fragmentation of the technological capacity of the region.

This weakness, in turn, has acted as a brake upon the importation into the region of certain modern productive techniques and associated know-how, which have been developed elsewhere by foreign enterprises under the protection of patent rights, and which have not been made available to Latin American enterprises because foreign owners of the patent rights have found it more difficult and more costly to transfer technology to Latin America than to other more industrialized regions. Thus, we encounter one of the typical "vicious circle" problems associated with economic development. Because technological capacity is relatively weak the importation of the latest productive techniques is retarded, and because such importation is retarded the technological capacity in the developing region remains relatively weak.

A further limitation upon the development of technological capacity in Latin America stems from the fact that many of the small- and medium-size industrial enterprises which are characteristic of the region are too limited in their resources, scope of operations and managerial outlook to be able adequately to appraise, select and utilize available foreign technology, even when much of this is freely available in the public domain without the protection or costs associated with patent right. This type of adverse situation has been reduced in many countries, notably Japan, by the adoption of a series of related government measures designed to foster

an industry rather than an enterprise outlook among manufacturers operating in small establishments. Such measures include the encouragement of the formation of industrial and trade associations; the creation of research institutes serving a number of enterprises; the granting of special tax reliefs to encourage research and development and staff training schemes within the private sector; the allocation of foreign exchange for purposes of employing foreign technical advisers; the intensive utilization of the foreign-expert-counterpart system of training; and the adoption of an official policy of financial assistance to private firms to enable key employees to obtain specialized training abroad.

Some of these methods for stimulating technical awareness and competence amongst small- and medium-size firms have already been introduced on a limited scale in the more industrialized countries of Latin America, but the need remains for strong and systematic national policies in this field. It is unlikely, however, that the acceptance of the need for and the implementation of such policies would be very successful without a parallel upgrading of the general level of managerial ability prevailing in such firms. Thus, it appears very necessary that Latin American Governments should also encourage strongly the formation of close and continuing links between the universities and the private sector, and assist financially in the setting-up and the operation of schools of business management within the universities. Such schools would develop their theoretical and practical courses of study in the closest possible association with the private sector compatible with the maintenance of their academic independence. It would be necessary also to buttress these policies with a strong campaign to encourage the private sector to employ the graduates of these business schools in managerial positions. It would be very wasteful of national resources if such graduates were forced to emigrate in search of suitable employment because of the reluctance of private firms to change their traditional managerial outlook.

The general migration of Latin American scientific and technical specialists to countries of advanced economic development, which has gathered increasing momentum over the last two decades, has been both a consequence of and contributory to the relatively backward state of technological capacity within the region. To reverse this trend would in itself be a major innovation for Latin America, and the results of such a reversal should be highly favourable to the future industrial progress of the region.

All the policies referred to above would be beneficial in a greater or lesser degree in creating opportunities for the employment of Latin American personnel in basic and applied research and operational activities in the universities and technological institutes, and at the enterprise level of the private sector.

It is not to be expected that the adoption of such programme of related policies for the encouragement of technical training and the systematic wider diffusion of technology within the Latin American region would yield large results in a matter of a few years. Such a programme must necessarily be viewed as a part of the long-term strategy to advance industrialization, but given a long view there is no doubt that such action by the Governments of the ECLA member countries would eventually lead to a profound change in the technological environment and the industrial productive capacity of the region. In this connexion it is interesting to note the spectacular success of Japan in developing a national technological capacity and a facility for creative imitation, which has brought such large gains in international trading to that country during the last ten years.

Systematic national policies to improve the technical competence of small firms have been in operation in Japan for nearly a century, and the result has been that the country has now acquired: a highly skilled industrial labour force; the engineering and technical skills required to convert foreign techniques to Japanese requirements and to improve upon these techniques in course of time; a managerial *élite* possessing a high degree of technical literacy; and a strong, well-integrated sector of small-scale industrial sub-contractors capable of producing goods to closely prescribed engineering standards and of adhering faithfully to tight production schedules.

It is for this reason that Japan is not hampered by the weaknesses of the technological dualism which characterizes Latin America. The small-scale, labour-intensive sector in Japan is able to coexist with the industrially advanced, capital-intensive sector because of the high efficiency prevailing in the industrial sub-structure of the economy. Furthermore, because of the existence of this high efficiency some technological progress may be achieved with very little capital investment, simply as a derived gain from production experience in terms of improved organization of the production flow, better management methods, enhanced systems of quality control, improved use of raw materials and the like. It is true that high efficiency takes time

to develop and to generalize throughout a country's industrial structure, but the experience of other developing countries, such as Israel, Korea and China (Taiwan), shows that substantial improvements in the level of technological capacity may be effected quickly, provided that government policies are well conceived and are implemented with determination.

It must be reiterated that the government policies which are here being advocated must also be supported by other well-designed national and regional policies devised to stimulate the maximum exporting effort in the field of manufactures, and the movement towards regional integration must be accelerated. For industrial producers in Latin America, especially those established in the smaller countries, are not likely to be easily dissuaded from relying upon production practices associated with an industrial environment engendered by import substitution, let alone enthusiastically enlisted in a drive towards greater technological competence, unless they are also stimulated by real prospects of effective and profitable access to large external markets for their products.

In sum, then, there are sound reasons for asserting that the technological capacity of Latin America needs to be widened and deepened, partly because such changes would tend to improve industrial performance and stimulate a flow of manufactures better suited to the character of the demand expressed in international markets, but also because the enhancement of the general technological competence of the region would appear to be a highly necessary precondition to the acceleration and strengthening of the processes of selection, importation, adaptation and absorption of foreign technology by private and public enterprises throughout the Latin American area.

Integrated national programmes of industrial organization, research and development activities, and technical and managerial training schemes supported by direct government grants and fiscal incentives, as outlined above, could be introduced by member Governments, and at the regional level careful consideration could also be given to the feasibility of the early establishment of a Latin American institute of technological research and development, which would be empowered to maintain close working contact with the advanced centres of technology in the highly industrial countries and with the national technological institutes now existing, and with those to be established in the region. Such an institute could be staffed by high-quality Latin American scientists and technicians, and it

could be given training and advisory functions to be placed at the service of the industrial enterprises of the member countries. It should also be required to develop its major work in close liaison with the regional industrial development corporation, if such an entity were to be created for purposes of expediting investments in the industrial progress of Latin America.

International technical assistance and finance should also be requested by the member countries in order to secure the implementation of national and regional programmes of technical development. At the present time various agencies of the United Nations are providing technical assistance, chiefly on the basis of country programmes, in respect of industrial productivity, product and process quality control, technical education and training and organization and management of small businesses. The major agencies concerned in this work are the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Labour Organisation (ILO), the United Nations Development Programme (UNDP), and the United Nations Industrial Development Organization (UNIDO), but unfortunately the assistance rendered is too fragmented and unco-ordinated to exert its maximum beneficial effect in these areas of activity. What appears to be highly necessary, therefore, is the formation of a United Nations technical development and research programme in which all the technical assistance agencies would participate in accordance with their resources, and in which strong and co-ordinated national and regional programmes of assistance to be given to Latin America (and to the other developing regions) would be jointly formulated and implemented.

Bilateral arrangements for technical assistance in this field could also be integrated with projects developed in the programme, and whenever other aid-granting institutions, such as the World Bank Group and the Inter-American Development Bank (IDB), showed an interest in this field of operations, such entities would be invited to participate in the programme. The technical assistance to be given under the programme should also be closely linked with the needs of private enterprise, and the United Nations agencies should seriously consider departing from their traditional concentration upon strictly government projects.

(b) *The selection and importation of technology*

The industrialization based on import substitution has undoubtedly already introduced some complex technology into Latin America but, as

we have indicated in the discussion above, it has not created within the region that sustained technological experimentation and innovation which is characteristic of the progressive industrial countries, nor has it led to the formation of a clear strategy with reference to the type of foreign technology to be selected for importation into Latin America in the future. It is well known that many of the technical advances made in the industrially developed countries are of the capital-intensive, labour-economizing type, but Latin America needs to develop productive economic activities which are labour-absorptive to a high degree. Normally technologies which are of the capital-saving, labour-intensive type are, other things being equal, to be preferred. However, other things very rarely are equal, and in choosing between the latest technology or an intermediate technology decision-makers are also often faced in fact with choosing between products. The choice then becomes tightly related to product rather than to process, and the determination of the right course of action depends crucially upon marketing considerations, which may be closely tied to export possibilities. Thus the intimate relationship between industrial technology and export marketing is again manifested.

The choice of the particular foreign technology to be imported is, of course, profoundly influenced by the state of knowledge of the choosers at the time the choice is made—hence the importance of the existing state of technical knowledge in Latin American industry—and also by the method of financing employed. Where the technology is imported on the basis of tied loans the recipient country's choice is often highly circumscribed, and this form of international lending is rightly under considerable attack at the present time, chiefly for this reason. Furthermore, even where the choice is completely free and entirely within the determination of the choosers, the precise type of foreign technology to be selected may vary from country to country, from industry to industry, and from one enterprise to another within a particular industry. This means that the *latest* foreign techniques may not necessarily prove to be the most appropriate techniques for introduction into Latin America.⁷

Undoubtedly the maximum labour absorption criterion should exert a strong influence upon selection decisions relating to the importation

⁷ Since the early 1960s three new open-hearth steel furnaces have been constructed in Mexico, although the oxygen converter process in this industry is generally considered to be a more advanced and economical technique.

of foreign techniques into Latin America, as also should the criteria of likely satisfactory adaptation of the chosen techniques to the Latin American environment and the nature and extent of indigenous raw materials. It is practically impossible to set out ground rules to govern the process of selection of imported technology in all its aspects, but it may be confidently asserted that the optimum technological benefits flowing to Latin America from the importation of foreign techniques and know-how are not likely to be attained unless the selection of such techniques for introduction into the region is very closely related to a coherent national and regional strategy of industrial development allied to an appropriate export marketing programme.

International assistance in the selection of the most suitable imported technology might well be rendered to Latin American and to other developing regions as an integral service of the United Nations technical development and research programme already proposed above. Some other proposals which appear worthy of exploration are: (a) the creation of a world bank of technical knowledge to be drawn upon by the developing countries, an idea emanating from a Conference on International Co-operation convened by President Johnson in the United States; and (b) the establishment of technology transfer centres which would link the dynamic growth centres in the advanced industrial countries with the industrial enterprises of developing countries. Such centres would be staffed by engineers with a dynamic orientation, they would be supported by financial contributions from the developed countries, and they would not only collect and disseminate information relating to the availability of unpatented technology, the potential suppliers of patented technology, but might also engage in providing technical assistance in the negotiation of agreements with foreign suppliers on behalf of enterprises in the Latin American region.⁸

Some developing countries have found that a measure of State control is necessary in order to ensure that the importation of foreign technology by private and public enterprises is made without weakening the long-run national interest, and that impediments to the wide diffusion of new technology following importation are kept to a minimum. To exercise an effective control

8. This proposal was first made by the Advisory Committee on the Application of Science and Technology to Development in its third report to the United Nations Economic and Social Council (E/4178). See also Dusley Seers, "Big companies and small countries: a practical proposal", *Kyklos*, vol. XVI (1963), fasc. 4, pp. 599-608.

it is also necessary for the State to develop a comprehensive view of the relationship between the importation of foreign technology and general economic policy, and to develop effective operational criteria for judging the proposals made by national enterprises for the introduction of foreign technology.

For example, in Israel the following criteria have been agreed upon as being reasonably applicable for judging agreements to be made with foreigners for the supply of new technology and know-how to that country:

(a) Will the project improve the balance of payments?

(b) Will the project contribute to productivity and efficiency?

(c) Will the project contribute to the effective penetration of new markets?

(d) Is any other enterprise in the country about to acquire more modern know-how in the same field of production?

(e) Is the know-how likely to be rendered obsolete in a short time period?

(f) Is the project to be related to production of goods to be marketed solely within the country?

(g) Is the project concerned with the purchase of foreign technical services which can be supplied from national sources?

(h) Is the size of any new enterprise proposed favourable in comparison with the average size of similar operations established abroad?

(i) Does the project stand in good relationship to the foreign market prospects for the product?

Many Latin American countries already exercise a strong control over the agreements made by their nationals with foreigners in respect of importations of technology, in so far as allocations of foreign exchange for capital and/or royalty payments require prior approval by the Central Bank or the Ministry of Finance, and industrial investment incentive laws lay down certain legal requirements. However, such control is often largely administrative and associated with the exigencies of the short-run balance-of-payments position of the country, and is not always determined by the requirements of long-run industrial and trade policy. It would appear necessary, therefore, for Latin American countries to develop appropriate national policies designed to condition the inflow of foreign technology in the national interest, and in the development of such policies the private sector and the universities and technical institutes in each

country should be encouraged to work in partnership with the Government on a continuing basis.

It must be remembered, however, that because a great deal of modern industrial technology is in fact an enterprise asset the major transfer of technology between countries is made at the enterprise level, and government control systems which are too inflexible or bureaucratic in character might well prove more harmful to the long-run technological development of Latin America than would a free system. It is suggested, therefore, that the control systems should be so devised as to facilitate the adequate expression and evaluation of the views of technicians and businessmen prior to the adjudication of project proposals, and that effective rights of appeal against government decisions should be provided for in the administrative codes applied to such systems. The legislation authorizing the creation of a control system of this kind should preferably establish an independent system of review of operation of the system after a reasonable lapse of time, and the international assistance agencies could be asked to provide advisers for this purpose.

(c) *Methods of technological transfer*

It is convenient and useful to consider the transfer of technology from the industrially advanced countries to the developing countries in terms only of specific projects, but in practice the speed and nature of the transfer will be conditioned by many factors: the nature and provisions of international patent law; the attitudes of suppliers and the attitudes of recipients, including the general public as well as politicians, businessmen and technicians; and the general level of education prevailing in the receiving countries. The effective transfer of technology will often also involve the building of large industries exerting monopoly or potential monopoly strength in the recipient countries, so that the particular legal arrangements for the protection of the public interest with respect to monopolies existing in the supplying and in the receiving countries also tend to have an important bearing upon the speed and extent of the process of technological transference.

However, by focusing our attention on specific projects it is possible to delineate more clearly the problems associated with technological transfer from the point of view of the recipient country or region, and thus to formulate proposals directed towards the solution of these problems. It is also possible, by means of the project approach, to identify more readily some

of the obstacles to transfer as seen from the suppliers' point of view, and to evaluate the scope and nature of the changes required in the recipient countries in order to remove, or at least reduce, these obstacles. But it should also be appreciated that one of the fundamental reasons why many specific technological transplantations fail to succeed in the recipient country is due to the fact that the original technology was developed within a particular economic and social framework, which is not in itself subject to transfer, and which might in many cases prove to be intransferable.

This fact also serves to explain, in part, why the transfer of technology has proceeded more rapidly between advanced industrial countries than it has between advanced industrial countries and developing countries, and also why, when modern techniques have been transferred to developing countries by large foreign enterprises, such techniques instead of being diffused widely within the recipient country have often been restricted to enclaves where the developing enterprise has then attempted to reproduce for itself a replica of the economic and social environment within which the imported technology was originally developed in the supplying country. However, the creation of enclaves of economic development within certain Latin American countries is not entirely explained by this reasoning.

Much of the modern industrial technology now extant may be considered as being neutral with respect to cultural environment, and the fact that enterprises whose centres of gravity lie in the industrially advanced countries have not proved to be generally active and successful disseminators of new productive techniques within the developing countries, strongly suggests that: (a) the technology used in the advanced countries is not always well suited to the resource endowments and the productive and market environment of the developing countries; (b) what is needed by the developing countries in general, and by Latin American in particular, as we have already stressed earlier in the paper, is the ability to discover and to develop new productive techniques indigenously; and (c) that the transfer of technology should not be left entirely to the outcome of the bargaining process between supplying and recipient enterprises operating in very imperfect market conditions associated with international movements of technology and know-how.

Accordingly, although enterprise to enterprise transfers of technology may at first sight appear to be a highly flexible and satisfactory method

for securing an adequate spread of new techniques from the advanced industrial countries to Latin America, it is clear that many of the conventional types of arrangement for transfer have proved in the past to be inappropriate in properly reconciling the varying interests of the supplying enterprise, the recipient enterprise and the recipient Government. The issues of contention turn chiefly upon questions of ownership and control, the cost of transfer to the recipients, the form in which this cost is transferred to the benefit of the suppliers, and the nature and extent of development of research capacity within the recipient enterprise. These issues may often become compounded, owing to the fact that enterprise to enterprise transfers may involve public, private or mixed enterprises in the supplying and/or the receiving country, and the transfer of technology may or may not be associated also with the transfer of investment capital.

There are various methods of transferring of technology which may be used at the enterprise level, the chief of which are the creation of subsidiaries or joint ventures, the use of consortia, licensing agreements, contracts for feasibility studies, engineering contracts for design and construction of plant, management contracts and turn-key contracts. From the point of view of the recipient country the optimum type of transfer arrangement depends partly upon the specific type of industrial activity under consideration, and partly upon the nature of the development plans envisaged for particular industries. For example, in the technologically dynamic industries the principal concern of Latin American enterprises should be that of negotiating agreements with foreign suppliers in the form best suited to assuring a ready and continuous access to patented product and processing know-how, while in the more traditional industries where technological advances are made more slowly, the chief need of Latin American firms will be the need to make the most suitable arrangements for securing the optimum supply of managerial know-how. Furthermore a single foreign enterprise is not likely to be able to maintain a satisfactory supply of technology and know-how throughout all the stages of growth of the new enterprise, and flexible and time-limited arrangements should be sought by Latin American enterprises in those industries characterized by technological dynamism.

In striving to make the optimum choice in technological transfer arrangements Latin American decision-makers may often be presented with highly variable and incommensurable ad-

vantages and disadvantages associated with different types of transfer arrangements, with respect to the modernity of the technology offered; the quality of the management know-how; and attitude towards size of profit margins, profit reinvestment, wage levels and employment conditions to be offered to the labour force. In cases such as these the final resolution may only be satisfactorily determined on the bases of the kind of considerations which have been outlined above and which themselves must be based upon a national long-term industrial and export trading strategy.

In cases where foreign technology is introduced into a developing country in association with direct investment, many of the problems relating to the selection of specific techniques to be transferred, the design and construction of plant, and the type of managerial organization to be introduced, are usually resolved once the decision has been taken to allow a particular foreign enterprise to undertake the direct investment. However, even where the most careful safeguards are imposed for purposes of ensuring that the new enterprise is established and operated in conformity with what is considered to be the national interest, many other problems may present themselves over time, if only because the particular arrangements made to effect the direct investment, whether in the form of subsidiaries or joint ventures, will usually reflect the relative bargaining strengths of the supplying enterprise and the recipients, and where the technology to be transferred is protected by patents and/or where the recipients are unduly anxious to obtain the direct investment for employment creation or for other reasons, then the recipients are not usually in a strong position at the bargaining table.

For example, such new enterprises may be deliberately operated so as to prevent their entry into competition in third country markets with other enterprises established by the foreign supplier in other countries or with the patent enterprise, or may be controlled by managers who either refuse to purchase suitable local equipment when this is available, or refuse to enter into contractual arrangements with local suppliers of equipment to enable such suppliers to adapt and improve their products to reach the standards required; thus subsidiaries always remain subsidiaries. Further difficulties may stem from the fact that the managers of the enterprise may prove reluctant, for a variety of reasons, to keep the productive techniques abreast of the latest advances being made in the industry. Again, when such enterprises are established within a

highly protected industrial environment, as a result of heavy emphasis of national policy upon import substitution, the managers may prove unwilling to undertake seriously the task of transforming their products and processes to secure a better adaptation of their production performance to the resources and skills available in the recipient country. Where this happens the foreign-owned enterprise, by ignoring the opportunity presented to make a significant contribution to the general improvement of technological capacity, is thus acting detrimentally to the long-run national interest of the recipient country.

For reasons of this kind, the Governments of some countries (Japan being a notable example) have systematically discouraged the method of direct investments as the means for securing the transfer of technology. However, because of the acute shortage of risk capital in Latin America and the relative weakness of technological capacity in the region, it will obviously prove necessary in the future to accept, and indeed to stimulate actively, a considerable volume of new direct investment flowing to the region from foreign public and private sources. It is thus highly necessary that the weaknesses of direct investment, from the recipient point of view, should be reduced, and in order to effect this in Latin America it will first be necessary to formulate agreed national and regional policies of industrial development. Such policies should not only take account of the economic integration aspects of the region, but should also—as we have repeatedly stressed throughout this paper—take account of the industrial and external trading requirements of the Latin American countries. Furthermore, such policies should preferably be formulated on the basis of a consensus of the major political parties existing in the member countries, so that they can be implemented, and will be clearly seen to be implemented, on a rational and sustained basis over the long-term.

It will also be necessary to strengthen substantially the technical competence of Latin American decision-makers before they reach the stage of negotiation with foreign suppliers of investment funds and technology. International technical assistance should be drawn upon for this purpose, and Latin American Governments should press vigorously for the provision of this type of aid by the various international agencies, preferably within the ambit of the United Nations technical research and development programme, the early creation of which has already been suggested above. Many Latin American Govern-

ments have, as is well known, developed a marked aversion towards the acceptance of foreign direct investment within their territories, and this has resulted in the virtual closure of this particular channel for transferring to the countries concerned.

One of the ways in which the negative effects of this aversion might be reduced, if the joint venture method cannot be adapted to secure this purpose, would be for such Latin American Governments to indicate their willingness in the future to allow foreign direct investment to take place when it is made by genuine international corporations whose capital funds, managerial talent, and policy decisions are controlled by nationals drawn from different countries, and in which no single foreign country has a dominant interest. For it remains true, notwithstanding the limitations which have been stressed above, that foreign suppliers of technology and know-how are more likely to work energetically for the establishment of a new enterprise in Latin America when they have a direct and profitable interest in the success of the venture.

Where the transfer of technology is to be sought independently of direct investment, which will often be the case when domestic capital investment funds are readily available, or when foreign resources are made available to the developing country in liquid form, there are various types of contractual arrangements utilized for securing access to modern technology. The major types are: feasibility studies, licensing agreements, managerial contracts, and turn-key contracts, together with many hybrid variations of these forms. In theory, then, the investors in the developing country are free to begin negotiations with foreign suppliers by selecting the particular contractual arrangement which appears to provide the needed technology and know-how at the lowest cost, and with the minimum of damage to and the maximum benefit of the national interest, but in practice during the course of the negotiations they may be induced to accept a "second best" contractual arrangement, owing to the disparate bargaining strength often possessed by the foreign suppliers of technology. It is true that some technology may be readily procured on the open market from specialist consultancy firms and suppliers of industrial equipment, but this can prove a perilous procedure unless the recipients are technically well briefed as to their precise requirements, and possess a proven ability to utilize satisfactorily the technology which is obtained by this means.

Agreements providing simply for the provision of feasibility studies usually limit the responsibility of the foreign supplier to the provision of an analysis of the technical and commercial aspects of a particular project. However, many Latin American countries have already found that such agreements may lead to the eventual submission of studies which are of extremely limited value, unless the scope and nature of such studies are very carefully defined and closely detailed in the agreement made between the parties. In the case of some licensing agreements, there may be no transfer of any actual technology whatsoever, but simply the grant by the licensor to the licensee of the right to use patents, trade marks, inventions, and processes, while in other cases there may be a transfer of secret know-how, or the actual technology may have to be imported from a third supplier who manufactures equipment but does not own the patent rights.

Japan has made extensive use of the licensing method during the last two decades in order to improve the quality of her industrial technological capacity, and Israel has found this method useful, especially with respect to the development of the chemicals and pharmaceutical products, plastics, electricals and non-electrical machinery, and the transport equipment industries. Within Latin America extensive reliance upon licensing has been a feature of the industrial development of Mexico, but this method of acquisition of technology has been much less utilized by Argentina, Brazil, Chile and Colombia. Where licensing has been resorted to in Latin America there is some evidence to suggest that the licensees may have been stimulated to enter licensing agreements principally in order to gain the protection associated with the use of patented technology.

While licensing agreements do not usually involve the exercise of any formal control by the licensor over the enterprise of the licensee, nevertheless such agreements may be complex and contain such detailed and wide-ranging provisions relating to the payments of fees and/or royalties and to profit or gross income sharing that, in practice, a considerable power over the conduct of the enterprise is yielded to the licensor. There may also be other restrictive features of licensing agreements which are inimical to the development of a coherent industrial and export trading strategy in Latin America. For example, restrictions on the power of licensees to seek additional technological aid from other suppliers, marketing restrictions (either domestic or external), and restrictions on the use of indigenous mate-

rials and locally produced components in the production process. In general, then, the real cost of obtaining access to technology by means of the licensing method has been and is likely to continue to be very high for Latin American countries, but in many instances this method may offer the only way in which certain technologies may, in fact, be introduced into the region.

With respect to the other major forms of contractual agreement relating to the international supply of technology, although technical service agreements providing for the supply of specialized technical information and advice on a continuing basis do not usually present any particular difficulties or impediments to the recipient, other than the fundamental initial problem of careful selection of the appropriate technology and of the supplier, engineering and construction agreements, management contracts and turn-key contracts often prove highly difficult to operate in practice, and some of the present deficiencies of the general technological capacity of Latin American industry may be traced to errors of decision and conflicts of opinion related to the working of agreements and contracts of this type in the past.

Engineering and construction agreements are limited to the supply of know-how related to the design and construction of fixed plant and the layout of the productive process once the investment project has been determined; management contracts provide for the supply of the principal management personnel and the exercise of managerial control by the foreign supplying enterprise; while turn-key contracts usually require a foreign supplier to undertake all the necessary operations to create and effectively establish a viable productive enterprise, often also including the training of personnel, which is then transferred to the control of the recipients specified in the contract in the form of a fully operative project. These three types of contractual arrangements are thus characterized by the exercise of a broad form of control over the new enterprise by the foreign supplier and, in the case of management contracts, the control may often persist for a long period. Furthermore, in those cases where the supply of technology to the new enterprise needs to be introduced incrementally in close relation to the progressive stages of the new enterprise as and when these are attained, then the foreign supplier may often be enabled to wield a greater power of control than that specifically agreed upon in the original contract between the parties.

There are many potential sources of weakness and friction inherent in such transfer arrange-

ments where the foreign supplier exerts a stronger dominant control over the new enterprise, principally arising from the fact that the interests and attitudes of the bearers of technological progress are very rarely in complete harmony with the interests and attitudes of the recipients of such treasure. Such disharmony may take many forms and is often nurtured by the fact that the foreign supplier is inevitably in a position of technological superiority vis-à-vis the recipients. For example, the recipients of the new technology may come to believe that the foreign supplier is exerting too much control or demanding too great a share in the earnings of the new enterprise; or that the quality of the technology supplied over time is falling short of reasonable expectations; or that the training of the local labour force is weak and inadequate. On the other hand, the foreign supplier may come to resent policy decisions that the recipients are able to impose upon the enterprise and which prevent the installation of an optimum plant production, either in the form of a deficiency or an excess of capacity; or which delay the introduction of planned operational activities in accordance with a previously agreed programme; or which impose special operations and higher costs of production upon the enterprise for the purpose of achieving objectives which lie outside the normal aims of the enterprise.

Difficulties may also arise in the working relationship between the foreign supplier and the recipients as a result of the impact of sharp changes in national policies imposed by the recipient Government, and unforeseen at the time when the original contract for the transfer of technology and know-how was made. Changes in exchange rate policy, import policy, general fiscal policy, special anti-inflationary policies, credit supply and conditions, and changes in the provisions and range of applicability of industrial investment incentive laws may, separately or in combination, tend to distort seriously the production and marketing performance of the new enterprise, thus reducing the effectiveness of the technological contribution of the foreign supplier and frustrating the expectations of the recipients.

Various measures have already been proposed to limit the deficiencies associated with these traditional forms of transfer of technology, as far as the developing countries are concerned, and some of these proposed measures might well be successfully adapted to the requirements of Latin American Governments embarking upon a vigorous drive to modernize their industrial

sectors, provided that such Governments were to press actively and persistently for their general adoption. A good beginning in this endeavour has already been made, and the United Nations Economic and Social Council is at the present time engaged in the organization of a systematic investigation of the experiences of selected developing countries in their past attempts to import technology and know-how from the advanced industrial centres, and a number of case studies have already appeared.⁹ Furthermore, a Working Group has been established within the United Nations Conference on Trade and Development (UNCTAD) to consider various aspects of the transfer of technology principally, from the point of view of the developing countries, and a recent resolution approved by the governing body, the Trade and Development Board, calls upon UNCTAD to establish a permanent intergovernmental mechanism to promote the international transmission of patented and non-patented technology.¹⁰ The UNCTAD Committee of Manufactures is also engaged in the systematic investigation of the effect of restrictive business practices upon international transmission of technology.¹¹

There is also much international interest at the present time in the national and international effects of existing patent laws. Various countries are currently engaged in the process of reviewing and codifying their patent legislation, particularly in the Netherlands, the Scandinavian countries, the countries of the European Common Market, and Australia, and the International Union for the Protection of Industrial Property, commonly referred to as BIRPI, has completed the formulation of model laws on patents and trade marks.¹² It is true that patents foster technological progress, but they are also much used to sustain established positions of market power and to restrict the diffusion of technology. There is a strong and fundamental need for the development of a universal international patent system, with a single set of criteria for judging patentability, a centralized or co-ordinated administration of the international patent system,

⁹ For example, see United Nations, "Arrangements for the transfer of operative technology to the developing countries. Progress report of the Secretary-General": case studies of Brazil (E/4452/Add.1), Israel (E/4452/Add.2) and Mexico (E/4452/Add.3/Rev.1).

¹⁰ The measures adopted by UNCTAD at its second session are set out in document E/4452/Add.4.

¹¹ See UNCTAD, "Restrictive business practices" (TD/B/C.2/54).

¹² See BIRPI, *Model Law for Developing Countries on Marks, Trade Names, Indication of Source and Unfair Comp.* Publication N. 805 E.

and a co-ordinated juridical procedure and system. Pending the organization of such a universal system there is a need for further co-ordination and harmonization of the national systems currently in effect, and the Latin American Governments should be active in pressing for such co-ordination and harmonization.

Within Latin America also the member Governments should develop an effective and controlled screening process of all arrangements made to transfer technology and know-how into the region in order to minimize, where possible, the unduly restrictive features associated with patents and licensing, and should introduce or strengthen existing patent legislation providing for the compulsory working of processes or the compulsory production of products, which are subjected to patent protection within their areas of jurisdiction. Where patents are granted to foreign nationals by Latin American authorities and are then not worked in the region, artificially high prices for the patented product usually emerge, and the adverse terms of trade of some countries may be partly explained by this kind of patent protection of market power. The Governments of the advanced industrial countries should also be strongly pressed to induce their patentees to reduce the restrictive conditions and terms usually imposed upon the users of patents in the Latin American area.¹³

A further development in such policy would be for the Governments of the advanced industrial countries to consider the use of their foreign aid funds for compensating patentees within their countries, so that the effective use of patents could then be extended to Latin American countries without strain to their balance of payments. An international compensatory system working along these lines might prove to be even more suited to the needs of Latin American countries, and international technical assistance designed to strengthen the national systems of patent administration, and the training of specialists in patent law and adjudication, should also be sought by the Latin American Governments. There is no doubt also that a regional harmonization of patent legislation and administration developed within the framework of the Latin American Free Trade Association (LAFTA) would be a most beneficial forward step in its impact upon the effective transfer of technology to the region.

¹³ See United Nations, "The role of patents in transfer of technology to developing countries" (E/3861/Rev.1).

(d) *Reducing the cost of technological transference*

Without entering into the wide-ranging and complex problems relating to the measurement of the true cost to the developing countries of gaining access to new technology by those traditional means of transfer, which have been the subject of some discussion above, there is no doubt that the direct financial cost for many countries has been unduly high and that such cost must be sharply diminished in the future if an adequate flow of new technology towards the developing countries, and particularly to Latin America, is to be stimulated. In securing such a diminution of cost there must be strong and co-ordinated efforts made by the advanced industrial countries, by the developing countries, and by the international technical assistance agencies.

The advanced industrial countries could, as we have suggested above, exercise a considerable control over their nationals in possession of patented or non-patented technology and know-how, by means of appropriate legislation, education, publicity and other forms of influence, to bring about a reduction in the cost of transferring this technology and know-how to Latin America. Fiscal and other forms of financial incentives could be employed to effect the same purpose, and the cost of the implementation of such incentives could be borne by the respective Governments as a form of foreign assistance extended to the developing countries. Or, and this may be the preferable method, such financial assistance could be channelled to the existing international agencies or to new entities specially created for the purpose, and these bodies could then organize and administer a large part of the international flow of technology to the general benefit of the recipient countries. Such Governments could also accelerate the process of reviewing and modifying their legislation regarding patents, trade marks, and restrictive business practices in order to circumscribe the international usage of patents and the conduct of particular kinds of business operations in so far as they may be detrimental to the interests of the developing countries.

For their part the Governments of Latin American countries should not only press vigorously within all the international forums to which they currently have access to secure the early acceptance and effective introduction of the policies suggested above, but they should focus very powerful attention upon various measures, some of which have already been

mentioned in the previous discussion, which would strengthen the present system of securing access to foreign technology, in terms of appropriate selection of technology and know-how, improvement of the formulation of and subsequent operation of contracts and agreements made with foreign suppliers, and the reduction of the cost of technological transplants. The two basic primary requirements are, obviously, the early formulation of an agreed and irreversible programme for the effective development of an integrated regional market, and the construction of national and regional strategies for the modernization of the existing industrial structure.

Secondly, the Governments of Latin American countries should bring under review all their national policies impinging upon industrial investment, and especially the exchange policies relating to rates, import substitution, development incentives, export incentives, regulations on the registration of companies, the employment of foreign nationals, patent legislation and monopoly control, with a view to reshaping such policies to render them more compatible with the realization of the national and regional strategies of industrial expansion already formulated. Thirdly, the member Governments should introduce an effective national control system for examining and evaluating every agreement or contract with foreign suppliers for the supply of technology and know-how, in order to ensure the introduction of the most appropriate technology, the avoidance of excessive cost, the minimizing of restrictions of further industrial progress, the stimulation of indigenous research and development activity, and the operation of all new enterprises compatible with the national interest.

Finally, the member Governments should actively stimulate the formation of close working links between the public and private sectors within their respective economies, and should encourage the expression of private sector opinion with regard to positive industrial development and seriously evaluate such opinion before the final formulation of national policies with respect to particular industries or regions. It is recognized that many of the smaller industrial enterprises established in Latin America are owned and controlled by typically merchant-minded *entrepreneurs*, often seriously lacking in managerial ability, technical efficiency and technological awareness, and for these reasons the views of such businessmen will often tend to run in favour of the continuation and strengthening of policies of import substitution. Such

views should be examined critically, but also carefully assessed for purposes of determining the value of any ideas which may appear to lead in the direction of furthering the national interest with respect to industrial policy.

The international agencies, preferably in co-ordinated agreement, should be required to devote a large part of their financial and human resources to the building of an improved and comprehensive mechanism for the acquisition of foreign technology and know-how by the developing countries, and Latin American policy should be oriented towards pressing the international agencies in this direction. There are many alternative routes to be followed towards the realization of sound international technical assistance in this field, for example the creation of an international technology agency with regional affiliates, staffed by high level and impartial technical consultants, which would act as an intermediary between foreign suppliers and recipients in the transfer process.¹⁴ This agency could also be considered as one of the key institutions within the United Nations technical development and research programme, which has already been proposed above as a principal means for securing the general improvement of the level of technological capacity in the developing countries, with special reference to Latin America.

It must be stressed, however, that although many of the international agencies have already displayed a lively awareness of the need for the provision of technical assistance to the developing countries of the scope and nature of that suggested here, the practical decisions and financial commitments necessary to move ahead in this field are not as yet forthcoming. It will be very necessary, therefore, for the Latin American Governments to pursue the most persistent policies of pressure upon the international technical assistance agencies to demonstrate clearly the urgency of their requirements with respect to the transfer of technology, and in order to secure a re-ordering of the priorities, and the usages of the funds of these agencies for purposes more precisely suited to the technical assistance needs of Latin America during the next decade.

3. *The future trade policy of Latin America*

If the general arguments advanced above are regarded as persuasive, and if some degree of optimism is engendered by the discussion de-

¹⁴ See UNCTAD, "The transfer of technology to developing countries with special reference to licensing and know-how agreements" (TD/28).

veloped here with reference to the transfer of technology, then the implications for the future trade policy of the Latin American countries, determined either nationally or regionally, may be stated relatively simply and briefly. It will be necessary to frame such a policy as will, in terms both of its over-all impact and of its detailed application, secure the realization of the following principal objectives:

(a) The progressive abandonment within the region of the policy of general import substitution;

(b) The progressive introduction of a policy of limited specialized import substitution, based on a reassessment of national industrial production possibilities;

(c) The general acceptance and implementation of a policy of long-term export expansion based on the production and external marketing of manufactured products, characterized by a large value-added component and a technologically sophisticated fabrication;

(d) The immediate introduction of a policy of short-term export stimulation designed to enlarge substantially the external sales of those manufactures and semi-manufactures which can be produced at a competitive price and quality on the basis of existing productive capacity;

(e) The immediate initiation of a policy of drastic tariff reductions, with principal preference to manufactured and semi-manufactured products, to be negotiated by the members of LAFTA on an "across the board" basis to the reciprocal benefit of members, with special safeguards applicable to the relatively less industrialized member countries;

(f) The early introduction of a policy aiming at the intensification of the harmonization, within the LAFTA system, of customs tariffs evaluation and procedures, export incentives, industrial investment incentives related to export activity, export credits and export credit insurance systems, and the documentation of import and export consignments;

(g) The maintenance and strengthening of the existing regional strategy for the prosecution of a vigorous collective pressure by the Latin American countries upon the advanced industrial countries, for purposes of gaining increasingly wider access to the growing markets of these countries for Latin American manufactured products.

The necessary changes in import substitution policies recommended here must be largely effected by means of systematic and rational tariff reductions and the strengthening of com-

petition, but some educational activity coupled with strong and purposeful economic leadership will need to be exercised by Governments in order to weaken the strong protectionist opposition which will undoubtedly be mounted against the proposed changes. The vested interests chiefly benefiting from import substitution policies have been able to solidify over the relatively long period in which such policies have held sway in Latin America, and because of the political and economic power wielded by these interests it is not to be expected that such policies will prove easy to dismantle.

The successful introduction of the short-term and long-term policies of export expansion which are advocated as part of the new trade policy of the region will partly depend upon the rate of achievement in changing the present import-substitution policies, and partly upon the imagination and resources brought to bear in the field of export promotion. Widespread educational activities and the acceptance of calculated risks by the member Governments must also be part of the strategy of export expansion, and the degree of support sought for and gained from the industrially advanced countries and the international financial and technical assistance agencies will be crucial to the attainment of these objectives.

Real progress within the LAFTA system in securing the liberation of intraregional trade, especially in manufactures and semi-manufactures, will largely depend upon the emergence of imaginative political leadership and the strengthening of political co-operation. Here again, the kind of support which will be forthcoming from the industrially advanced countries and the international assistance agencies will be of vital importance, both materially and psychologically, in assisting with the process of changing the climate of co-operation within the region. It is not to be expected, however, that this support will prove to be very powerful unless the countries of the region embark upon a strong and unambiguous policy of real economic integration, which will demonstrate conclusively to the outside world that in building the LAFTA system the member countries really intend to achieve their purposes.

The strategy of gaining wider access to the markets of the advanced industrial countries will be frustrated if new exports are not forthcoming and directed towards these markets. The appropriate authorities within the advanced industrial countries will tend to judge the validity of the demands being made by the Latin American countries in this matter of wider access, largely

on the basis of their observations of the extent and nature of the new productive capacity which is constructed in the Latin American region to expand the supply of manufactured products for exportation. Therefore an intensified drive to improve the flow of technology and know-how towards Latin America will probably also tend to influence very favourably the attitudes of the effective leaders of the advanced industrial countries with respect to the taking of appropriate decisions in questions relating to market access.

(a) *The promotion of exports*

It follows from the reasoning above that export promotion in Latin America must obviously become a widespread and serious activity especially during the crucial period of the next decade. It is very unfortunate that the phrase "export promotion" has gained such wide currency within the Latin American region, for it tends to carry the connotation that the only necessary function of a Government interested in expanding a country's export trade is that of encouraging the search for new markets in respect of products which are already in good supply. With respect to manufactures and semi-manufactures in Latin America nothing could be further from the truth. The problem is not simply one of "promotion" in the marketing sense, for, as we have already considered to some extent in the discussion above, the industrial performance of Latin America as measured by current international standards falls a long way below a satisfactory level, and to move successfully in international markets exported goods must meet the various market tests of price, quality, design, packaging and related features.

Thus, it would be better to refer to "export expansion" rather than to "export promotion" in our future consideration of this aspect of trade policy. The use of this phrase more correctly delineates the whole system of measures which are necessary to the building of a successful export drive. Products of potential exportability must first be identified, production projects must be prepared, feasibility studies must be undertaken, investment decisions must follow when feasibility studies yield positive results, technology must be imported, the production processes must be efficiently organized, and the final products of these processes must be adapted to consumer requirements in international markets and endowed with a competitive power in terms of price and quality. Thus, a policy of export expansion runs through the whole gamut of economic activities from the

securing of suitable raw material to the receipt of foreign exchange from customers accepting the finished products.

It follows, therefore, that such a policy must be initiated and vigorously pressed by the respective Governments of Latin America if export expansion is to become a reality. Such a policy cannot be left solely in the hands of private sector or mixed institutions, which even in the most propitious circumstances have not proved successful in Latin America to date, chiefly because they cannot exert that over-all authoritative pressure upon the various parts of the economic system which is necessary to ensure that the export effort is an integrated and systematic drive towards the expansion of productive supply and the determined exploitation of external market opportunities. Undoubtedly, the private sector must be encouraged to play a major role in export expansion, but the basic responsibility for leadership, organization and resource commitment must be laid without question upon government.

There are various kinds of export promotion institutions, and it would be unwise to suggest that a single model would be suited to the requirements of each of the Latin American countries. The type of institutions created must, therefore, be carefully adapted to the special characteristics of each country, and probably some experimentation may prove necessary before the appropriate institutional type is found. However, there are some general points which may be emphasized as having almost a universal applicability. There should preferably be one single official national export promotion institution rather than a multiplicity of organisms exercising separate, and often competitive, functions. The institution should also be adequately endowed with financial resources and should be staffed with high-calibre technicians. If such technicians are not immediately available, then high quality persons should be selected for appropriate training. The essential point here is that the staffing of the export promotion institution should be seen by all concerned to be of the highest quality from the beginning. A low-calibre staff will not inspire much confidence that the Government is really embarking upon a serious export expansion drive. It will be argued, no doubt, that the resources are just not available to endow an export promotion institution so munificently from the outset. The only answer to this point is one which carries very great strength, namely that if export promotion is to be meaningful, it must be given the very highest priority not only in government policy but also in government expenditure.

Having selected the appropriate type of national export promotion institution and endowed it with adequate financial resources and a high-calibre staff, it is necessary also to provide a leader for this institution who will be capable of implementing the promotional strategy successfully. Such persons are not easy to find and must be highly rewarded both financially and in terms of prestige and standing if the institution is to succeed. Very special qualities are necessary in such a person. He must be adequately prepared in some professional field of training—engineering, marketing or the like. He must be a man of drive and personality, able to inspire confidence in government officers and businessmen alike. He must be able to deal with foreigners easily and convincingly, and he must be able to control his staff and to inspire faithful and imaginative work in the service of the institution. He must have a good grasp of technical matters relating to production and a well developed marketing sense; he must be a man of initiative and courage and above all he must eschew the bureaucratic approach to his functions. There is no doubt that the selection of the leading officer of the national export promotion institution must be made with great care, and strictly political appointments should be avoided at all costs.

The functions of the national export promotion institution should be wide-ranging and comprehensive. The institution should be responsible for the identification of potential exportable products and for the organization of feasibility studies which will range over the whole spectrum of considerations from production to marketing. It is also highly desirable that the institution should be able to initiate either directly or indirectly the necessary investment decisions to change feasible projects into actual productive capacity on the ground. The institution should also exercise a strong influence over the building of suitable systems of export incentives and export credit and insurance systems, and should be able to exert a strong impact upon the tariff and importation policies of the Government.

Finally, the institution should be responsible for training arrangements, made for its own staff and for the staff members of private enterprises engaged in exportation, it should be in direct contact with the various international technical assistance agencies providing such training courses, either directly or indirectly, and it should be active in the field of general publicity, trade fairs and exhibitions and in the

development of an adequate framework of commercial representation in external markets. It is obvious from all this that if export promotion is to be considered in Latin America, as already suggested, as more truly a matter of export expansion, it is likely to be an expensive business for any Government embarking upon this kind of activity. But any lesser commitment by a Government is highly unlikely to lead to success and may in fact only lead to the wasteful use of the smaller resources devoted to it, and certainly it makes no real economic, or any other sense, simply to open a small office staffed by a number of junior government officers and then to pretend that this constitutes an export promotion institution.

The Government must also exercise a powerful influence upon the general climate of economic activity, as it always does by whatever policies it pursues, in order to provide the necessary conditions conducive to the stimulation of exports. Businessmen must largely undertake the actual exporting, and they are not likely to do so unless it appears to be a profitable activity. Furthermore, successful exporting is a long-range matter and businessmen are not likely to commit themselves to specialized investments, special marketing and publicity arrangements, and the establishment of overseas representatives if their confidence that government institutions and policies will remain stable and satisfactory to their general trading interests is impaired. Therefore, the exchange rate, fiscal and monetary policies of the Government must be so framed as to encourage exportation, and the bureaucratic procedures associated with importation and exportation must be pared to the minimum. In many ways, one of the best contributions to the encouragement of exportation by Governments is that of getting out of the way of the exporter in his efforts to establish new and strengthen existing marketing links with overseas customers.

However, even if the proposals made here were to be generally implemented throughout the region, there may still persist considerable sluggishness of response to export opportunities within the private sectors of many Latin American countries, which is chiefly due to weaknesses of entrepreneurial ability, limitations in scale of enterprise, unwillingness to bear risk, and the lack of trained staff. Thus, careful consideration should be given to the formation and utilization of trading companies as a means of reducing these weaknesses. The trading company has proved to be a highly successful mechanism for the promotion of exports in various coun-

tries, notably in Japan, and it offers a highly flexible and effective means for the organization and stimulation of supply in industries characterized by a large number of small-scale producers; for the provision of production credits; for the introduction and implementation of quality control systems; for the acceleration of the export documentary procedures; and for the improvement of external marketing and external market research and representation.

Trading companies may be organized as public, private or mixed institutions, and the specific form to be chosen will obviously vary from country to country in Latin America, depending upon the relative strength of the private sector and the particular products to be handled and the external markets to be served by the trading company. However, as the crucial requirements for success are that the trading company should be instituted with adequate financial resources and skilled personnel, and that it should be firmly linked with the national export promotion institution, it would seem preferable for many countries in Latin America to create such companies initially as mixed enterprises in which the Government would make the major financial contributions and the private sector would contribute the major share of the necessary trained staff. Over time, as the trading company increasingly demonstrated its usefulness as a mechanism for exploiting export opportunities, the private sector could be encouraged to shoulder responsibility for an increasing share of the financial resources deployed by the trading company, and the government interest could be correspondingly diminished.

A further advantage of the use of the trading company as a means for export stimulation lies in the fact that, as a particular market is penetrated and secured for the continuing supply of a product, or a range of products, then specific firms whose supply capacity and quality control are adequate to meet the market demands satisfactorily may be encouraged to develop their own direct commercial relations with overseas buyers, and the trading company is then enabled to move part of its resources into the exploitation of new markets for other products, while still retaining an over-all interest in the maintenance of export performance in existing external markets. Thus, in effect the trading company may be regarded as exercising an educational and training function in the field of export marketing with respect to the private sector. This particular contribution could be most beneficial in Latin America, especially in

some of the smaller countries of the region where the private sector currently displays a very marked timidity and lack of interest with respect to venturing into foreign markets.

The international financial and technical assistance agencies and many of the Governments of the advanced industrial countries have already established special programmes of aid to the developing countries in the field of export promotion. It is necessary, therefore, for the Latin American Governments to establish their own strong national institutions for securing export expansion, and then to press the international agencies and the advanced industrial countries for an augmented supply of technical assistance and finance to support all the activities to which we have referred above: feasibility studies, design of production projects, quality control systems, marketing techniques, export incentive schemes, export credit and export credit insurance systems, training of staff members, and technical assistance with the organization of fairs and exhibitions. The United Nations Export Promotion Programme has already been established to co-ordinate the activities of international development agencies in the supply of technical assistance to the developing countries in this particular field, and Latin American Governments should exploit their opportunities under this Programme to the fullest extent.

(b) *ECLA and the United Nations Export Promotion Programme*

At a special meeting of the Executive Secretaries of the United Nations regional economic commissions convened in January 1967, it was decided to promote a concerted action programme for the promotion of exports from the developing countries, and UNCTAD, UNIDO, UNDP, the United Nations Department of Economic and Social Affairs which services the Economic and Social Council, and the regional economic commissions agreed to collaborate in the establishment and operation of such a programme.¹⁵ At a further meeting of the Executive Secretaries held in July 1967, which was attended by representatives of UNCTAD, UNIDO, UNDP, the Food and Agriculture Organization of the United Nations (FAO) and the General Agreement on Tariffs and Trade (GATT), further consideration was given to ways and means of accelerating the development of the Programme, and it was decided that the intensification and

¹⁵ See the report of the meeting of Executive Secretaries of the regional economic commissions (New York, 25-27 January 1967). *Official Records of the Economic and Social Council, Forty-third Session, Annexes*, agenda item 10, document E/4301.

co-ordination of technical assistance to be given to the developing countries in this field of operations should include technical missions, advisory services, the gathering and dissemination of information relating to trade and marketing, and the provision of training facilities in the field of export promotion.¹⁶

The United Nations Export Promotion Programme was also defined at this meeting as constituting a co-ordinated effort in which all interested organizations and agencies of the United Nations would be invited to participate, in order to ensure the harmonious utilization of all existing facilities and efforts within the United Nations system in the sphere of export promotion. It was also agreed that the regular Executive Secretaries' meeting, with the participation of the other United Nations agencies and organizations, would constitute the appropriate body for the effective co-ordination of the Programme, and that each of the regional commissions in the developing regions should become a centre of initiative for the United Nations Export Promotion Programme. Therefore, to achieve this purpose, it was recommended that trade promotion centres should be created within the Secretariats of the Economic Commission in Africa (ECA), the Economic Commission in Asia and the Far East (ECAFE), and ECLA to be operated under the direction of the respective Executive Secretary, and that centralized services, including those provided by the other participating organizations of the United Nations, would be required to support the work of these regional centres.

In this connexion, UNIDO is already engaged in providing technical assistance to Governments in the planning, establishment and operation of export-oriented industries in the developing countries, and is actively interested in the provision of trade and marketing information related to *manufactured and semi-manufactured goods*. FAO is also active in assisting Governments in the stimulation of certain export-oriented activities concerned with the processing of agricultural, livestock, forestry and fishery products. UNDP, in its provision of a wide range of technical services to the developing countries, has long regarded export promotion as falling firmly within the scope of its activities, and it has already acquired considerable experience in this particular field of technical assistance.

UNCTAD has to date concentrated its aid chiefly upon the provision of basic research

findings to member Governments, relating to the demand factors in international trade and (with respect to certain selected developing countries) estimations of the supply potential currently existing for specified manufactured and semi-manufactured products estimated as having good export prospects. GATT has been active in recent years in the development of a wide range of assistance services in the related fields of market research, information and training with respect to export promotion, chiefly through the medium of its International Trade Centre, which has recently been expanded in its range of activities and available resources resulting from a working agreement with UNCTAD. It is anticipated, therefore, that the UNCTAD-GATT International Trade Centre will play a major role in securing the high degree of co-operation and co-ordination of the various participating agencies necessary to attain the over-all aims of the United Nations Export Promotion Programme.

Within Latin America many other public and private institutions have also been engaged in recent years in providing technical assistance and information services in a variety of forms designed to further export promotion within the region. For example, the Inter-American Development Bank, the Organization of American States (OAS), the Central American Bank for Economic Integration, the Agency for International Development (AID) of the United States Government, the various direct government-to-government aid programmes, and the assistance rendered by universities and charitable foundations, have all contributed directly or indirectly to the development of a strong interest in export promotion as a means to attaining an improvement in the rate of economic growth.

The response of ECLA to the decisions and recommendations relating to the United Nations Export Promotion Programme which emanated from the meeting of the Executive Secretaries in January 1967 was officially expressed in May 1967 during the twelfth session of the Commission, held in Caracas, Venezuela. Representatives of the member countries of the Commission endorsed the active participation of the ECLA secretariat in this Programme, and called for high priority to be given to this activity. They also recommended that the member Governments of the Commission should make full use of the opportunities to be provided under the Programme.¹⁷

The proposed ECLA Centre for Export Promotion to be created as the appropriate instru-

¹⁶ See the report of the meeting of Executive Secretaries of the regional economic commissions (Geneva, 14-17 July 1967), *ibid.*, document E/4416 and Add.1.

¹⁷ ECLA resolution 269 (XII), 11 May 1967.

ment for securing the co-ordination of all the technical assistance to be provided within the Latin American region under the auspices of the United Nations Export Promotion Programme, must obviously be basically an advisory rather than a directly operational institution with respect to export activity. It should concentrate its efforts upon the careful collection of intelligence relating to the basic requirements of the member Governments with respect to their needs in export promotion, providing information and technical assistance to improve the process of solicitation of technical assistance, and it should organize directly or indirectly, within the framework of the Programme, the appropriate provision of the technical assistance solicited. The scope of and the effectiveness with which these aims may be pursued by the Centre would, of course, depend fundamentally upon the number, technical qualifications, experience and abilities of the staff to be appointed to the Centre.

The major elements of required technical assistance for export promotion in Latin America, falling within the broad responsibility of the Centre, are extensively analysed and discussed in a companion article appearing elsewhere in this issue of the *Bulletin*,¹⁸ but they may be stated here in summary form as consisting chiefly of the provision of various types of technical assistance to the member Governments of ECLA in:

(a) The identification of the general obstacles to export promotion and impediments to the creation of basic infrastructure for trade development, and the factors undermining the creation of an export consciousness;

(b) The organization of national export promotion institutions and procedures in the public and private sectors, and the establishment of information and publicity services;

(c) The arrangement, content and staffing of training courses in export promotion to be organized on a regional and subregional basis, and the selection of national candidates for such courses;

(d) The development of research studies of supply, demand and marketing factors in respect of single products or groups of products identified as possessing potential export value;

(e) The evaluation of export potential in the field of invisibles (transportation, tourism etc.);

¹⁸ See "International organizations in export promotion in Latin America".

(f) The development of studies of monetary, credit and insurance factors impinging upon exportation;

(g) The development of studies in fiscal and other types of incentives, and disincentives, to exportation.

In order that ECLA may fully exercise its initiative in this field, it would certainly be a prime necessity for the staff of the Centre to engage in the gathering of intelligence regarding the present weaknesses and defects of, and the basic requirements for the improvement of, the respective national efforts in export expansion within the Latin American region, and such an activity may well entail the provision of a certain amount of direct substantive assistance in promotional activity to the member Governments as a by-product of acquiring such intelligence. It would seem, therefore, advisable that the Centre should be so organized as to be relatively free to follow the development of particular assistance projects which it helped to initiate, or in which it became involved while engaged in the process of assessment of technical assistance needs, to the point where the appropriate direct and longer term technical assistance services were provided, either from the Centre's own resources or by one or more of the United Nations agencies through the United Nations Export Promotion Programme.

In this important task of appraising the need for and initiating the supply of technical assistance services designed to further export expansion in Latin America, the Centre could also perform a most useful function in investigating and evaluating the chief reasons for any past ineffectiveness of technical assistance rendered in this field to those member countries in which the Centre is invited to work. This would not simply be an exercise in the apportioning of blame or censure, but would be a constructive attempt to obtain the necessary informative basis for the avoidance in the future of any past errors, with particular reference to the following aspects:

(a) Evaluation of the exact type and extent of any technical assistance rendered in recent years; appraisal of the suitability of such assistance relative to the over-all export promotion requirements; and consideration of the motivation leading to specific requests for technical assistance;

(b) Careful assessment of any limitations to the effectiveness of advisory services arising from inter-departmental rivalries within the recipient Governments;

(c) Consideration of the process of preparing realistic, relevant and fully explanatory job descriptions as the basis for the recruitment of appropriate specialist advisers, and as guides to the efficient development of advisory duties;

(d) Determination of effective methods for the avoidance of overlapping functions and duplication of duties in cases where two or more specialists are engaged in the same or in separate technical assistance programmes;

(e) Selection of the most appropriate means for securing the provision by Governments requesting technical assistance of adequate and co-operative counterpart and ancillary staff;

(f) Systematic ex-post-assessment of progress made and/or obstacles encountered in the implementation of recommendations and proposals made by official advisers, and the programming of follow-up missions.

The over-all aim of the Centre in concentrating its primary attention upon these special aspects of investigation and evaluation would be the determination of the most practical and effective forms of technical assistance to be rendered in the future to the member Governments, particularly in ensuring the formation of comprehensive and well-integrated assistance programmes framed in the light of present needs and past experience in the field of export promotion; and consequently the avoidance of piecemeal and disconnected types of aid, and the achievement of the optimum and most rational employment of the staff and resources of the Centre and of the other international agencies working within the United Nations Export Promotion Programme.

In other words, the Centre would not only be concerned to exercise initiative in the stimulation of interest and the acquiring of expertise in export promotion within the Latin American region, but would also be involved to some extent in the process of eradicating weaknesses in and impediments to the provision and utilization of appropriate high quality technical assistance in this field. In view of the variety and strength of the accumulated experience of ECLA, in studying the economic and social problems of the countries of Latin America and in the formulation of sound policy proposals, it might be argued that this particular function should be the principal, if not the sole, responsibility of the Centre, but the present demand within Latin America for technical assistance related to export expansion is so great and the future demand for such assistance is likely to grow so strongly that the Centre should be clothed with wider

powers and charged with more extensive duties so that it may effectively range over the whole field of technical assistance associated with export expansion as already outlined above.

In this connexion it is pertinent to consider the likely future relationship between the proposed ECLA Centre and the Inter-American Centre for Export Promotion recently created, with headquarters in Bogotá, Colombia, under the auspices of the Inter-American Economic and Social Council (IA-ECOSOC). At the fifth Annual Conference of the representatives of the member Governments of IA-ECOSOC, held in June 1967 at Viña del Mar, Chile, proposals were made by the secretariat of the Council for the creation of such a Centre to be concerned with the stimulation of Latin American exports of manufactures and semi-manufactures.¹⁹ The Conference, after modifying these proposals,²⁰ agreed to the early establishment of such a Centre to undertake the following specific functions at the regional level:

(a) Collection and dissemination of information relating to the marketing of potential Latin American exports, including the study of international marketing structures and the market characteristics of overseas areas;

(b) Undertaking of market research overseas related to specific products and groups of products;

(c) Provision of technical aid to member Governments in the establishment and operation of national centres and subregional centres of export promotion; formation of teams of specialized personnel in international marketing; further training of selected members of such teams; organization of national campaigns and subregional campaigns for the promotion of exports within and without the Latin American area;

(d) Technical assistance in all these fields is to be rendered to both the public sector and the private sector, and it is envisaged that *direct promotional activities* will also be undertaken, such as the organization of trade exhibitions (temporary or permanent), and the establishment of direct contacts with importers, bankers, port officials, trade associations and other public and private bodies in overseas markets.

It was recognized by the Conference that for such a Centre to engage in direct promotional activities it would have to enjoy an independent

¹⁹ See IA-ECOSOC, *Informe del relator de la comisión II* (CIES/1270 (español) Rev.).

²⁰ See IA-ECOSOC, "Bases for the creation of an Inter-American export promotion agency" (CIES/1143).

status, with consequent implications for its financial and organizational structure. It was therefore proposed that the Centre should be created as an autonomous entity under the ægis of IA-ECOSOC, and that it would be financed by means of annual quotas paid by the member Governments, by contributions received from non-member countries and from international organizations, by disbursements from the Special Development Fund of IA-ECOSOC, and by payments received for contractual services to be rendered by the Centre and from the sale of the Centre's publications.

It was also proposed that the IA-ECOSOC Centre would maintain contact with activities in the export promotion field within the separate member countries by means of co-ordination with national commissions. Such commissions would be established especially for this purpose and would consist of representatives of the public sector (the various government departments and other bodies concerned with export promotion), and of the private sector (trade associations, producer and marketing co-operatives, major exporters and importers). To co-ordinate its activities with other international agencies and institutions working in this field, it was proposed that a permanent advisory committee should be formed, consisting of representatives of ECLA, LAFTA, IA-ECOSOC, IDB, and probably also GATT.

It is clear that the creation and establishment of such a Centre exercising the wide range of functions already outlined above, which has now been effected under the auspices of IA-ECOSOC, must add substantially to the technical assistance services to be made available to the various Governments of the Latin American region, and it is pertinent therefore to pose the question of whether it should also be necessary to create another institution within ECLA to be concerned with the stimulation of export promotion on a regional basis. Such a question may be quickly and affirmatively disposed of. In the first place, it is undoubtedly true that the needs of the member Governments in this field of operations are of such a scope and magnitude that the energies of two such regional entities could certainly be fully absorbed immediately and then continuously over the next decade. Secondly, the proposed ECLA Centre, as we have seen, has a special role to play in Latin America with respect to the implementation of the United Nations Export Promotion Programme. Finally, and this constitutes a most conclusive point if the general argument throughout this article is accepted as convincing and realistic, the effective promotion of exports of manufactures and semi-

manufactures by the Latin American countries will fundamentally necessitate the complete re-orientation and large-scale expansion of the supply capacity of the region with respect to industrial products. It has already been noted that the IA-ECOSOC Centre is not to be concerned with the fundamental supply aspects of export promotion, but is specially charged with a wide range of responsibilities focused upon the *demand* aspects of export promotion. Thus, a crucial and vitally important segment of the whole spectrum of technical assistance services required by the Latin American countries with respect to export expansion remains, therefore, to be provided by the proposed ECLA Centre for Export Promotion, and it would be generally admitted that the ECLA secretariat, on the basis of past performance in the related fields of Latin American industrial development and international trade policy, should be well suited to meeting such demands.

However, although it may prove convenient to consider the IA-ECOSOC Inter-American Centre for Export Promotion as being primarily a *demand-based* institution, while the proposed ECLA Centre for Export Promotion would be chiefly *supply-based*, nevertheless such a rigid distinction would be impracticable in operational terms, and the two institutions should be encouraged to develop programmes of technical assistance for the member countries of the region which would move from demand considerations into the sphere of supply and conversely from supply considerations into the sphere of demand. Thus, provided an effective system of co-ordination was implemented by the two regional entities, it should be possible for IA-ECOSOC and ECLA to work freely and assiduously to realize the common aim of securing a substantial improvement in the Latin American export performance during the decade of the seventies, while at the same time developing their own distinctive styles and modes of operation.

With respect to co-ordination, the salient question which emerges is the following: what would constitute the most effective division of labour for the two regional entities, and upon what substantive basis should this be organized? Various possibilities present themselves: a division based upon public sector/private sector assistance; or upon direct/indirect promotional activity;²¹ or upon particular geographical sub-

²¹ Direct promotional activity is here defined as a function undertaken by the Centre for a member Government with only a minimal participation by officers of the Government concerned.

regions or country areas; or upon specialization in the provision of particular services, but all of these various alternatives would probably prove, in practice, to be too artificial and limiting in their effect. On the other hand, without effective co-ordination, the operations of the two institutions could develop with much overlapping of functions, the duplication of particular activities, and the consequent misuse of scarce and relatively expensive resources. Furthermore, such a situation would tend to negate the efforts currently being made to co-ordinate the work of the various United Nations agencies already operating in this particular field of technical assistance within the Latin American region through the United Nations Export Promotion Programme.

The nature of the co-ordination to be developed between the IA-ECOSOC Centre and the proposed ECLA Centre therefore demands an extremely careful consideration but, provided that a high degree of flexibility is allowed to govern the working relationships between these two regional entities, it would seem eminently sensible for the IA-ECOSOC Centre to be encouraged to develop its chosen specialization of technical assistance services related to the *demand* aspects of export expansion, while the proposed ECLA Centre should be charged with the development of a comprehensive range of technical assistance services related to the *supply* aspects of export expansion, such services to be provided either from its own resources or from the resources of other United Nations technical assistance agencies with which the Centre would be closely associated. Thus, each of the two Centres would have a distinct and specialized emphasis in the development of their respective functions within the region, but they would not be precluded from crossing their respective boundaries of responsibility in the creation of integrated programmes of technical assistance for particular member countries whenever the circumstances warranted such action, provided that the programmes were instituted following consultations between the staffs of the two Centres in order to avoid any possible overlapping or duplication of functions.

4. Conclusion

There are many avenues leading to economic growth, despite the difficulties, internal and external, facing the developing countries, and each of the Latin American countries has to choose the path best suited to its resource endowment and other national characteristics, in the light of the opportunities open to it within the inter-

national economic framework. It is highly unlikely, however, that self-sustaining economic growth can really be achieved in many of the Latin American countries, except on the basis of a policy of export diversification founded upon widespread industrialization.²² Agricultural, transportation, educational, and other forms of social investment, are also undoubtedly urgently necessary and important requirements, but it may be asserted that, with very few exceptions, a strong industrialization cannot be evaded if the economies of the Latin American countries are to grow satisfactorily over time.

It is also of crucial importance that the type of industrialization to be fostered should be of the kind that breeds efficiency, the progressive acquisition of productive skills, and the development of ingenuity, adaptation and innovation. This, in turn, calls for the building of an industrial sector which is in close and continuous contact with international movements of supply and demand for manufactured products, and the principal means for effecting this contact lies in the stimulation of a vigorous export trade in manufactured products. A policy of export expansion must, therefore, be formulated and implemented, touching upon all aspects of the effective provision of industrial products for buyers in external markets, ranging from investments in new productive capacity, on the one hand, to international marketing of finished goods, on the other, and embracing all the intermediate links in the demand/supply relationship, such as quality control, transportation improvements, export incentives, export finance and insurance systems, publicity and external market representation. In reaching the goals envisaged by these policies each country in the Latin American region will also contribute to removing the limitations imposed by the size of its own domestic market, and will tend to loosen the traditional constraints of the balance of payments upon the national economic growth.

Thus, if Latin American Governments really do desire to initiate and sustain a rapid economic growth during the decade of the seventies, then these objectives cannot lightly be disregarded, and the whole range of economic policies subjected to discussion and analysis in this article should be carefully evaluated, adopted and strongly utilized in order to attain the desired ends. The Economic Commission for Latin America stands ready, as always, to support and assist the member Governments in

²² See A. Maizels, *Exports and Economic Growth of Developing Countries* (Cambridge University Press, 1968), pp. 21-23.

the formulation and implementation of such policies, in their specific technical aspects, but for the secretariat of the Commission to render its most effective aid, it is first necessary for the member Governments to reassess their present industrial and trade policies, in the light of past achievements and future prospects, with a view to their re-orientation towards a more dynamic and ambitious objective; some of the proposals pertinent to this necessary re-orientation have been modestly outlined in this contribution to the *Bulletin*.

ANNEX

Table 1

VALUE OF EXPORTS OF SELECTED COUNTRIES, 1960-1966

Country	Value (f.o.b.) (Millions of US dollars)		Annual average rate of growth (1960-1966) (Percentage)
	1960	1966	
Korea	33	250	40.0
China (Taiwan)	164	536	22.0
Israel	211	477	14.6
Hong Kong	689	1,324	11.5
Thailand	408	694	9.2
Latin America	8,560	11,620	5.2

Source: UNCTAD, "Handbook of international trade and development statistics" (TD/STAT.1).

Table 2

EXPORTS BY COMMODITY CATEGORIES FOR SELECTED COUNTRIES, 1960-66

Country	Percentage of total value of all exports					
	Primary commodities		Semi- manufactures		Manufactures	
	1960	1965	1960	1965	1960	1965
Korea	82.6	36.2	12.5	31.6	4.9	32.2
China (Taiwan)	62.4	40.3	25.4	30.6	12.2	29.1
Hong Kong	6.3	3.0	18.8	15.4	74.9	81.6
Thailand	89.8	88.5	4.6	5.7	5.6	5.8

Source: UNCTAD, "Short- and medium-term prospects for exports of manufactures from selected developing countries": Thailand (TD/B/C.2/42); Korea (TD/B/C.2/48); China (Taiwan) (TD/B/C.2/49); Hong Kong (TD/B/C.2/64).

Table 3

ANNUAL AVERAGE RATES OF GROWTH OF SELECTED EXPORTS FROM DEVELOPING COUNTRIES TO DEVELOPED COUNTRIES, 1961-1965

<i>Product</i>	<i>Rate of growth (percentage)</i>
Iron and steel universals, plates and sheets	112.0
Copper alloys, worked	110.0
Articles of plastic material	65.8
Travel goods	60.7
Cutlery	60.7
Household equipment of base metals	46.1
Telecommunications apparatus	43.6
Zinc alloys, worked	39.2
Perambulators, toys, games and sporting goods	31.8
Musical instruments	26.6
Veneers and plywood	26.3
Clothing (except fur clothing)	24.9
Fertilizers, manufactured	23.0
Medicinal and pharmaceutical products	21.3
Aluminium alloys, worked	18.9
Iron and steel tubes and pipes	17.8
Inorganic chemicals and oxides	16.6
Footwear	16.1
Floor coverings	15.7
Pig iron	15.7
Leather manufactures	15.6
Optical elements	14.9
Furniture	14.4
Cotton fabrics, woven	13.4
Jewellery	12.8
Wood manufactures	12.6

Source: UNCTAD, "Review of imports of manufactures and semi-manufactures from the developing countries 1961-1965. Note by the secretariat of UNCTAD" (TD/B/C.2/24).

Table 4

DIRECTION OF EXPORT TRADE OF SELECTED COUNTRIES

(Values f.o.b. in millions of US dollars)

<i>From</i>	<i>To</i>	<i>Developed countries</i>		<i>Developing countries</i>		<i>Socialist countries</i>	
		<i>1960</i>	<i>1965</i>	<i>1960</i>	<i>1965</i>	<i>1960</i>	<i>1965</i>
China (Taiwan) ...	Thailand	91.8	300.2	73.0	149.4	—	—
		190.0	284.6	203.9	328.9	9.4	4.3
Hong Kong	Korea	325.5	794.8	174.3	205.8	2.3	2.9
		28.1	203.7	3.7	46.6	1.0	—

Source: Same as for table 2.

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Printed in U. S. A.
07501—May 1969—3,850

Price: \$U.S. 1.50
(or equivalent in other currencies)

United Nations publication
Sales No.: E.69.II.G.4
