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The Financing of Exports in Latin America

By Dr. Hans-Joachim Hartmann, Hamburg

From following the constantly repeated demands made by developing countries — which are permanently on the agendas of international forums as well as being frequently reiterated in personal conversation — it becomes apparent that the inability sufficiently to finance exports from such countries is an almost insurmountable obstacle. This would be equally true of countries on the Latin-American sub-continent. A resolution passed by the Board of Directors of the Inter-American Development Bank in April 1962, for instance, mentions the "urgent necessity" of creating proper systems to finance exports from Latin America since these help promote the economic and social development of member states.

As so often happens, here too there is a tendency to over-emphasise the problems involved and for this emphasis to be misplaced. However, the complaints made by developing countries should not be dismissed entirely, particularly where industrial products are involved. Below we discuss, and give a critical appreciation of, the current possibilities of financing exports in this area in order to clarify the position in one sub-sector — Latin America — whilst pinpointing the real problems and separating them from apparent complications. The information thus obtained should also apply to other comparable development areas.

Proven Methods of Financing for Raw Materials

About 90 % of all exports from Latin America are agricultural products and raw materials: coffee, sugar, cotton, bananas, cocoa, grains, meat and all their by-products, copper, tin, iron ore and mineral oil — to mention only a few. The study will therefore be prefaced by a description of the way in which these exports are financed.

As a rule, the Latin American exporters of such products do not need to grant their overseas customers long periods for payment. The great majority of sales contracts quote "payment against shipping documents" or "payment upon arrival of ship at port of destination". Very often the purchasers open letters of credit, against which the exporters can, in certain cases, obtain advances from domestic banks some time before the goods have been shipped. This means that — with very few exceptions — there is no "financing problem" in Latin America in connection with the sale of raw materials. On the other hand, financing problems occur more frequently during production, which may last up to six months,

according to the type of product. The domestic producer has to raise funds for the purchase of fertilisers and insecticides and he has to pay the labour engaged in the care, harvesting and processing of the product concerned. Only in a few exceptional cases is he able to do this from his own resources; he is therefore forced to obtain credit a long time before his product is effectively sold. In Latin American countries local banks do not have available from their own resources the massive credit requirements necessary to finance the production of domestic products. In recent years and with State support, special institutions have been set up, with the particular aim of assisting the smallest producers. However, producers obtain the major part of the funds needed to finance production from exporters who make them advances against a simple promise to deliver or also against a preliminary contract. With the exception of the international combines, which often assemble under one aegis all stages from the plantation to the processing factory in an industrialised country, including transport, and can thus, so to speak, finance production "from within", ordinary exporters are not in a position to make advances to planters entirely from their own resources. Therefore the main Latin American exporters either have their own credit lines from banks in the United States or Europe, or they obtain the funds for advances from their customers, the foreign importers. In this way an extremely efficient system of financing exports of raw materials from Latin America has been developed. In considering this from the point of view of development aid, it should be remembered that banks and importers in Europe and the USA play a predominant role here.

Risks to Foreign Lenders

It is all too frequently forgotten that this type of financing entails not inconsiderable risks to the lenders. Leaving the economic risks aside — no European or North American importer will grant credit to a Latin American exporter unless he knows him well and can evaluate precisely the risk to himself or is able to ask for proper collateral — the political risks must not be underestimated. No foreign lender can know whether his contractual partner will really be in a position to deliver the goods in three or six months' time, or whether he will be prevented from so doing by a ban upon exports or State intervention. When such measures are combined with transfer restrictions or new foreign exchange

restrictions, it might happen that the Latin American exporter could not even repay the advance or, at least, that there would be a long delay in doing so. This risk is greatest to foreign lenders. German importers are therefore fully justified in demanding that the Federal Government cover them against such political risks. In Holland, for instance, the State has for some time given such assistance. In order to avoid fresh distortions of international competition it would, perhaps, be sensible for thoughts on the creation of new methods of insurance to be co-ordinated internationally as is done, for instance, for export credit insurance under the Berne Union. It is probable, in view of the not inconsiderable risks, that this will take place simultaneously in a number of industrial countries.

The foregoing remarks should have made it clear that the Latin American demands for comprehensive new assistance in financing exports are not justified for the majority of raw materials — and consequently not for the main part of the overall volume of exports. On the other hand, the position with regard to the export financing of industrial goods is much less clear and efficient. Certainly the Latin American sub-continent is far from being an exporter of industrial goods on a grand scale. In countries such as Mexico, Brazil and Argentina, however, a good start has been made. Even though the major volume of industrial exports moves between the countries of the Latin American Free Trade Area, exporters still have to adapt themselves to the demands of international competition. Anyone who wants to sell capital goods on the world market today must be able to offer not only good quality and favourable prices, but also long-term credit terms and low interest rates. The Latin American exporter also has to contend with this — certainly worrying — situation if he wishes to compete with North American, European or Japanese offers.

Central Banks Help Exporters of Industrial Goods

Because of the widespread shortage of capital, Latin American banks are not, as a rule, able to help exporters to finance their export credits. Even if this could be arranged, the national rates of from 15 to 30 % p. a. customary in the majority of Latin American countries would automatically render the exporter uncompetitive vis-à-vis conditions prevailing in industrial countries — where export credits are offered, on an average, at between 5 and 7 % p. a. For this reason there are numerous approaches in Latin America for special systems of financing exports. The construction of these is very similar to that of systems in use in industrial countries where exporters have been granted special assistance for financing exports for almost 40 years; however, this assistance is always tied to a system of insurance to cover the political and economic risks involved in long-term export credits. What is the position in Latin America regarding similar instruments?

Many central banks grant internationally competitive export credits to Latin American exporters of so-called untraditional or "new" goods, either direct or mostly through merchant banks. This is true of Brazil, Argentina, Chile and Colombia. In Mexico, which has the most efficient system, although the central bank undertakes the purely technical side of the work, the monies come from a special fund fed from the income from a special tax raised on imports of luxury goods. Apart from a few technical variations, the central banks normally rediscount the bills deriving from export dealings at rates fluctuating between 5 and 7 % p. a., thus remaining absolutely within the limits of international practice. It is interesting that Latin American countries are very strict about not exceeding these international limits.

Contrary to the system of financing in force in industrial countries, where the financing of production is the exception because, in general, this function is undertaken by the banking system, Latin American central banks assist their exporters even during the production period. This is true of Mexico, Chile, Colombia and Argentina. Only in Brazil is there still no production financing at preferential conditions for the export of new products.

The Role of the Inter-American Development Bank

Assistance in financing exports is not limited to the national sphere only; there are already interesting arrangements for regional co-operation. After making prolonged preliminary studies, the Inter-American Development Bank has been involved since 1964 in a special programme for financing exports of capital goods inside the sub-continent. A fund initially endowed with \$ 30 million is available to refinance export credits with individual countries on the basis of specially agreed credit lines; such credits were granted, for instance, on the sale of a Brazilian machine to Colombia. So far about two thirds of this fund have been used up for credit lines with Mexico, Argentina, Brazil, Chile, Peru and Nicaragua. The Inter-American Development Bank also keeps strictly to normal international credit terms and is extremely careful to do nothing to encourage fresh distortions of competition. No preliminary financing of production is allowed on principle, although, in face of rising "demand", this question is certain to be thoroughly re-examined.

First Arrangements for Export Credit Insurance

However, these quite significant arrangements for assisting export financing are properly supplemented only in a very few cases in the insurance sector. Only Mexico can boast that it has had for the past few years a practically functioning system of export credit insurance. From the resources of the above-mentioned special fund the Mexican exporter can obtain a policy, although only to cover the political risks affecting his export credit. Attempts are under

way to create a policy to cover the economic risks of export credits. In Argentina and Brazil the question of export credit insurance has not yet gone further than the complicated initial stage. Whereas in Brazil, after an unfortunate start with an impracticable system, it is possible, in theory, to cover both economic and political risks, in Argentina plans are still shelved. By setting up a special joint firm, the private insurance sector has shown its willingness to cover the economic risks; however, it is anticipated that from the beginning the State will be prepared to assume the political risks. As far as the principle is concerned, the relevant negotiations have long been concluded in a positive way, but a deadlock has been reached over technical details. In the remaining countries of Latin America no definite steps have yet been taken to set up export credit insurances, although the necessity for these is generally recognised and is continually reiterated in all relevant programmes.

Bureaucracy is often a Bottleneck

In spite of many lacunae and deficiencies — and contrary to what is often asserted — it must be

said that in the field of financing exports of capital goods from Latin America there is no perceptible bottleneck — at least for the volume of goods currently being exported. However, the variety of systems already in operation should not be allowed to obscure the fact that much remains to be done. Where there are still considerable gaps, these need to be filled. The main complaint of exporters is that the many bureaucratic obstacles make it more difficult to take advantage of such schemes. In many countries the red-tape is so extensive and tedious that exporters are more often deterred from making use of the opportunities offered than encouraged. For this reason, consideration is being given to the possibility of tightening up and simplifying the available means of obtaining export finance assistance by setting up special export banks. In the present stage the industrialised countries could collaborate — under their development aid programmes — mainly with technical assistance, i.e. by passing on the know-how necessary to build up and improve the system of financing and insurance. It does not appear that financial support is necessary at present in this sector.

EAST-WEST TRADE

Licences for East-bloc Countries

By Werner Siech, Berlin

The granting of licences to East-bloc countries is still a disputed problem, although many entrepreneurs have changed their minds in a certain—positive—way as regards this group of questions. In the Federal Republic official and semi-official quarters are promoting this change of mind. For, independent of all political deliberations numerous manufacturers are bearing in mind that time does not stop and that many other giving nations are quickly prepared to take advantage of opportunities, that German entrepreneurs possibly do not observe.

It stands to reason that the traditional export business—i.e. deliveries of goods—now as ever comes first and will always be predominant. However, it should be as much a matter of course that entrepreneurs deal with other forms of business in the East, if for various reasons the export of goods cannot take place. Due to the prevailing conditions or the limited delivery powers, respectively, of the Eastern countries and due to their bilateral thinking the actual trade volume will always be limited.

Preparation of Licence Transactions

Among others it should be a symptom of these new tendencies that the German Federal Bank in its quite informative monthly report of April, 1966, pertaining to the "Development of Patent and Licence Transactions with Foreign Countries in 1964/1965" has

covered also the Soviet Union and Poland with regard to data and branches, while in the preceding Patent and Licence Report of April, 1964, (in 1965 no such report had been published) this had not been the case. Although in this context it is not possible to enter into particulars of these statistics, it should be mentioned, however, that the German balance of licences vis-à-vis these two East-bloc countries has been favourable for the Federal Republic in 1964 and 1965.

Of course the Agfa-Gevaert case in Moscow caused some uneasiness in the minds of Western licensors. This discomfort can, however, be overcome through a number of positive deliberations: According to experiences hitherto made as regards the issuing of licences to East-bloc countries—and in this connection not only patents are meant but also brands, trade names and know-how—one should not judge too hastily. Independent of the one or other individual case, that "somehow" might be different, there are thousands of firms in the West which need not apprehend any conflicts in licence transactions with the East. Let us not forget that also in the purely Western licence business similar marginal cases occur occasionally.

On the assumption of most precise contract terms, that usually are the result not only of negotiations between the two partners but also of very detailed analyses of licences, the so-called pre-investment