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# Export Drive by a Developing Country

By Christian Wilhelms, Hamburg

**B**razil's export results for 1966 are remarkable: at a (preliminary) fob value of US \$ 1,749 million, it has achieved the highest foreign exchange income from exports for 15 years. This is 9.7 % higher than the very good results already achieved in 1965 (US \$ 1,595 million) and only slightly below those for 1951 — a record year, when the Korean War boom drove the export value up by more than 30 %, to US \$ 1,769 million. The main reason for these good results were diversification and improved yields due to increases in price and/or quantities on various products.

Because of liberalisation measures, imports rose by 35.4 % last year, from US \$ 1,096 million, their lowest level since 1950 to cif US \$ 1,484 million (preliminary); the export surplus thus amounts to US \$ 265 million. If we ignore the "record" surplus achieved in 1965 (US \$ 499 million)—due, mainly, to restrictions upon imports and a temporary fall in import demand (decreased business and investment activity), and only to a minor extent to a rise in exports, the 1966 figures were the highest since 1950 (US \$ 270 million). Thus 1966 was a successful year for foreign trade—both imports and exports.

This is not the only welcome news. A new foreign trade policy was published, with a 10-point programme; this was announced recently by General Edmundo de Macedo Soares, Minister for Industry and Trade in the da Costa e Silva Government, at the first meeting since the change in government of the National Council for Foreign Trade (Conselho Nacional de Comércio Exterior—CONCEX).<sup>1</sup>

## Re-orientation of Foreign Trade Policy

The keynote of this programme is given by the directives on domestic procedure; 7 of the 10 points are concerned with this:

- ☐ Granting of confidence in, and freedom of action for, Brazilian exporters and importers, reduction of previous bureaucratic controls;
- ☐ Importers to be kept informed of favourable buyers' markets (taking into consideration the interests of national industries), whilst Brazilian exports are simultaneously to be promoted in the respective countries;
- ☐ Co-operation between, and co-ordination of, CONCEX and CDI (Comissão de Desenvolvimento Industrial—Industrial Development Commission) to en-

sure proper exploitation of industrial capacity and the establishment of industries of an economic size;

☐ Measures to increase efficiency and cost competitiveness;

☐ Protection of export prices for Brazilian products;

☐ Intensification of export promotion by means of joint action on the part of the Foreign Affairs Ministry and CACEX (Carteira de Comércio Exterior—Foreign Trade Dept. of the Bank of Brazil) concerning participation in international trade fairs and other promotional activities;

☐ Expansion of export financing and export production financing, particularly capital goods and finished goods, through FINEX (Fundo de Financiamento às Exportações—Export Financing Fund), and securing of necessary funds.

The directives for procedure abroad concern co-operation between the Ministry of Foreign Affairs and CACEX, being directed at more aggressive export promotion abroad; they are also concerned with Brazil's active participation in international negotiations and agreements (particularly UNCTAD, EEC, ALALC, COMECON and GATT, including the raw material agreements) and, finally, with encouraging Brazilian entrepreneurs to travel abroad in delegations.

## A new Approach to Export Promotion

The foreign trade policy announced by Macedo Soares is an innovation for Brazil, in that its entire contents emphasise that it is an export promotion programme. The basic principles—although these may seem obvious to an industrial country with a tradition of export promotion—indicate a well thought out, comprehensive programme, taking into account the specific position of Brazilian exports—including the numerous weaknesses and problems involved.

This has not always been the case in the not extremely traditional, but changeable, area covered by Brazil's export drive. In the past, Brazil's export drive has been disorganised and has often contained contradictory and bewildering features: numerous large-scale projects have been initiated and announced with a superfluity of verbiage, but before long impetus, action and individual measures have slackened. In the final outcome very little has been done—never sufficient, never the right things. These measures have had no overall concept, no consistency, logic or continuity of execution, nor were they permanently effective. In addition, it has not

<sup>1</sup> Compare: O Estado de S. Paulo, São Paulo, No. 28.213, April 7, 1967, p. 18.

always been recognised how absolutely essential and practical such export promotion is. In the same way, people were not clear about what exports and proper foreign exchange earnings mean to economic growth, even in a country like Brazil. Authorities and firms did not have a basically positive attitude towards exports—they were not "export-minded".

Before World War II, there was no conscious Government policy on industrialisation; neither was there any proper export promotion. The reason for this was the traditional economic and export structure. The all-powerful, albeit short-sighted, coffee interests prevented any logical policy on diversification of production.<sup>2</sup> In the same way, the export sector was for a long period influenced by coffee exports and a few primary products. Prosperity was dependent upon coffee; there was a surplus of coffee, not even nationalists were hurt when it was exported, and ideas about increasing foreign currency earnings were synonymous with ideas about selling coffee (as the coffee valorisation efforts made so frighteningly and transparently obvious); at best, only a few other primary products were included—for instance, cocoa, cotton, timber. The export drive fluctuated in inverse proportion to the sales status of these products. This was still the position until just after World War II. It is only since the end of the 'fifties and the beginning of the 'sixties that any efforts have been made to promote exports of non-traditional and industrial products and that fundamental consideration has been given to questions of export promotion.

Since 1957, trading figures have always shown a deficit; Brazil found it more and more difficult to raise funds for foreign liabilities. Its balance-of-payments position became increasingly hazardous. The inflow of funds from investments and capital abroad had dwindled; the situation deteriorated still further, due to capital flight. It became urgently necessary to take energetic steps to increase exports.

It grew increasingly obvious that this chronic dependency upon a few traditional products with falling or widely fluctuating export yields—primarily coffee, cotton, sugar, timber and iron ore—would have to be abandoned, or at least reduced, and that there would have to be diversification of the product structure of exports. The so-called "minor", neglected and little-known agricultural products could help in this product diversification. Because of the demand position, however, these would never be sufficient to meet the requirements of the financial situation and of the growing demand for imports caused by the process of development and industrialisation. Any increase and diversification of exports

would have to be effected mainly through industrial products (in the broadest sense). Export promotion was directed increasingly towards this target.

### Different Approaches in the Post-war Period

There was no short-term or straight forward method of achieving an effective, specifically diversification-oriented, export drive. The approach was rather hesitant and dependent more upon chance than upon an understanding of the essential urgency of the matter. Thus, in the post-World War II period, as these efforts increased in intensity, there are three clearly visible—albeit partially overlapping—phases; these were characterised by distinctly varied approaches to the problem of export promotion, in spite of numerous different policies and activities:

- Sporadic, disjointed measures, without system or connection, punctual, in the main; these dated from the beginning of the 'fifties;
- Towards the end of the 'fifties and the beginning of the 'sixties, investigating and study committees were set up;
- After 1963, comprehensive proposals and programmes for export have been worked out; these place particular weight upon diversification via industrial products.

At the beginning of 1963, CACEX put forward proposals for an export drive and diversification programme. In May 1963, the then President, Senhor Goulart, put together a working group of leading industrialists (Schultz-Wenk Committee<sup>3</sup>), which was to make proposals, within 30 days, about economic, fiscal and financial measures to give additional impetus to exports of industrial goods. Finally, in mid-1965, and upon the initiative of the then Minister for Industry and Trade, Senhor Paulo Egydio Martins, preliminary work was begun to set up the National Council for Foreign Trade (CONCEX). The highlights of this last phase were the passing of the CONCEX legislation (June 1966) and the announcement of the new foreign trade programme (April 1967).

### Programme of the Schultz-Wenk Committee

The export promotion programme for industrial goods<sup>4</sup> led to intense activity by other bodies—some of them competing jealously—which were also studying opportunities to promote exports (for instance, FIESP—Federação das Indústrias do Estado de S. Paulo), as well as by the Federal Government and the various States of Brazil.

The export proportion programme was drawn up in two parts. The immediate measures, in-

<sup>2</sup> An example: the 1931 Niemeyer Report: Sir Otto Niemeyer, the well-known British financial expert, stated publicly for the first time that Brazil's main weakness lay in its excessive dependence upon the export of a few products. The main target of economic policy should be the diversification of its economic structure. The Report was severely attacked. At that period, to criticise Brazil's overreliance on coffee was considered almost sacrilegious. See, too, Baer, Werner: *Industrialization and Economic Development in Brazil*. Homewood, Illinois 1965, p. 30 f.

<sup>3</sup> Called after its Chairman, Dr h. c. Friedrich-Wilhelm Schultz-Wenk, President of Volkswagen do Brasil S/A, now also President of the German-Brazilian Chamber of Industry & Commerce, São Paulo.

<sup>4</sup> *Exportação de Produtos Manufaturados Brasileiros—Sugestões para o seu fomento, submetidas pelo Grupo de Trabalho criado pelo Exmo. Sr. Presidente da República, conforme Decreto nº. 52.027 de 20 maio de 1963. São Paulo, 20 de julho de 1963.*

tended as a first incentive, comprised the following proposals:

- ☐ Concession of foreign currency privileges of 50% of the return on exports;
- ☐ Exemption of export earnings from income tax (Imposto de Renda);
- ☐ Compensation for turnover tax (Imposto sobre Vendas e Consignações);
- ☐ Drastic simplification of export procedure, including removal of existing measures, arrangements and formalities inhibiting exports.

Measures for consolidating exports of industrial goods initiated under the above to be scheduled in the following areas:

- ☐ Brazilian industry to be made capable of exporting;
- ☐ Improved financing and decreased risk in export dealings;
- ☐ Sales promotion for Brazilian products abroad;
- ☐ Elimination of psychological inhibitions and maintenance of interest in exporting.

Under the government of that period only small portions of this comprehensive promotion programme<sup>5</sup> (which was intended to have a permanent effect) was ever realised; when anything was done, its form was often greatly modified and rather unpromising. It was typical—as it so often is of Brazilian measures—that the realisation was very complicated and bureaucratic. Some particularly sensitive problems of domestic policy—i.e. national shipping and port turnaround—could only have been broached with circumspection; many undoubtedly effective measures were rejected whilst under discussion by the working group because of the fear of bureaucratic consequences. However, the work of the Schultz-Wenk Committee was not without result: the programme had an incalculable influence upon the policy of the Castello Branco Government and the export promotion drive was initiated under the Minister of Planning, Roberto Campos; the most important institutional creation was the National Council for Foreign Trade, via the CONCEX legislation.

#### CONCEX Legislation Liberalises Exports

Brazilian exports have been repeatedly and drastically inhibited, not least by the often rather impractical bureaucratic methods employed, regardless of promises. An absolutely fatal tendency to complicate matters has reduced interest and spoilt the effect even of basically simple, albeit effective, promotional measures. In addition, the shortage of foreign exchange up to 1965 led to the establishment of a complicated system of foreign trade controls. This system could only be relaxed when the foreign exchange position improved, the tendency towards capital flight

decreased and competition on the domestic market became more intense.

The National Council for Foreign Trade (CONCEX) was set up under Law No. 5.025 of 10th June, 1966. This initiative was taken mainly because it had become a matter of urgency to co-ordinate all export measures.<sup>6</sup> Its first task, therefore, was to give export policy a new direction.

Decree No. 59.607, dated 28th November, 1966, contains the provisions for enforcing the CONCEX Bill; it contains 150 articles. CACEX is responsible for enforcing the CONCEX provisions inside Brazil and the Ministry of Foreign Affairs for enforcing them internationally. In principle, export is no longer subject to any restrictions (Art. 27); export procedure has been considerably simplified (export licences and controls were abolished), except for certain products of specific national interest; additionally, restrictions can be imposed where this is in the interests of the domestic economy. The control formalities which remain in force should not delay exports. Coffee exports are still subject to the special IBC regulations (Instituto Brasileiro do Café); all other goods which can be exported fall into three categories, i.e. goods the export of which is 1) unrestricted; 2) subject to CONCEX control; 3) basically prohibited.

Some of the other main points are: exports are freed from any fiscal charges; exports of industrial goods are to be encouraged; export financing is to be developed (FINEX).

In connection with tariff reform and the increased efficiency of the sea-ports, competitiveness is to be increased and foreign trade adapted to the system used in developed industrial nations. Exports are not to serve merely as a safety valve in years when there is a slump on the domestic market (as in 1965, when exports of industrial goods rose so gratifyingly), but should become a permanent part of Brazilian firms' sales planning.

#### Numerous Psychological Problems Remain

Apart from the difficulties deriving from Brazil's traditional exports (for which there is relatively little domestic demand), one of the general problems as to all other exports is the lack of "export-mindedness". For several years now there has been widespread discussion of this point, both in the Press and elsewhere. Thus, there is a danger that the "mentalidade exportadora" (export mentality) should become a mere slogan, a meaningless phrase, or a convenient excuse. Where we are dealing with non-traditional products, the lack of export-mindedness is quite understandable. The reason: Brazilian industrialisation was directed primarily at the domestic market for the purpose of import substitution, not at foreign markets—as is the case in countries with small

<sup>5</sup> A detailed exposé of this programme, in the preparation of which HWWA (The Hamburg Institute for International Economics) played an important role, can be read in WIRTSCHAFTSDIENST, Hamburg, 10/1963, p. 430-434.

<sup>6</sup> When CONCEX was inaugurated on 11th August, 1966, Egydio Martins remarked that 30 different bodies had been responsible for export decisions. This had led to a "pulverization of command" and had been a considerable obstacle to the creation of a co-ordinated, systematic export policy.

domestic markets. When it came to exports of new products which were in any way remarkable or which were given wide publicity because of pride in national efficiency—particularly high-technology industrial products—they were invariably from surplus production which could not be sold on the domestic market (either because of credit restrictions or recessionary factors) or could be sold at higher prices on the export market. When the situation on the domestic market changed, most of these new products disappeared from the list of exports.

With regard to this attitude of the not particularly "export-minded", but definitely "profit-minded" Brazilian entrepreneur, it should be noted that the domestic market—which is protected against foreign competition—offered easier and more favourable sales opportunities. Inflation made exporting perhaps more difficult, but domestic trade became more attractive. The prime objective of the entrepreneur was not to support the long-term objectives of the overall economy, but to obtain the maximum of profits as rapidly and as painlessly as possible.

Narrow-minded nationalism aggravated this inhibition of exports. Particularly where iron ore was concerned, market opportunities were not exploited. Additionally, export-inhibiting factors became effective within the most widespread sectors and these are not easily eliminated by a change in the official attitude towards export promotion. Under this head comes the problem of export specialists—both a qualitative and quantitative bottleneck.

On the production side, considerable capacity was often not used because people were aware of the difficulties connected with exporting. Past export successes with new products should therefore be rated more highly because considerable time-consuming and expensive impediments—i.e. unrealistic (over-valued) Cruzeiro rates, transport difficulties and often high overheads—definitely decrease sales opportunities for goods which would otherwise be competitive both in quality and price. Other problems—often due to a lack of interest on the part of entrepreneurs—include insufficient contact with foreign markets, lack of knowledge and/or understanding of the requirements of export business, such as competitive (realistic) prices, consistent quality, efficient packaging for export, reliable and continuous deliveries.<sup>7</sup> A further obstacle sometimes encountered is a somewhat provincial over-estimation of the company's local monopoly position and of its achievements and accomplishments.

Both in the CONCEX legislation and in the measures it has implemented since 1964, the Government has shown that it wishes to take energetic steps to solve the problem of export inhibition. The promising efforts made in the private sector are emphasised by the formation of export consortia, in which several firms join together to export certain products—

e.g. automotive parts or capital goods. This should help to overcome deficiencies of experience, personnel and capital which, in the case of some firms, make any export activity more difficult. In public relations announcements and short articles the Press publishes items about new exports—emanating either from the firms concerned, from CACEX or from private banks (such as the Banco Lar Brasileiro), who wish to draw attention in this way to the facilities available to exporters.

All these measures help create "export-mindedness". However, it is feared that as the position on the domestic market improves, so exports will deteriorate. It may not be easy to overcome the tendency to see exports as a valve to be used as necessary; neither can people be altogether blamed for this attitude.

As mentioned earlier, industries have been set up primarily with the objective of covering domestic requirements. Why should this market—which is normally large enough to be profitable—be prejudiced in the interests of a far-off foreign market which may also be less reliable and frequently offers lower profits? New and competitive firms or imports can make life more complicated for existing firms. On the basis of present sales policies, the export market is not considered an additional market, but merely a substitute for the domestic market in times of recession. It appears that the choice between supplying the domestic market or exporting will continue to present a problem and that the volume of foreign exchange income may be dependent upon this.

Besides "material" obstacles, which may well be eliminated by liberalising foreign trade and promoting exports, there remain considerable psychological inhibitions to be overcome. It is to be hoped that—unlike other institutions—CONCEX will not become a "super-authority", laying down an impenetrable jungle of regulations which will, once again, throttle at birth any tendency to "export-mindedness". It should limit itself to a relatively small number of regulations and directives, whilst working in a logical manner to facilitate and liberalise exports. It should intervene firmly wherever there are bottlenecks, where procedures are complicated and where technical difficulties have become an institution.

#### **An Example for Other Developing Countries**

Were firms who consider exports as a proportion of their total sales to adopt a conscious, long-term policy, giving evidence of continuity, this might achieve permanent results. However, such results cannot be achieved unless both authorities and firms show a basically positive attitude towards exports. The unqualified and shortsighted nationalistic arguments which have been heard so often must become a thing of the past. Exports of new Brazilian products—specifically industrial products—would thus lose their incidental character. Brazil would become more interesting to foreign markets as a reliable source of deliveries. The export drive would

<sup>7</sup> On this problem of exporting, which is present all over Latin America, see: Christian Wilhelms: Export Diversification in Latin America, *INTERECONOMICS*, 2/1967, p. 46-48.

thus be two-edged: a push from within, a pull from without. Brazil would not be the last to profit from this.

Lack of fantasy—even in export promotion—is not a typically Brazilian characteristic; however, it is not sufficient just to have plenty of ideas—past events have proved this. Brazil cannot be taken as an example, in every respect, for other developing countries. On the other hand, it is the overall concept

which will be decisive for whether Brazil's export drive will be successful; also the intention to stop curing symptoms and get to the root of the matter: i.e. to eliminate most of the real obstacles by decisive and logical action, to create reasonable conditions and thus promote exports effectively—at least more effectively than is done by so many artificial incentives. Brazil's most recent efforts—in spite of the many problems which remain unsolved—do seem to be setting an example.

## NATIONALIST EMANCIPATION

# The “Great Transformation” in the Argentine

By Federico Korell, Buenos Aires

**O**n 28th June, 1966, a new revolution in the Argentine did away with President Illia's Government and replaced him by a new President of the Republic, Lieutenant-General Juan Carlos Onganía. This was not one of the traditional South American military coups, nor was it an ideologically-based upheaval. Its general background and the consensus of the Argentine population were determined by the widely accepted knowledge that it had become impossible to deal with a multitude of weaknesses of the previous regime, especially in the field of economics, through using the traditional instruments of political party rule. However, the country had to wait for about six months before the new Government took the first steps to fulfil its promises given in its revolutionary proclamations, to “modernise” the national system through using basic measures.

Among the foremost aims of the new Argentinian Government are the fight against inflation and the introduction of indispensable changes in the economic structure. It also intends to adopt an income policy of social justice, tending towards flattening out the enormous differences between individual incomes.

In addition, the Government wants to promote Argentinian exports by a suitable foreign exchange policy, meaning to abandon, at any rate, the previous habit of overvaluing the Peso. The authorities intend to avoid inflated short-term foreign indebtedness, and by guaranteeing to foreign investors equal rights with local capitalists, the Government hopes to set up efficient incentives for increased capital imports.

### **Taxation and Foreign Trade Policies**

In January, 1967, the new Minister of Economic Affairs had taken the first practical step on behalf of his government department, by completing the draft budget for the current year, which had been drawn up, in outline form, by his predecessor. It contained estimates on expenditure of Pesos 559.5 billion, and income of P. 429.9 billion, leaving a deficit of P. 129.6

billion. Already during its first months in office, the Onganía Government had started a budget reforming drive, by abolishing so-called “political pricing” for public utility services. For example, electricity prices were raised on August 1, 1966, by between 31 and 32 %, and a second increase by between 8.6 and 8.8 % took place early in 1967. The railways marked up their main-line fares on December 24, 1966, and local passenger tickets on January 1, 1967. Freight charges followed suit on January 15. Postal charges for inland mail have been doubled on 15th March, 1967, whilst mailing fees to foreign countries still expect their upward revision.

The new Taxation Law for 1967 was promulgated on March 6, 1967. It increased the basic tax-free allowance on earned income, because price inflation had pushed up many manual workers and employees into higher taxation grades, and had burdened them with socially unjust tax payments. On the other hand, existing taxation rates were increased, and new types of taxes have been introduced. Stamp duty will be doubled, excise duties on consumption and the turnover tax are to be increased as well, and even electric household appliances, including vacuum cleaners, washing machines, etc., are to be treated as luxuries which carry a tax burden of 15 %, instead of 10 %, the previous rate.

It is a principle established by the new Government to tax those who have been able to hedge—at least partially—against the inflationary inroads on property and savings, which have been caused by the general economic decay: a non-recurring 1 % emergency capital levy has been imposed upon the taxable value of all real estate, and 2 % will be levied on credit balances created by advances and loans granted by banks and other institutional lenders.

One day after the new taxation law coming into force, the international currency exchange was closed “until further notice”, and only on Monday, March 13,