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INSTITUTIONAL ASPECTS OF EXPORTS OF  
LATIN AMERICAN MANUFACTURES

by

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Working document

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The most immediate and effective cause of the phenomenal expansion of international trade and in particular of exports of manufactures in the last two decades has been the vigorous creation of institutions at the world level, in certain regions and in several of the developed countries. Furthermore, these new institutions - political, legal, administrative, financial or technical - have been generated and made possible by the military, economic and social events that in our century have given and still are giving rise to supremely important changes in international relations of preponderance, interdependence and dependence. <sup>1/</sup>

These statements reflect facts so well-known as to deserve the name of commonplaces. It seems opportune to recall them, however, on the present occasion. As Latin America is gradually being pushed to one side in the process of world trade expansion, it would appear worth while to inquire into what institutional adjustments or reforms are required to counteract and if possible reverse this negative trend, and why our countries have lacked the ability or the power to put them into effect.

It is also important to remember that the relative reduction of Latin America's exports which has been taking place since 1948 is a twofold process: the region's percentage contribution to world market supplies of primary commodities is decreasing, and, with a very few exceptions, its

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<sup>1/</sup> In relation to the most immediate historical causes of the formation and development of the European Common Market (ECM), see Jacques Vernant, "Los Estados Unidos y la integración europea", (The United States and European integration), in Integración política y económica (Political and economic integration), a collection of essays edited by O. Sunkel (Editorial Universitaria, Santiago, Chile, 1970). See also, in the same collection, Altiero Spinelli, "Función y perspectivas de las instituciones supranacionales europeas" (Function and prospects of European supranational institutions). For similar data on the Central American Common Market, see E. Torres-Rivas, Procesos y estructuras de una sociedad dependiente (Processes and structures of a dependent society) (Editorial Prensa Latinoamericana, Santiago, Chile, 1969), in particular chapter V, "La nueva opción: el proyecto de integración económica centroamericana" (A new option: the Central American economic integration project).

incipient export trade in industrial goods covers only those fields which the countries with high income levels seem prepared to delegate to the developing countries. Generally speaking, the only manufactures that Latin America, like other lower-income regions, exports to the developed world are those characterized by widely-known and labour-intensive production techniques and little value added.

Admittedly, the structure of intra-regional exports of industrial goods is beginning to undergo modification, with the inclusion of certain products in whose case the requisite technology is more advanced and the value added greater. But where this happens production is almost invariably in the hands of foreign companies, while at the same time external capital continues to maintain or increase its participation in some of the traditional sectors, primarily those in which the value of output per worker is high - for instance, mining and the petroleum industry - or which are concerned with the manufacture or marketing of staple goods. <sup>2/</sup>

<sup>2/</sup> "According to data produced by ECLA, gross output per worker in Latin America (excluding Cuba) averaged 1,092 dollars. But this average conceals sectoral differences ranging from 353 dollars in artisan-type production and 511 dollars in agriculture, to 3,001 dollars in modern industry, and as much as 5,443 in extractive industries. The latter figure goes down to 2,610 dollars if Venezuela is excluded" (Ignacy Sachs, "Selection of techniques: problems and policies for Latin America", in Economic Bulletin for Latin America, Vol.XV, No.1, first half of 1970, p.20). As is pointed out by F. Fajnzylber, between 1960 and 1968 the percentage growth rates of industrial investment by United States enterprises in Europe and in Latin America were as follows:

	Manufactures	Petroleum	Mining	Other sectors	Total
Latin America	12.8	2.0	4.5	4.8	5.6
Europe	13.9	12.9	2.7	17.5	14.2

It should be noted, however, that investment in petroleum in Europe is placed chiefly in the field of refining, distribution and transport, i.e., is of a more definitely industrial character, whereas in Latin America it is channelled mainly into extraction (see Fajnzylber's comments and tables in the ECLA study entitled Estrategia industrial y empresas internacionales (Industrial strategy and international enterprises) (mimeographed edition Rio de Janeiro, 1970, pp.17-20).

With respect to the participation of foreign enterprises in industries producing consumer goods, such as food, beverages, tobacco, pharmaceutical products and toilet articles, see the same author's tables and comments in Volume One of the study cited, relating to the experience of Brazil (in particular pp.111-119).

/It seems

It seems to be generally agreed that the situation outlined in the foregoing paragraphs is undesirable for Latin America, particularly from the standpoint of strategy. The aim of the present document is to identify some institutional measures which might help to reorientate the Latin American countries' exports of industrial goods on lines better calculated to serve their national interests.

Such an objective may appear over-ambitious. It is hoped, however, that some progress in this direction will be achieved, thanks to the valuable contributions made by experts and international and national agencies, especially in more recent years, to the study of this subject and kindred problems.

Before dealing with the topic in hand, it appears essential to review, however briefly, the prospects and difficulties facing Latin America's export of manufactures to two important markets which display specific characteristics: the United States and the European Economic Community (EEC). <sup>3/</sup>

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<sup>3/</sup> Reference might equally well be made to the markets of Japan, of the socialist countries, and of third countries in process of development. The omission of the first of these can be justified on the grounds that other documents to be presented at the Meeting will be devoted to the discussion of Japan's foreign trade, with special reference to the aspects of particular interest for Latin America. Owing to the shortage of relevant data, it has been impossible to analyse the problems of the region's trade relations with the socialist countries; in this connexion, it may perhaps be of special interest to the Meeting to note the information that the Japanese trading companies are studying the possibility of offsetting, by means of three-way operations, the customary favourable trade balances of the Latin American countries with respect to the socialist countries against the deficit shown in its trade relations with the socialist countries by Japan (see A. Hosono, "Export promotion in Japan and its application to Latin America", chapter V, B, in Economic Bulletin for Latin America, Vol. XV, No. 1, first half of 1970, p. 97). Nothing has been said of Latin American trade with third countries in the developing group, because the outlook in this direction is not considered to be very promising for the near future, in view of such well-known difficulties as deficiencies in transport and institutional structures, vertical preferences accorded by former metropolises, etc.

This preliminary survey of prospects and difficulties is felt to be indispensable, in the first place, because of the instrumental character of the institutions concerned, which means that they cannot be discussed in vacuo or created as a mere demonstration effect. On the contrary, they will have to be designed with an eye to clearly-defined strategies and objectives, established on the basis of adequate diagnoses; and they will have to take into account not only the resources available but also the conditions imposed by the environment, which, in the case under discussion, takes the form of a set of highly complex systems, some more open than others and some more closed. Secondly, the approach indicated is recommendable on account of the obvious strategical and tactical necessity of establishing priorities for the allocation of human, physical and financial resources in short supply. It seems natural that the pertinent decisions should be determined by the objectives that can be recognized as the most promising, both in themselves and because of their greater political viability.

## II. REGIONAL DEVELOPMENT AND EXPORTS OF MANUFACTURES

As on similar occasions, for its fourteenth session ECLA prepared a number of documents directed towards the formulation of a Latin American development strategy. And, again as in the past, these documents endeavour to diagnose the region's underdevelopment in greater depth, and suggest policy measures to remedy the situation, but do not attempt to propose specific institutional devices for putting such measures into effect. It would clearly be inappropriate for them to do so, among other reasons because it would constitute an encroachment upon the sphere of competence of the countries themselves or of other regional agencies such as, in the field of foreign trade, the Latin American Free Trade Association (LAFTA), the Central American Common Market or the Andean Group.

Hence it seems justifiable for the present document to examine, in essence, the adequacy of the regional and national institutions in Latin America that relate to foreign trade - and in particular to the promotion of exports of manufactures - with due regard to the responsibilities laid upon this sector of the economy by ECLA's most recent conclusions respecting regional development strategy.

/In ECLA's



In ECLA's view, it is both necessary and possible for Latin America to surpass the minimum annual rate of 6 per cent postulated by the United Nations as a growth target for the product of the low-income countries during the Second Development Decade. ECLA considers that the regional product could increase at annual rates of 6.7 per cent up to 1975 and 7.3 per cent from then until 1980, i.e., by 7 per cent yearly as an average for the decade.

For this target to be attained, the historical rate of increase of the investment coefficient - 18.6 per cent - would have to be raised by 1975 to a rate of nearly 25 per cent, which would have to be kept up until the end of the decade. This would imply a potential savings deficit of 10,000 million dollars by 1975 and 15,000 million by 1980, which could not be covered with external resources, since the net value of these has ranged from 1.5 to 1.7 per cent of the product.

The repercussions on the balance of payments would be equally striking. If imports expanded faster than exports, by 1980 the potential trade gap and balance-of-payments deficit would be 4,600 million dollars and 11,000 million, respectively. "The difference between these two figures represents the magnitude of the potential burden of external financing, in payments of interest and profits alone."

In the document from which these data are taken <sup>4/</sup> it is pointed out that the deficits in question could be covered or adjusted by means of external financing, exports and import substitution.

With regard to external financing, the hope is expressed that the developed countries will meet the target proposed in the United Nations' International Strategy by providing financial assistance equivalent to 1 per cent of their product for the developing countries; and also that Latin America's share in this financing will continue to be 15 per cent, and that the rate of interest on loans will be reduced from 6 to 2 per cent.

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<sup>4/</sup> Latin America and the Second Development Decade (E/CN.12/869, March 1971).

Import projections are shown to imply that the substitution process will have to be intensified. This is held to be possible "within the context of regional industrial integration programmes", i.e., in the context of an increase in intraregional industrial exports.

Export expansion projections are formulated on the basis of three hypothetical growth rates - relatively low, medium and high. The relatively low rate, although still representing an improvement upon historical trends, corresponds to the most satisfactory rate of development recorded during the 1960s. It is of interest to note that the trade-balance and balance-of-payments deficits mentioned above would result from the application of the medium rate, despite the fact that it is higher than the best the 1960s can show. In the projections based on the highest rate these deficits would be reduced by 1980 to 1,900 and 7,800 million dollars. Another important point to note is that this last rate "was arbitrarily chosen as a means of demonstrating the effect of exports on the acceleration of the growth rate".<sup>5/</sup>

An attempt will be made to identify, at the regional level in the first place, the institutional adjustments that might contribute to the expansion of exports of manufactures and consequently to the attainment of the other strategic targets.

### III. INSTITUTIONAL ASPECTS AT THE REGIONAL LEVEL

#### 1. Adjustments in relations with the United States

The action taken by Latin America to expand its exports to the United States has mainly consisted in requests for the reduction or elimination of tariff and non-tariff barriers impeding the access of Latin American products to the United States market, or at least for the maintenance of the status quo in respect of such obstacles. These requests have been formulated in accordance with the principles and norms that postulate general preferences and non-reciprocity as the bases for relations between developed and developing countries.

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5/ Ibidem, in particular pp. 36, 43 and 46, and table 11.

non-reciprocity as the bases for relations between developed and developing countries. Another major objective has been the multilateralization of financial aid. <sup>6/</sup>

From the institutional standpoint, the creation of the Special Committee on Latin American Co-ordination (CECLA) and, more recently, of the Special Committee for Consultation and Negotiation (CECON) within the Inter-American Economic and Social Council (IA-ECOSOC) would seem to constitute the most significant landmarks.

In practice, the effects of the institutional norms - including the new Part IV of the General Agreement on Tariffs and Trade (GATT) - on relations between Latin America and the United States or other industrialized countries have been so slight as to induce ECLA to assert that in the Second Development Decade steps must be taken "to reduce the gap between the promises and commitments that have already been made, on the one hand, and actual achievements, on the other". <sup>7/</sup>

Hence it would appear that the Latin American countries, while continuing to follow the traditional lines of action and to use the corresponding instruments, should explore the possibility of adopting more direct and unilateral means to boost their exports of manufactures to the United States and mitigate certain disadvantages attaching to direct United States investment in the region's industrial production. The suggestions that will be put forward in these connexions would be equally applicable to

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<sup>6/</sup> These are matters of common knowledge. The course of the action taken can be traced through the Charter of Alta Gracia (1964), the Charter of Tequendama (1967), the amendments to article 37 of the Charter of the Organization of American States (OAS) determined by the Buenos Aires Protocol (1967), and the Latin American Consensus of Viña del Mar (1969). With regard to the bases of the norms, principles and proposals set forth in these documents, and to their practical application, see, for example, "Latin America and the second session of UNCTAD" and "Trade policy and the Latin American Consensus of Viña del Mar", in Economic Bulletin for Latin America, Vol. XIII, No. 1, September 1968, and Vol. XV, No. 2, first half of 1970. See also International economic co-operation and the third session of UNCTAD (E/CN.12/889, March 1971), section 5(a), "Relations with the United States".

<sup>7/</sup> International economic co-operation and the third session of UNCTAD, op. cit., p. 10.

relations with other industrialized countries. There the effects produced would be less marked, because of the larger scale of the United States' industrial investment in Latin America.

(a) Exports to the United States and third countries effected by United States enterprises established in Latin America

In 1960-1968, direct investment by United States enterprises in other countries resulted in unfavourable balances in relation to Canada and all regions except Europe. Where Latin America was concerned, the deficit, taking into account capital contributions and remittances of profits, amounted to 6,745 million dollars. The mining and petroleum sectors, in which output per worker and per unit of capital is usually very high, were mainly responsible for this result. A favourable balance of 376 million dollars was shown by manufacturing companies under this head.<sup>8/</sup> But the net effect on the balance of payments was entirely different: the balance was favourable in the case of mining and petroleum and unfavourable in that of the manufacturing sector. The explanation lies in the destination of sales and in the imported inputs used by industrial production in Latin America. In 1957, 41 and 13 per cent, respectively, of the total sales of the mining and petroleum sectors were made within the region, and the high residual percentages were absorbed by exports to the United States and third countries. In contrast, 96 per cent of the output of the manufacturing enterprises was sold within Latin America, only 2 per cent being exported to the United States and another 2 per cent to third countries.<sup>9/</sup> The position is not the same in relation to Canada, Europe and Asia, where the United States industrial enterprises exported, respectively, 22, 20 and 16 per cent of their output (in terms of value) to the United States and to third countries in that year.<sup>10/</sup>

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<sup>8/</sup> See the special study "The expansion of international enterprises and their influence on development in Latin America" in Economic Survey of Latin America, 1970 (E/CN.12/868/Add.2, January 1971), tables 26 and 27.

<sup>9/</sup> Ibidem, table 32.

<sup>10/</sup> See again the same table.

If the United States manufacturing enterprises established in Latin America were to export to the United States and third countries a percentage of their output equivalent to the proportions noted for Europe or Canada, the aforesaid negative effect on the balance of payments would of course be perceptibly reduced, but perhaps not cancelled out or converted into a favourable balance, in view of the coefficient of important inputs in industrial production as a whole and in exports of manufactures, which is probably higher in Latin America than in Europe or Canada. <sup>11/</sup>

Technological progress in the region and the headway made by integration movements, which will enable the scope of the import substitution process to be extended, should bring down this coefficient. If in addition exports of manufactures to third countries could be expanded, the net impact on the balance of payments would undoubtedly be very significant. The strategic importance of an effort in this direction can be seen straight away, and would justify it immediately, even if some risks were involved. <sup>12/</sup>

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<sup>11/</sup> For some relevant indices relating to Brazil, see F.Fajnzylber, *op.cit.*, pp.327 and 328. According to the report of the Foreign Trade Portfolio (Carteira de Comércio Exterior - CACEX) of the Banco do Brasil for 1969, the import content of the products exported amounted to 25 per cent in that year. Nevertheless, as some of the Latin American manufactures exported really involve very simple processing of primary products, the net effect on the balance of payments might be modified in favour of the region, if the exports in question were substantially increased.

<sup>12/</sup> Mexico's new economic strategy includes the development of exports of the manufactures produced by the foreign enterprises established in the country (among which United States companies predominate). See "Comentarios sobre la estrategia económica de México" (Comments on Mexico's economic strategy), in the periodical Comercio Exterior, published by the Banco de Comercio Exterior, March 1971 issue.

One measure which might make for the attainment of such an objective would be a provision to the effect that the United States manufacturing enterprises (and of course other foreign enterprises) established in the region should export an increasing proportion of their total sales to their country of origin or to third countries.<sup>13/</sup> In order to determine appropriate scales and time schedules, studies by industry and by country would have to be carried out; and to facilitate the implementation of the norms concerned, authorization should perhaps be given for two or more foreign enterprises to take the value of their sales and exports in the aggregate. In order to minimize possible opposition and reprisals (the United States enterprises above all would have special reasons for objecting to such measures),<sup>14/</sup> the pertinent norms should be laid down simultaneously by all the countries of the region. Action in this direction could be co-ordinated by CECLA.

(b) Institutionalization of support for Latin American enterprises supplying United States industrial or marketing enterprises

Owing to industrial development, the desirability of distributing risk, and other causes, production absorbs inputs of basic and intermediate goods which are to an increasing extent produced by other enterprises. Some factors, of which perhaps the most important is the cascade tax on sales

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<sup>13/</sup> In Fajnzylber's study on Brazil (op.cit., p. 271,6) a similar suggestion is made.

<sup>14/</sup> The net result of investment abroad became of fundamental importance for the United States economy from the moment when the downward trend of its trade-balance surplus reached critical levels in relation to its military expenditure abroad. Furthermore, "the articulation of regional economic spaces as a mechanism of collective defense against the action of the hegemonic centres" would seem to constitute one of the basic features of the restructuration of the international economy now under way. See C. Furtado, "La restructuración de la economía internacional y las relaciones entre Estados Unidos y América Latina" (The restructuration of the international economy and relations between the United States and Latin America), in the collection of essays referred to in footnote 1/.

between dealers and producers, may encourage vertical integration within large enterprises. But in Latin America this incentive is likely to disappear as the result of the widespread adoption of the tax on value added. The advantages of this form of taxation include that of making it easier to calculate the tax burden incorporated in the goods produced at any stage of the industrial or marketing cycle. It would also facilitate the application of the integrationist principle of taxation solely in the country of destination, which the Latin American Free-Trade Association (LAFTA) would support.<sup>15/</sup>

But in Latin America it is not only in the production of complex goods that national enterprises, including those of an agricultural and extractive character, make an important contribution to the activities of foreign "terminal" enterprises. This is because of the substantial part played by foreign enterprises, especially those of the United States, in the production of staple goods, such as processed foods, beverages, tobacco and some chemical and pharmaceutical products.<sup>16/</sup> In these fields production is geared primarily to the domestic market, but in some cases exports are gaining significance and showing signs of expanding.<sup>17/</sup>

These circumstances are of special concern to Latin America. They often mean that the terminal enterprises are placed in a monopolistic or oligopolistic position which enables them to administer to their own advantage the prices of the inputs with which they are provided by small- and medium-scale supplier enterprises, most of these being national.<sup>18/</sup>

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<sup>15/</sup> See Problemas fiscales de la integración económica latinoamericana (Fiscal problems of Latin American economic integration), a document prepared by Professor Werner Grau, of the Inter-American School of Public Administration, for the Second Meeting of Directors of Inland Revenue Departments (LAFTA, May 1970), and issued in a mimeographed edition by the Fundação Getúlio Vargas (Rio de Janeiro).

<sup>16/</sup> See footnote 2/.

<sup>17/</sup> See the statistical data on Brazil furnished by the CACEX report to which reference is made in footnote 11/.

<sup>18/</sup> An eloquent case in point seems to be afforded by Peru's exports of fish meal. Sales abroad "reached the unprecedented value of 293.7 million dollars, thanks to the drastic increase in export prices resulting from the Government's new policy of taking international marketing into its own hands..." See "Las exportaciones peruanas" (Peruvian exports) in Carta al Exportador (Letter to Exporters), publication of the Banco Industrial del Perú, No.9, May 1971.

The defence of enterprises in the latter category against the administration of their prices by terminal manufacturing or marketing enterprises has been an important feature of economic policy in the developed world.

In this connexion, it is worth while to draw attention to article 85 of the Rome Treaty, which considers incompatible with the Common Market several practices that are well-known to be adopted in Latin America by many industrial or marketing enterprises, with a view to the administration of their suppliers' prices. It is surprising that the Montevideo Treaty (1960) - even with the amendments to article 49 stipulated in resolution 65 - contains no similar provision, despite the fact that it was concluded at a later date than the Rome Treaty (1957). The same may be said of the norms for the Central American Common Market, since those relating to unfair trade practices are more in the nature of anti-dumping regulations. Article 75 of the Cartagena Agreement, on the other hand, might be considered to have the same scope as the aforesaid article of the Rome Treaty.

In Japan the expedient initially adopted to defend the small- and medium-scale enterprises against the powerful terminal and marketing enterprises was the fixing of their prices by the Government. To follow up this line of action, support was given to the association of these smaller enterprises in veritable syndicates for the defence of their prices and other interests (price administration by the Government was always a difficult problem) vis-à-vis the bigger concerns. Financial and technical co-operation on the part of the Government - and also of the large enterprises - in the development of the enterprises of small and medium size has constituted one of the most effective instruments of Japan's industrial and over-all employment and development policy.<sup>19/</sup>

In these instances, the pertinent legal and administrative institutions gave proof of their exceptional efficacy, although all the enterprises - terminal and supplier alike - were Japanese or formed part of a "closed" national or multinational economic system. In such circumstances, transfers

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<sup>19/</sup> For fuller details, see the study on export promotion in Japan referred to in footnote 3/.



of income between the small and medium-sized enterprises on the one hand and the large ones on the other might ultimately have a depressive effect on the economy; but it would be to some extent mitigated by the fact that these transfers would be effected within the economic system concerned. In Latin America's case, on the other hand, they would largely take place between the national supplier units and the foreign "terminal" manufacturing or marketing enterprises, i.e., between the underdeveloped economies of the region and the countries at the centre of the world economy.

It would be justifiable on these grounds for the Latin American countries to devote special attention to the problem and to endeavour to establish at the earliest possible date the legal and administrative institutions required for its solution. Perhaps the basic norms ought to be incorporated in integration treaties. At the level of the individual countries, the tax on value added might constitute a valuable instrument for controlling the price administration practices adopted by the large enterprises against the interests of those of small and medium size. The usual system of collecting this tax would facilitate the operation. Furthermore, official control could be exercised on the basis of sampling, and would also be facilitated by the fact that there are not usually many terminal enterprises in any one sector (if there were, that in itself would be a hindrance to undesirable market practices). It seems obvious, however, that even if official control were difficult and costly to institute, it would be well worth paying for, in view of the direct importance and the multiplier effect of the benefits it would bring in its train.

## 2. Adjustments in relations with the European Economic Community

Clearly, all that has been said in the foregoing sector would hold good for Latin America's relations with other countries at the centre. The extent to which this would be so might be described as proportional to the scale of these countries' investment in industrial or marketing activities in the region. It should be noted, however, that the States members of the European Economic Community, and the Community itself, are in a peculiar position, much less favourable to the Latin American countries from the standpoint of the viability of the concessions, tariff reductions and other facilities which the latter are requesting as general and non-reciprocal preferences.

/The fact

The fact of the matter is that the Rome Treaty has instituted a customs union among the Six, and a system of trade with third countries which must necessarily be based on reciprocal concessions, specifically established in ad hoc treaties; that in practice the Treaty in question rules out, even in relation to third countries in the developing group, any tariff or non-tariff concessions which are not of this reciprocal and specific kind; that nothing has come of all the criticisms which, on the basis of GATT articles I and XXIV, have been levelled at the discriminatory nature of the agreements concerted by the Community with third countries; that these agreements bear witness to the Community's political aim of developing an area of influence in relation with its members' former colonies and overseas territories and certain Mediterranean countries; that this area is likely to be enlarged by the United Kingdom's expected accession to the Community. All these points are highlighted by a lucid legal interpretation and abundant documentation, in a special study entitled "Relations between Latin America and the European Economic Community" (E/CN.12/868/Add.2).<sup>20/</sup> What this study does not mention is the possible existence of an entente cordiale among the leading countries at the centre, in support of this and other areas of influence. But the many escape clauses which have rendered the provisions of the new Part IV of GATT virtually inoperative arouse the suspicion that such an entente does exist de facto.<sup>21/</sup>

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<sup>20/</sup> See also "CEE: sus relaciones con el tercer mundo" (EEC's relations with the Third World) and "La posición oficial británica sobre el pedido de ingreso en la CEE" (The official British position respecting the application to join EEC), in Boletín de Integración (Integration Bulletin), No. 59, November 1970, pp.622 and 625, respectively.

<sup>21/</sup> "The Organization of American States is a classic example of a regional grouping which reduces the options of all its members but one and increases the power of a world centre. The association of a group of African countries with the European Common Market constitutes another of these asymmetrical groupings, whose negative features will stand out with increasing clarity in the polycentric scene." (C. Furtado, op. cit., p. 385.)

What institutional implications should the recognition of these circumstances carry with it for Latin America?

It would seem that a counter-reaction on the same lines should conduce to the strengthening of Latin American unity, in such a way as to enable the region to adopt concerted unilateral decisions in defence of its interests vis-à-vis any hegemonic centres which may wish to set themselves up as the poles of areas of influence governed by "special relations".

This should imply not a weakening but a strengthening of Latin America's relations with the Group of 77. Nor should it be any bar to the conclusion of bilateral agreements between Latin American countries and any existing or future hegemonic centre (such as the agreements which Argentina and Uruguay are negotiating with EEC); on the contrary, the reinforcement of regional unity would buttress the position of the individual Latin American countries making it easier for them to secure more equitable terms in agreements of that kind and in any other instruments regulating their individual or collective relations with the centres in question.

It would seem that CECLA, if strengthened on the lines suggested in the next section, might constitute the institutional basis for the closer cohesion of the Latin American countries.

### 3. CECLA: changes in objectives and institutional adjustments

The developing Latin American countries have formed four integration groupings - the Central American Common Market (CACM), the Caribbean Free-Trade Association (CARIFTA), the Latin American Free-Trade Association (LAFTA) and the Andean Group. Although this last subregional organization is by definition incorporated within the framework of LAFTA, its basic institutions and those which it is building up give it a distinctive character even in relation to LAFTA itself.

In Europe, the European Economic Community (EEC) the European Free-Trade Association (EFTA) and the Council of Mutual Economic Assistance (COMECON) form an apparently similar pattern. But in substantive terms no such parallelism exists. These organizations - besides being based on extensive physical integration and traditional trade flows - reflect political polarizations which have their well-known origins in the consequences of the

Second World War. The result has been the emergence of dualisms that are difficult to reconcile. The first of these exists between the one-time colonial powers which are members of EEC and EFTA and the corresponding overseas countries and territories. This dualism has somewhat undermined the stability of EFTA, and shows signs of weakening it to the benefit of EEC; corroboration of this would seem to be afforded by the negotiations under way for the United Kingdom's accession to the Common Market. That event in its turn, by strengthening the European hegemonic grouping, would make it easier for EEC to lay down the terms of its "special relations" with the overseas countries and territories referred to above. The consequences might be even more unfavourable to Latin America than those to which CECLA has been drawing attention ever since the Alta Gracia meeting.

The second dualism is between the market economies and the centrally-planned economies of Europe. Hard as it is to get rid of on the political plane this dualism is visibly and steadily fading out in the spheres of scientific and technological co-operation and expansion of reciprocal trade flows. This higher degree of integration will have helped to raise Europe's level of economic activity and consequently to increase its trade with Latin America in absolute figures. But it has produced no other benefits, even as regards the terms of trade: the international prices resulting from relations between the central and peripheral market economies are usually the same as those quoted in trade agreements and contracts between the socialist nations and third countries.

While Europe has derived exceptional advantages both from its increased cohesion and from the discriminatory preferences and other forms of support that it has granted to the countries with which it maintains special relations, these circumstances have also redounded to the benefit of the United States, which has stepped up its investment in the European market and developed its trade with Africa. The African countries too have profited. Some of them are among the countries with the most rapid rates of economic growth.<sup>22/</sup>

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<sup>22/</sup> See Arthur Lewis, The development process (United Nations publication, New York, 1970), pp. 3 and 4.

What has been CECLA's line of policy in face of this situation? What practical results has it achieved? Would some change in its strategic action be justified? If so, what institutional adjustments would be required?

CECLA was originally established as a special committee of IA-ECOSOC, to study the possibility of co-ordinating the Latin American countries' position at the first session of the United Nations Conference on Trade and Development (UNCTAD). Pursuant to these instructions, it approved the Charter of Alta Gracia early in 1964, and then, in conformity with its term of reference,<sup>23/</sup> ceased to exist as an OAS agency.

In December 1964, however, the countries signatories to the Charter, at a meeting in Lima, decided to establish CECLA as a standing agency, implicitly independent of OAS,<sup>24/</sup> and "in the nature of a Latin American forum to deal with questions specifically relating to UNCTAD and with any other matters having a bearing on international trade and economic development". It was expressly stated that the Committee would be governed by the norms and guiding principles of the Charter of Alta Gracia and that its mission would be to conciliate the interests of its members and promote joint action on their part. These basic objectives have remained unchanged, but subsequent CECLA resolutions have couched them in more explicit terms.<sup>25/</sup>

It is a well-known fact that CECLA made an outstanding contribution to the work of concerting the unitary orientation of the 77 and formulating the principles of justice and equity in trade relations which were endorsed at

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<sup>23/</sup> See the IA-ECOSOC publication UP/CIES - 7/CECLA/47, Rev.2, including p. 56, 2, f.

<sup>24/</sup> See footnote <sup>21/</sup>.

<sup>25/</sup> A resolution of the Third Meeting at the Expert Level, for instance, defined the Committee as a forum for discussion of specific decisions of UNCTAD and other world economic agencies, such as the International Monetary Fund, the International Bank for Reconstruction and Development and any other body of an economic character. See the information document on CECLA prepared by the ECLA Trade Policy Division (Documento Informativo, mimeographed edition, 1971).

the first session of UNCTAD and are reflected in the new Part IV of GATT, as well as in the norms and targets established for the Second United Nations Development Decade.<sup>26/</sup>

Attention has already been drawn in the present document (section III, subsection 1) to these initiatives and to the feebleness of their practical effects. CECLA itself recognized this at its Fourth Meeting at the Ministerial Level, in a resolution (12/63) which alleges that "the second session of UNCTAD failed to satisfy the aspirations of the Latin American countries and of the other developing countries of the world", on account of institutional shortcomings in UNCTAD itself, elements of inflexibility in the platforms of the Organization for Economic Co-operation and Development (OECD) and of the Group of 77, and "want of sufficient political will on the part of the industrialized countries, market and centrally-planned economies alike". These conclusions led CECLA to urge the need for Latin America to reconsider in depth all its trade and development problems and, in particular, the line of action it would follow in the future, together with its conceptual model of development strategy and the restructuration of international economic relations. "Latin America cannot tackle new problems with the same concepts and operational mechanisms that it has applied in the past."<sup>27/</sup>

These assertions by CECLA would lead one to suppose that vitally important changes would be introduced in its aims, legal base and structure. But nothing of the kind has taken place. Nor, to judge from later documents such as the Latin American Consensus of Viña del Mar and the Declaration of Buenos Aires addressed to EEC, have strategic concepts undergone any perceptible modification.

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<sup>26/</sup> See Latin America and the Second Development Decade, op. cit., p.2: "Basically, the Strategy (for the Second United Nations Development Decade)...incorporates the well-known ideas that have been so much discussed in international forums, and, in general, the measures and recommendations adopted by UNCTAD and other international agencies, such as GATT."

<sup>27/</sup> Declaration of Santo Domingo (1968). See information document referred to in footnote <sup>25/</sup>, p.86.

CECLA is not a supranational institution. Even as an inter-governmental agency it lacks the support of an international treaty. Hence its decisions are not legally binding on the member countries, which may well detract from their force. The recommendations formulated in resolution 14/68 M.<sup>28/</sup> would seem to indicate that this is what has happened in practice.

At the time of CECLA's second meeting it was decided that the Committee should have no administrative structure or technical assistance agencies of its own, but should make use of the media existing in the region. Consequently it has operated on the basis of studies prepared at its request or on their own account by ECLA, the Centre for Latin American Monetary Studies (CEMLA), LAFTA, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (BCIE), the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), the Inter-American Committee on the Alliance for Progress (CIAP), IA-ECOSOC, etc., and by the specialized agencies of the member countries.

Owing to these institutional features, CECLA cannot submit requests directly to its advisory agencies. It has to do so through the member countries, using the Co-ordination Secretariat which is in operation at the moment and the liaison agencies existing at the country level.<sup>29/</sup>

Although these co-ordination media have sufficed hitherto, it would be preferable for CECLA to be endowed with the powers and resources required to ensure that it can make full use of the region's technical expertise potential. This would be justified by the fact that its advisory agencies, apart from their geographical dispersion and institutional isolation, have their own autonomous programmes of activities, which generally take up all the normal working time of their personnel, whose efforts it is difficult to pool in such circumstances.

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<sup>28/</sup> Ibidem, p.10.

<sup>29/</sup> "The Co-ordination Secretariat of CECLA, in the case of both regular and extraordinary meetings, shall be the responsibility of the country where the last meeting was held." (Decision adopted at the Extraordinary Meeting at the Ministerial Level, Viña del Mar, 1969. See the information document referred to in the preceding footnotes, p. 112. See also, however, the "Note by the ECLA Secretariat", op.cit., p. 3.).

CECLA's action has been essentially reflex, that is, related to international forums or special questions stemming from non-Latin American initiatives. At the Viña del Mar Meeting an auspicious change was decided upon: the taking of the initiative and the adoption of unilateral positions by the region, no longer in international forums, but directly and in relation to a hegemonic power. This new modus operandi carried with it, as was natural and desirable, an invitation to dialogue and to consultations and negotiations.

The receptive attitude of the President of the United States to the Consensus of Viña del Mar would seem to bear out the wisdom of this new orientation of CECLA. Another step forward, however, might well be timely: it would be desirable for CECLA, without shelving its activities at the level of the world as a whole and of third countries, to devote attention to stepping up integration of the region and for the region.

A serious institutional lacuna seems to be constituted by the non-existence of an exclusively Latin American organization responsible for activating the integration of LAFTA, the Central American Common Market, CARIFTA and the Anean Group, and for expanding these associations by the accession of those developing countries of the region which are still, to a greater or lesser degree, divorced from them.

The exceptional potentialities of increased integration at this general level - particularly with respect to facilitating new lines of industrial import substitution and strengthening the region's bargaining capacity - would make it worth while for CECLA to expend special effort on the attainment of this objective. To that end, its restructuration would probably be advisable. Perhaps it should be institutionalized by means of an international treaty, and provided with its own permanent supporting cadre of technical and administrative experts.

As a more immediate move, CECLA should perhaps begin forthwith to examine the different strategy models and development institutions (especially those concerned with foreign trade, industrial programming and foreign investment) which have recently been adopted in the region. Furthermore, it ought perhaps to study the possible effects of the institutions in question, with the aim of designing such measures as might prove necessary to prevent the diversity of the countries' objectives and policies from militating against the integration and teleological interests of the region.



#### IV. INSTITUTIONS AT THE COUNTRY LEVEL

##### 1. Preliminary considerations

In a recent document ECLA points out the impossibility of "envisaging a standard development strategy and policy" for the Latin American countries, or even for one of the traditional groups of countries - large, medium-sized and small. Nevertheless, the fact that they have structural problems and obstacles in common makes it possible "to define essential features of development strategy which are fairly broadly applicable". These features would include the establishment of "a more favourable framework or system for trade and co-operation within Latin America itself and vis-à-vis the rest of the world, especially the industrialized countries", which would mean that obvious importance would attach to external objectives connected with "the expansion and diversification of exports, regional integration and external financial co-operation".<sup>30/</sup>

The impossibility of formulating common strategies and policies, even with respect to foreign trade, makes it impracticable ipso facto to design a corresponding general model of administrative organization and institutional norms which would be applicable in all the countries of the region. The point is that institutions are instrumental; they must be geared to strategic and short-term objectives. But since there are, as already stated, common problems and obstacles, which extend to the realm of foreign trade, more or less widely applicable solutions can be propounded. An attempt will be made to do so in the following sections.

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<sup>30/</sup> See Basic aspects of Latin American development strategy (E/CN.12/Rev.1, March 1971), pp. 35-36.

2. Institutional support for the identification of export opportunities for Latin American manufactures

It is in connexion with the composition of export supply that the greatest institutional weakness is observable in the Latin American countries. The explanation lies in the fact that the region's industrial development process has from the very outset been tailored to import substitution. Consequently, even in the countries which have developed manufacturing production to the greatest extent, there are few enterprises which look on exports as a permanent activity. Generally speaking, they are regarded as a stand-by to which recourse need be had only in periods when demand is flagging in the over-protected domestic market.<sup>31/</sup>

Moreover, even in the more limited sphere of import substitution, the Latin American countries have not reached the point of formulating industrial and trade policies based on technically-established strategical targets. It is common knowledge that development in this field, with the transition by successive stages from the production of consumer goods (including durables) to intermediate and capital goods, has been mainly spontaneous, and has been achieved at a heavy social cost.<sup>32/</sup>

These shortcomings testify to the existence of institutional weaknesses, for which remedies have begun to be sought only in more recent years. At the country level, efforts in this direction may be considered to have started with the institution of over-all and sectoral planning. The next step was the establishment of export incentives and the creation or strengthening of agencies responsible for administering these measures.

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<sup>31/</sup> For the findings of research on Brazil's experience in this respect, see F. Fajnzylber, Estudio de algunos aspectos básicos para la formulación de una estrategia de exportaciones de manufacturas (Study of basic material for the formulation of an industrial export strategy), ECLA/Instituto de Pesquisas Econômicas Aplicadas (IPEA), mimeographed edition, 1969.

<sup>32/</sup> See M.C. Tavares, "Growth and decline of import substitution in Brazil" (a study drafted on the basis of research carried out by the ECLA/BNLE group in Rio de Janeiro), in Economic Bulletin for Latin America, Vol. IX, Nº 1, March 1964, pp. 1-60; and Santiago Macario, "Protectionism and industrialization in Latin America", ibidem., pp. 61-102.

Here encouraging results have been achieved, especially with respect to intra-regional exports, showing that the measures in question and the regional integration treaties and agencies can be credited with an appreciable degree of efficacy.

In this connexion, the point to be stressed is that integration treaties, by promoting closer contact between the countries concerned and increasing their knowledge of one another, have enabled export opportunities to be identified. A contribution to this positive effect has been made even by the negative mechanism of non-automatic tariff reduction established in the Montevideo Treaty, since it means that official research on the potentialities of domestic production vis-à-vis that of regional competitors becomes an indispensable requisite. Moreover, the intra-regional exports fostered by these treaties are largely effected by the powerful international enterprises, which have enough resources at their disposal to carry out market studies and other essential research.<sup>33/</sup>

It is in relation to third countries that the Latin American entrepreneur finds himself at a singular disadvantage with regard to exports of manufactures. He knows almost nothing of their markets and generally lacks the financial and technical capacity required for undertaking the necessary research. In their turn, the subsidiaries of international enterprises established in the region have not normally been set up with a view to exporting to third markets, and in many cases are not authorized to do so in competition with their parent firms or with other subsidiaries.

The strategic significance of import substitution at the regional level, which industrial integration would tend to promote, would not detract from the importance of exports of Latin American manufactures to

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<sup>33/</sup> See F. Fajnzylber, Sistema industrial y exportación de manufacturas (Industrial system and exports of manufactures) and Estrategia industrial y empresas internacionales. Posición relativa de América latina y Brasil (Industrial strategy and international enterprises. Relative position of Latin America and Brazil) (both issued by ECLA, Rio de Janeiro, November 1970), especially pp. 211 et seq., and pp. 167 et seq., respectively. It is also symptomatic that the great majority of industrial complementarity agreements in the LAFTA area are being negotiated by private enterprise, generally foreign firms; see in this connexion Recent events in the Latin American Free Trade Association (E/CN.12/887, March 1971).

third countries, especially those with high income levels.<sup>34/</sup> This has been recognized over and over again, in statements ranging from those formulated at Alta Gracia to those contained in Resolution 2626 of the General Assembly of the United Nations, which relates to the Second Development Decade.

A basic requisite for designing an industrial export strategy is a meticulous analysis of potential demand for goods which the would-be exporter can produce relatively advantageously. It is knowledge of these demand prospects that will have to determine the investment concerned and consequently the measures to be adopted for tapping internal and external savings, purchasing technologies, preparing and evaluating projects, training personnel, formulating an appropriate labour policy, creating and adjusting infrastructures, etc.<sup>35/</sup>

It would no doubt be too much for the financial and technical capacity of most of the Latin American countries to establish and maintain an agency capable of supplying at an operative cost the essential data required for designing and readjusting an industrial development process strategically orientated towards exports of manufactures to third countries. Such an agency should have offices in the principal countries where income levels are high or which for other reasons (the size of their population, for instance) might constitute significant potential markets. It would act as an observer of the import trends concerned, the degree of international competition in the field under consideration, etc., all in relation to the potential relative advantages of the country or countries it represented. It would also need to be qualified to offer guidance with respect to firms of consultants for project engineering studies and other lines of research; to suggest suppliers of equipment and plant; to give advice on sources of financing, on legal requirements and on other conditions that would have to be met in order to export to the various markets; and so forth. In addition, it would have to be authorized to conduct negotiations abroad in respect of all these matters.

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<sup>34/</sup> See the present document, section II.

<sup>35/</sup> See the study on export promotion in Japan referred to in footnote 3/.

Given existing conditions in Latin America, it would seem that an agency of this calibre would have to be set up as a multinational public or mixed enterprise, with adequate capital, which would sell its services to public or private Latin American entrepreneurs and perhaps to foreign entrepreneurs who were thinking of placing investment in the region. Similarly, it would advise financial institutions on the profitability prospects of projects for which loans for pre-investment studies were needed. Lastly, it would have to maintain a permanent information service on business opportunities, trends shown by the Latin American countries' main import and export products in the various markets, etc.<sup>36/</sup>

3. Administrative structures relating to the formulation of foreign trade policy

The definition of foreign trade policy has been so difficult a problem in the region that examination of the de facto position in almost all the Latin American countries would show that such a policy, in the sense of co-ordination of component policies with an eye to strategic objectives, has never existed. The situation is even less favourable as regards, more specifically, exports of manufactures.

In this last field, the difficulties have been partly due to the causes mentioned in the preceding section. But from a broader standpoint, some part has been played by other factors, such as the various countries, levels of over-all and industrial development, and their dependence on a small number of export products; the relative extent and frequency of price fluctuations in respect of these products; and the corresponding effects on the balance of payments, fiscal resources, international exchange rates or the level of economic activity. All these factors, affecting as they do conflicting interests of internal and external groups, make it difficult to secure unity and consistency in policy formulation and implementation.

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<sup>36/</sup> There is an obvious similarity between the institution whose establishment is suggested here and the Japan External Trade Organization (JETRO), which is analysed in the study on export promotion in Japan referred to in footnote 3/.

/Furthermore, the

Furthermore, the task of dealing with the many matters covered by foreign trade policy and the numerous component policies that go to make it up is generally spread out over agencies which are either autonomous or dependent upon different Ministries. This consequence of the functional organization of the public administration is conducive to immediatist and unco-ordinated action on the part of the agencies concerned. It may be the Central Bank that in its preoccupation with short-term phenomena adopts measures which are not compatible with credit or exchange support for industrial development or the promotion of external sales of manufactures, or for imports of the requisite inputs. Or else it is the Ministry of Finance that opposes the adoption or hinders the application of tax incentives for exports; or it is the political prejudices of diplomats that hamper the conclusion of trade treaties or agreements, etc. Moreover, the vertical character of the administrative organization tends to isolate units responsible for complementary functions, and to make them more vulnerable to group pressures.

Similar difficulties often arise in relation to other sectors, a fact which partly accounts for the ill-success of planning in its endeavours to co-ordinate the formulation and implementation of sectoral policies in general.

It has not been possible to offset these effects entirely by means of formal organization on the lines of the usual model, which comprises a planning council formed by the Cabinet Ministers (and sometimes the President of the Republic), a central technical secretariat for over-all planning and sectoral co-ordination, and peripheral offices of a functional and regional character. Nevertheless, some headway has been made. Where foreign trade is concerned, this seems to some extent attributable to the collegiate agencies - foreign trade councils or commissions - responsible for the formulation and control of trade-sector policy. They are generally linked to the central planning agency, and their structure brings together the high political authorities - the Ministers of Industry and Commerce, Foreign Affairs, Finance, Animal Husbandry and Agriculture, and Transport, the President of the Central Bank, etc. It is sometimes through these agencies that top-level co-ordination with the private sector is effected.

/The resemblance

The resemblance between the basic features of such structures in many countries of the region would suggest that they constitute an appropriate organic solution. Furthermore, countries in other continent have adopted similar systems. A case in point is afforded by Japan's central planning agency and Export Conference, although the latter, as might be expected, has a much more complex structure than that of the homologous Latin American agencies.<sup>37/</sup>

But these organic structures have not always operated satisfactorily in Latin America. This partly supports the fact - long familiar students of administration - that the strongest co-ordinating capacity does not derive from formal organization, but from the sway of an idea, from the formation of a public consciousness, from the practical success of leaders' decisions.

The inferences that might be drawn from these observations would be in no way original, but would ratify recommendations that are beign repeatedly urged by many experts and businessmen's forums, to the effect that more intensive training should be given to sectoral officials, in order to improve the making and implementation of decisions; and that steps should be taken to promote national export-consciousness. The main objectives pursued by this second recommendation would be to counter the disruptive action of pressure groups and to rationalize the widespread support needed for the application of measures to strengthen the sector.<sup>38/</sup>

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<sup>37/</sup> See chapter V the document referred to in footnote 3/.

<sup>38/</sup> The importance attached to these questions in Japan is worthy of note. See again the study referred to in footnote 3/, chapter V, section 1. In connexion with the training of government and private-sector personnel, special efforts have been made by the international agencies - UNCTAD and GATT at the world level, and in Latin America, ECLA, the Latin American Institute for Economic and Social Planning (ILPES), the Inter-American Centre for Export Promotion (CIPE), CECON, the Institute for Latin American Integration (INTAL), the Inter-American School of Public Administration (EIAF) and the Central American Institute for Public Administration (ICAP). A greater direct effort on the part of the governments of the region would perhaps be desirable; it might even be channelled through the regular system of secondary and higher education.

4. Administrative structure for the implementation of  
industrial export policy

The existence of a collegiate agency responsible for formulating trade policy and co-ordinating its implementation does not do away with the need for an executive agency operating, under the direction of a single authority, and endowed with adequate powers of orientation, control and co-ordination in respect of the other agencies to which executive responsibilities in the sector have also been assigned, whether these agencies are autonomous or dependent upon other Ministries. Without such powers, the decisions of the higher collegiate agency would probably be left to a large extent unimplemented. Mention has already been made of the causes which are apparently most responsible for this effect: an immediatist and particularistic outlook, and vulnerability to group pressures, usually resulting from the administrative dispersion of the agencies involved.

From the standpoint of formal organization, it is an awkward matter to arrange for a single executive authority effectively to exercise powers of orientation, co-ordination and control over agencies dependent upon other executive authorities, especially when the latter are of the same or even higher rank. By informal means, however, it seems possible to secure operational efficiency given a combination of favourable circumstances: national export-consciousness; general recognition of the professional competence and qualifications for leadership of the authority responsible for orientation, co-ordination and control; and adequate technical capacity on the part of its supporting agencies, so that they can help it to make sound decisions.

In some countries of the region a situation of this kind is showing signs of consolidation, with favourable repercussions on their industrial exports.<sup>39/</sup>

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<sup>39/</sup> Some light is shed on these questions and on the region's corresponding attempts to devise administrative solutions by the document entitled Organización institucional para el fomento de las exportaciones existentes en los países de América Latina (Organization of institutions for the promotion of the Latin American countries' existing exports), which was prepared by LAFTA on the basis of data and comments supplied by ECLA's Public Administration Unit.



Where this propitions, combination of objective conditions does not yet exist, or where the number of export lines to be launched or expanded is only small, it would seem that the "executive group" may prove an efficacious and economically expedient operational solution.

It should not be thought that the executive group signifies in essence a sort of escapism from bureaucratic difficulties, as has been contended.<sup>40/</sup> Its main characteristics consist, first and foremost, in the fact that it is an instrument for co-ordinating, under a single authority, agencies that should join forces in pursuit of a specific objective, and that are scattered over several Ministries, autonomous institutions and, in some cases, the private sector. It also implies delegation, to a greater or lesser extent as appropriate, of authority, to adopt substantive decisions and determine the operational measures required to put them into effect and to keep check of their implementation. In short, the executive group must be understood to represent and instrument of project management, and a clearer idea of it would be formed if its functions were defined as including the formulation and application of the PERT of the CPM concerned.

A point worth noting is that the Ministry of Industry and Commerce of Brazil (which was established relatively recently and has as yet no strong tradition in the field of foreign trade) has been organized essentially on the basis of executive groups and autonomous institutions.<sup>41/</sup> It should also be mentioned that a similar solution - sectoral executive groups - has recently been proposed for the launching of industrial policy

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<sup>40/</sup> See P.R. Mota, O grupo executivo (The executive group), a monograph published by the Inter-American School of Public Administration as N° 19 in the series Instrumentos Administrativos de Implementação Econômica (Administrative Instruments of Economic Implementation) (Fundação Getulio Vargas. Rio de Janeiro, 1968).

<sup>41/</sup> For the relevant organizational chart, see Revista de política e administração fiscal (publication of the Ministry of Finance, Rio de Janeiro), N° 2 (March-April 1970).

in Bolivia, with a view to taking particular advantage of the new opportunities that will be afforded by a small number of major projects relating to industrial complementarity and technical assistance agencies, within the framework of the Cartagena Agreement.<sup>42/</sup>

#### 5. Support for national exporter enterprises

One of the features of Latin America's outward-directed growth model was the passive character of public institutions, whose essential object was to register and control f.o.b. sales and exchange operations, or to protect trademarks and patents, generally of foreign origin and corresponding to imported manufactures. As far as c.i.f. exports of industrial goods were concerned, to the administrative lacuna was superadded the fact that the entrepreneurial sector lacked export experience or was not allowed to export in competition with parent firms abroad.

The administrative reaction to this situation at the country level may be said to have begun after the establishment of LAFTA and of the Central American Common Market.<sup>43/</sup> Intraregional exports of manufactures have expanded vigorously since then, but the growth rate of sales to third countries has been much slower. This suggests that the Latin American institutions - legal, financial, fiscal and administrative - which have encouraged integration and intraregional exports have been much less efficacious as regards the promotion of extraregional exports of industrial goods.

It has already been suggested that one way of boosting exports of manufactures to third countries might be to provide that international enterprises established in Latin America should channel an increasing percentage of their total sales into such markets. Furthermore, regulations to this effect would probably result in an increase in Latin America's extraregional exports of products incorporating more advanced techniques

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<sup>42/</sup> According to information supplied by F. Fajnzylber in a report for limited circulation on a mission in Bolivia (1971).

<sup>43/</sup> See the document referred to in footnote 33/.

and higher value added. It would probably be difficult (not to mention strategically undesirable) for Latin America to attempt to compete with South Korea, Hong-Kong or Formosa, for example, in exports of labour-intensive manufactures to the United States and other countries, however generous were the tax incentives to the production and marketing of such goods.<sup>44/</sup>

A point to note is the difference in the treatment that should be accorded to international and to national enterprises, in respect of export promotion. The former should be compelled to export, in order to cover, and if possible outweigh, the financial remittances deriving from their investment and operations in the region. To do this, they would probably need less official support and encouragement, given their knowledge of external markets, and the greater ease with which they can apply techniques developed by their parent firms and can obtain external financing; besides which they normally have their own marketing channels and their products are usually well-known in world markets. The national enterprise, on the other hand, enjoys none of these relative advantages as a rule, and by definition does not remit major proportions of its profits abroad.

The institutional support for research on third countries' markets to which reference was made above would constitute one of the instruments that would benefit particularly, although not exclusively, national or regional enterprises wishing to export. But there would be others, among which the following would appear to be the most significant.

(i) Investment financing institutions. The region's experience seems to confirm that since the import substitution process started, the official regulations and organizations designed to tap voluntary or compulsory

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<sup>44/</sup> "Producers in Hong-Kong have to pay only one-sixteenth of the wages current in the United States. But this is not all. In addition, the ceiling for the tax on enterprises' profits is 15 per cent, as against 52 per cent in the United States. The difference represents 7.4 per cent of the value of sales, which exceeds the proportion of costs corresponding to wages. In other words, the American producer in Hong-Kong gets his labour free". See H. Hedberg, O desafio japonês, translated from the Swedish by J.B. da Silva (Lia Editor, Rio de Janeiro, 1970), pp. 223 to 228.

domestic savings for investment financing have constituted the most efficacious instrument for the promotion of industrial development. This is a specialized subject on which ECLA has carried out a number of studies.<sup>45/</sup> On the present occasion all that need be stressed is the obvious desirability of ensuring that domestic savings are used solely for financing national or regional enterprises, whether public, private or mixed. It would seem that the Régimen común de tratamiento a los capitales extranjeros y sobre marcas, patentes, licencias y regalías (Common régime for treatment of foreign capital and in respect of trademarks, patents, licences and royalties), approved by the Commission of the Cartagena Agreement, lays down satisfactory regulations in this connexion.<sup>46/</sup>

(ii) Marketing enterprises. The frequent financial and technical weakness of Latin American industrial enterprises in relation to the costs, risks and difficulties of other types involved in the conquest of foreign markets suggests that the institution of enterprises for marketing regional exports of manufactures might constitute a particularly useful instrument. This has been a matter of concern to CIPE<sup>47/</sup> as well as to national agencies responsible for export promotion. The fact that a document dealing with the Japanese "trading companies" is being presented at the Meeting bears witness to the importance attached to this question.

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<sup>45/</sup> See, for example, "Industrial development in Latin America" and "Economic planning in Brazil at the level of the states", in Economic Bulletin for Latin America, Vol. XIV, N° 2 and Vol. XI, N° 2, respectively. In the first of these articles see in particular chapter I, section 3 (b), "Financing of industry"; and in the second, p. 73.

<sup>46/</sup> In article 17 of this Régimen the following provision is made: "As regards internal credit, foreign enterprises shall have access, in exceptional cases, to short-term credit only, under the terms of the pertinent regulation established by the Commission, at the proposal of the Council".

<sup>47/</sup> See Consortios de exportación (Export consortia), a manual recently published by CIPE.

Attempts to develop export consortia or other similar institutions in Latin America do not seem to have borne much fruit. The inference is that it would be desirable for governments to play an energetic part in such undertakings, through capital contributions, technical support and financial assistance.<sup>48/</sup> As marketing enterprises should extend their operations outside the region (with the general exception of those concerned with distribution and retail sales), it would be best for them to take the form of share companies, in which the official development banks or corporations would participate, although private capital would also be allowed to do so, perhaps on a minority basis.

(iii) Technological support. Albeit the definition of the industrial technology best adapted to Latin American conditions is a controversial subject, there seems to be a consensus of opinion on some points.<sup>49/</sup> For example, it is agreed that technological research should be developed in the region and that institutional measures should be adopted which would induce entrepreneurs to use such techniques as are economically advisable both for the enterprise and for the country concerned. In particular, it is thought that the national entrepreneur needs disinterested technical support which will help him to select the manufacturing equipment and processes, the plant size and lay-out, and the methods of direction and management and administrative systems that will guarantee competitive levels of productivity. This would be especially important in relation to foreign markets, where national entrepreneurs would not enjoy customs protection, exchange and tax concessions, etc.

In view of these circumstances, it would seem that in Latin America the following are the main problems and the corresponding institutional measures in respect of the transfer and development of technologies.

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<sup>48/</sup> See again footnote 18/.

<sup>49/</sup> See Ignacy Sachs, op. cit.

(a) Financial remittances for transfers of techniques and use of patents

The payment of royalties for the use of patents often constitutes a significant cost component and may therefore prove an impediment to export activities. Moreover, some licensing contracts include a clause forbidding exports (generally to third countries).<sup>50/</sup> Lastly, the total royalties paid by enterprises are usually an important factor in the balance of payments of those Latin American countries which have already achieved a measure of industrial development. That is, the question is significant both from the standpoint of the enterprise and from that of over-all development policy.

In one of the most highly industrialized countries of the region, a specialist in the legal and administrative aspects of protection for industrial proprietorship reached the conclusion that a very large number of enterprises were still paying royalties for the use of patents which had become public property; and that the government department responsible for the concession and official control of patents continued to accede to a number of requests for protection which should have been rejected, because no patentable innovation was involved. Moreover, the department in question exercised no control over the legality of new or current contracts which compelled national firms to pay royalties for the use of patents.

The foregoing situation was not apparently due to administrative corruption, although the possibility of its existing in one or two exceptional cases could not be ruled out. The trouble lay rather in obsolete operational norms and methods dating from the period of outward-directed growth and therefore, inter alia, establishing no control over unwarranted payment of royalties for the use of patents which had already expired.

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<sup>50/</sup> The above-mentioned régime for treatment of foreign capital, adopted by the Andean Group, incorporates a general prohibition of clauses of this kind (article 20).

The position is probably much the same in most of the countries of the region, which means that it is urgently necessary to improve their legislation and services for the protection of industrial proprietorship. This is a field in which data processing by electronic methods may make an exceptionally significant contribution to efficiency. Co-operation between the national agencies concerned might reduce costs and increase benefits, particularly with respect to the smaller countries.

- (b) Techniques imported without overt payment of royalties <sup>51/</sup>  
are frequently not the most economic from the standpoint  
of the enterprise and of the country

It is common knowledge that as a general rule Latin American enterprises lack the financial and technical capacity to undertake the studies and experiments required for developing or adopting technologies which from their point of view will prove more economic and which will better serve national interests. Moreover, experience suggests that the foreign enterprises established in the region will not do so either.

Although these circumstances have led to unanimous agreement on the need to step up government participation in technological research in Latin America, it seems to be a fact that the official institutions established for this purpose have not thrived with the vigour called for by the magnitude and urgency of the problems with which they have to deal. The foremost and greatest weakness observable in this respect is of a financial character. The data adduced by Ignacy Sachs speak for themselves.<sup>52/</sup> He also seems to be right in stressing the illegitimacy of the argument that poor countries should not devote any very substantial resources to technological research, and contending that they should do so precisely because they are poor.<sup>53/</sup>

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<sup>51/</sup> The régime referred to in the preceding footnote comprises a list of current procedures in respect of indirect payment for transfers of technology, whether patented or not.

<sup>52/</sup> "A UNESCO study on research and development in twenty-five developing countries gives Argentina as having the highest expenditure per head: 2.8 dollars per year, as compared with an average of 0.45 dollars for the twenty-five countries covered and about 60 dollars for the five most developed Western industrial powers." (See Ignacy Sachs, op. cit., p. 22.)

<sup>53/</sup> Ibidem, p. 26.

The line of least resistance to the intensification of financial support for technological research in the region would probably lie in linking up this activity to expectations of corresponding increases in enterprises' profits.

The costs of a productivity centre in Uruguay (Centro de Productividad) are being partly financed by means of a reduction of the interest rate payable by enterprises on the loans they request for industrial investment.<sup>54/</sup> The economic and social development fund which has been one of the most effective implementation instruments in French planning makes the granting of loans conditional upon a pledge on the enterprises' part to modernize their plant, production processes and systems of management.<sup>55/</sup> These examples go to support the practical viability of Ignacy Sachs' suggestion to the effect that technological research could be partly financed through contributions payable by enterprises as a prerequisite for obtaining industrial investment loans from official development banks and corporations in the region.

Another incitement to enterprises to support technological research might be a provision that for income-tax purposes they should be authorized to deduct from their taxable income the amounts paid for advisory services under that head, or the sums represented by subsidies accorded to technological institutes, or by the underwriting of portions of the capital of the institutes in question.

Some firms of consultants have accepted, as remuneration for their technical assistance services, a proportion of the corresponding increase in their clients' profits, or of "beneficiary shares" or quotas of participation in their capital granted by the said clients.

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<sup>54/</sup> This project has obtained United Nations support.

<sup>55/</sup> These assertions are not expressly confirmed by the Fund's regulations (see Pierre Bauchet, La planification française: quinze ans d'expérience (Planning in France: fifteen years' experience), Paris, 1962); but they are by the instructions for diagnoses of enterprises adopted for the purposes of granting loans against the Fund.



The experience of Latin America appears to prove that technological institutes organized as public-sector departments, i.e., subjected to the regulations governing agencies financed by the basic resources of the Treasury, have not been successful, even in the larger and more developed countries, from the industrial standpoint. This is especially true in times of inflation, when anti-inflationary measures often include a drastic reduction of the real remunerations of public officials.

The organization of technological institutes in the form of public or mixed enterprises would probably facilitate their adopting any of the above-mentioned methods of tapping resources, in addition to the direct payments received for services rendered. Moreover, this organizational pattern would make it possible to establish systems of remuneration of technical and scientific personnel which would prevent the brain drain and attract an inflow of talent. Lastly, it would simplify the task, of solving the technical assistance problem in relation to the smaller countries, which could reserve a share proportional to their needs in the capital of powerful multinational technical institutions in the region.

(iv) Closer linkage with the private sector. The fields of industrial export promotion mentioned above are not the only ones in which closer linkage with the private sector would be recommendable. It should be effected through delegation of functions and through co-operation, especially in the cases and for the reasons indicated below.

(a) Technical norms and quality controls

In the technological institute were organized on an entrepreneurial basis and with the participation of private capital, its relations with producer and exporter enterprises would probably improve spontaneously. This would facilitate more factual knowledge of the nature of external demand and of domestic industry's potentialities for supplying it. Consequently, technical norms would tend to be more realistic and control of their application more expeditious. Latin American entrepreneurs often voice criticisms of the administrative services responsible for these regulatory functions. In particular, they refer to the slowness with which control operations are carried out, which in some cases has made it impossible to meet delivery deadlines or caused the loss of perishable goods.

The regulations governing proceedings against the State and public officials generally aggravate the difficulty of pinpointing responsibilities and securing indemnification of losses. This would be yet another reason for organizing the agency in which such functions were invested on entrepreneurial lines. Furthermore, the fulfilment of the functions in question might prove an additional source of income for the financing of technological research.

(b) Commercial information service

If the control of legal or contractual standards for export product characteristics were semi-privatized, some laxity might ensue, with the consequent ill-effects on the prestige of domestic production in foreign markets. This undesirable result could be prevented or counteracted if the files of any legal proceedings between importers and exporters on the grounds of failure to conform to the established standards were to be examined concurrently or subsequently by a specialized public agency. The exercise of this agency's function of official inspection and control might lead to the application of administrative penalties for deliberate offenders, such as exclusion from government export incentives, payment of fines, etc. The bodies responsible for control of compliance with standards, and their agents, would likewise be liable to administrative sanctions.

The information and mediation service should combine these supervisory functions with assistance to national exporters, when it is clear that they have acted in good faith and particularly when the legal proceedings area instituted abroad. Endeavours should also be made to bring about an amicable settlement between the parties to the suit.

(c) Simplification of procedures

It often happens that rationalization of the operational procedures and methods of the public administration can be achieved and maintained only by virtue of pressures exerted by interested outside groups. Recognition of this state of affairs, which is particularly common in developing countries, should lead to the institutionalization of the export sector's co-operation with government efforts to reduce the costs, stages and deadlines of procedures for the support or control of export activities. This would

/probably necessitate

probably necessitate the creation of mechanisms for communication with the private sector at different levels of the administration - technical advisory agencies specializing in organization and methods, normative bodies, and executive departments, including, in the case of the last-named, their geographically decentralized offices.<sup>56/</sup>

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<sup>56/</sup> In connexion with the points discussed in this section, see Handbook of Export Promotion (publication of the Ministry of Commerce of India), chapter I.

