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Limitations of Export Promotion

by Dr Jürgen Westphalen, Hamburg *

All Latin American countries strive for diversification of the exportable industrial production and the exploitation of new and non-traditional foreign export markets. These efforts are not free from the dangers of erroneous assessment of the limits of exports resulting in grave disadvantages for other targets of economic and development policies.

In view of the negative effects of most export mono-cultures, the deficient foreign exchange balances of many Latin American countries and, finally, also in view of the narrow domestic markets blocking, as it were, the industrialisation so essential in order to reduce unemployment, no doubt is left about the necessity of the endeavours towards export promotion and diversification of the export goods sector. All the same, though, there are certain critical thoughts about occasionally exaggerated Latin American expectations as to future development possibilities for non-traditional exports as well as their contribution towards the solution of present economic and social problems. It appears that premature and generalised conclusions are not infrequently drawn for the future chances of the whole of Latin America from impressive export successes of some relatively far developed countries – foremostly Brazil – in recent years. Such erroneous assessments could lead to subsequent disappointments. But of far more serious consequence could be the future results, in real terms, of present economic misjudgements and false decisions because of unrealistically exaggerated assessments.

Good Results of the Past

However, the overall optimistic expectations are not unfounded. They are supported by some quite remarkable statistics of the sixties. According to the UN Economic Commission for Latin America (CEPAL)¹ Latin America's export of industrial goods increased during the decade 1960–1970 from US-\$ 255.4 mn to 1,587.1 mn and, simultaneously, the share of industrial goods of Latin America's total exports went up from 3.1 to 10.8 p.c. At the beginning of the seventies the average annual growth of the Latin American export of industrial goods has even gained further momentum: during the years 1965–1970 the growth rate was 21 p.c.; in 1970/71, at 19 p.c., it kept on about the same level as in preceding years and went up strongly to 25.8 p.c. in 1971/72.

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¹ Notas sobre la economía y el desarrollo de América Latina. Preparadas por los Servicios Informativos de la CEPAL, No. 119 (16. 1. 73), 132 (1. 6. 73), 133 (16. 6. 73), 136 (1. 8. 73).

The statistical data, in order to avoid unjustified conclusions, require some elucidating observations:

□ Taking international standards as a yardstick, the industrial production and the export of industrial goods of Latin America are still conspicuously low. The per capita industrial production amounted in 1970 to US-\$ 123, or just about half of the world average, and one-eighth of the corresponding values for the USA and Canada alone. In the sixties, Latin America's share in the world's industrial production remained at approx. 3.4 p.c. whereas, during the same decade, Latin America's share in world's population went up from 7.3 to 7.8 p.c. Of the comparatively still meagre industrial production of Latin America a modest, though increasing, part is exported; in 1960 it was 0.7 p.c., and by 1970 it amounted to 2.4 p.c.

□ The three big countries Brazil, Mexico and Argentina have to an increasing extent predominated the rising trend of the export of industrial goods. In 1960 some 62 p.c., in 1970 about 65 p.c. and by 1971 nearly 71 p.c. of Latin America's total industrial export was accounted for by this group of three countries that enjoy a relatively large degree of industrialisation, capacious domestic markets and thus benefit most from the possibilities of cost-reducing mass production stemming from this relative market strength.

Within this group Brazil springs to the eye with an over-average dynamic export development.

Table 1
Latin America's Export of Commodities, Industrial Goods and Total Exports 1965–1972
(US-\$ in mn)

Year	Commodities	Industrial goods	Total exports	Share of industrial goods in total exports (percentage)
1965	10,115.0	614.5	10,729.5	5.7
1969	11,948.5	1,218.9	13,167.4	9.3
1970	13,114.3	1,587.1	14,701.4	10.8
1971	13,044.9	1,888.4	14,933.3	12.7
1972	14,529.0	2,543.7	17,072.7	14.9

Source: Notas sobre la economía y el desarrollo de América Latina. Preparadas por los Servicios Informativos de la CEPAL, No. 136 (1. 8. 73).

After contributing a mere 11.5 p.c. to Latin America's export of industrial goods in 1960, this country's share had already shot up to 30.9 p.c. by 1971, and the average annual growth rate of the export of the Brazilian industry is given at 28 p.c. for the period 1965-1970 and even 88.9 p.c. for 1969/70. As to the other Latin American countries not being part of this group of three, therefore, the findings of growing exports during the sixties generally apply with certain reservations only.

Table 2
Share of Selected Countries in Latin America's
Export of Industrial Goods
(In percentage)

	1960	1965	1970	1971
Argentina	17.9	13.7	15.5	13.7
Brazil	11.5	20.1	26.5	30.9
Mexico	32.2	26.7	23.4	26.2

Source: Notas sobre la economía y el desarrollo de América Latina. Preparadas por los Servicios Informativos de la CEPAL, No. 133.

□ Latin American exports of industrial goods must be judged differently not only from the point of view of countries of origin but also as to countries of the goods' destination. The share of industrial goods sold in countries not within Latin America (and thus in generally more difficult markets as regards the conditions of competition) in the total export of industrial goods has gone down from 67 p.c. initially to 51.5 p.c. at the end of the sixties. It is true, though, that in absolute values the industrial export to the world outside Latin America has risen quite significantly, from US-\$ 170.7 mn in 1960 to US-\$ 818.6 mn in 1970. But this increase was still noticeably slower than that within Latin America, where sales amounted to US-\$ 84.7 mn in 1960 and US-\$ 768.5 mn in 1970. Outside Latin America, sales still consist foremostly of products of the relatively low phases of processing and labour-intensive manufacture. Within Latin America, however, the trade consists already to a substantial extent of industrial goods of the higher processing brackets, such as mechanical tools, machine tools, office machines, chemicals, and the like.

As CEPAL rightly says, it must be the aim of export promotion "not only to penetrate foreign markets but to maintain one's position in these markets also over the long term"². But according to CEPAL, past export achievements in the field of non-traditional Latin American goods have more often than not been proved to be of short duration only. This is explained by CEPAL with still lacking clear limitation of the aims and targets of an export promotion policy, inadequate encouragement of private initiatives and the ab-

² CEPAL: Estudio Económico de América Latina. Volumen III: Estudios Especiales, 1972, pp. 59, 68.

sence of an "export mentality". A further cause of short-lived export successes which has to be mentioned is the coverage of demand-backlogs abroad springing merely from an only temporary overstretching of the competitive capacities in the country of destination.

Limits of Future Export Development

These findings and deliberations are not meant to cast doubts on several Latin American countries being justified in expecting a further strong growth of their non-traditional exports also during coming years. But the assessment of the future developments calls for a sober judgement and a clear recognition of the given economic facts even more than of past trends. It appears necessary, therefore, to point at the already visible limits of export development as well as at the, equally perceptible, possibility of negative effects of export diversification.

First it has to be emphasized that competition in the markets of industrial countries is generally rather weak during the phase of covering temporary demand backlogs, and it becomes noticeable, in all its toughness, for the South American offerer only at the stage of transition towards the conquering of lasting, and steadily expanding, market shares. This means that, in future, more severe conditions of competition will have to be reckoned with in foreign markets for quite a number of Latin American industrial goods. This competition foreseeable for non-traditional export goods has, in the field of the traditional commodity export, remained an unknown quantity. For one thing, in the markets for industrial goods not only the limited group of commodity producing countries competes, but in the run are all the countries that have at their command the production apparatus for the processing of commodities as well as for the distribution, transport and marketing of manufactured goods. It remains to say also that foreign agricultural markets for traditional commodities inclusive of tropical products such as coffee, cocoa, bananas, etc., have largely been opened-up by the importers abroad or by foreign investors in Latin America's mining industry (tin, copper, mineral oil, etc.), whereas the Latin American exporters of the new industrial goods have first of all to stay the thorny course against hard competition from other countries.

The Latin American countries only find themselves in a favourable situation, comparable with the traditional commodity export, if and when the export of industrial goods is handled and managed by subsidiaries of foreign industrial companies. Within the sphere of Latin America's non-traditional export cases of this nature are, at the present time, of great importance. CEPAL re-

ports³ that in 1966, American subsidiaries of manufacturing firms handled and managed 41 p.c. of Latin America's total export of industrial goods. In 1957, this share had amounted to only 12 p.c. CEPAL adds that in 1966 more than half of the export of US subsidiaries in the Latin American manufacturing industry were sales to other business establishments of, in each instant, the same parent company.

It has occasionally been criticized in Latin America what also the Inter-American Development Bank (IDB) states in its annual report for 1972⁴, namely that the growth of the non-traditional export "partly reflected nothing more than the exchange of goods between subsidiaries of one and the same multinational company". Should this criticism fall on fertile ground and lead to more restrictive investment legislation, the outcome might well be a weakening of further growth of an important branch of Latin America's export of industrial goods.

Aims Clashing with Economic and Development Policies

In any judgement of future export chances it is necessary to point at the danger of a collision between export diversification and other vital aims of economic and development policies. CEPAL⁵ correctly maintains "that the increase of exports can of course be only one of the aims of official economic policy whose main aim remains a higher standard of living for the population by means of boosting of the social product and its more proportionate distribution." It follows especially that in the long term a stepping up of exports at the expense of an adequate supply of the own population must be rejected. This fact will, in view of the expected population and demand development in Latin America, in future gain considerably in weightiness. Latin America's population will at stable fertility have by the year 2000 increased to 710 mn from 280 mn in 1970. Even in the case of a "slightly receding rate of fertility" there will by the turn of the century be 635 mn inhabitants in Latin America⁶. In addition there is the process of "urbanisation" gaining speed every year. The urban population — people living in settlements of 20,000 and more inhabitants each — amounted in Latin America in 1971 to 56.3 p.c. of the total population, and this percentage is estimated to have grown to 70 p.c.

³ CEPAL: Estudio Económico de América Latina. Volumen III: Estudios Especiales, 1972, p. 84.

⁴ Banco Interamericano de Desarrollo: Progreso económico y social en América Latina. Informe Anual 1972, Washington D.C., p. 23.

⁵ CEPAL: Estudio Económico de América Latina. Volumen III: Estudios Especiales, 1972, p. 63.

⁶ Toward the year 2000. In: Finance and Development, Quarterly Publication of the International Monetary Fund and the World Bank, No. 4 (1973), pp. 22.

by 1980⁷. Thus, in Latin America we not only have the growth of the total number of consumers, but also, and even at a much faster rate, the increase of those consumers not in a position to cover their demand at least partly from rural production of their own.

There will be supplementary impulses for the future demand development springing from the endeavours by all Latin American governments towards a more even distribution of incomes. According to figures for the first half of the sixties⁸ the group of people with the lowest income, which then represented 20 p.c. of all income earners, accounted for only about 3.1 p.c. of all incomes, whereas the share of the 5 p.c. of people in the highest income brackets was 33.4 p.c. of total incomes. There was, consequently, a drastic difference of annual per capita incomes which amounted to US-\$ 60 in the lowest income group, but to US-\$ 2,000 in the upper-most brackets. Each successful attempt to reduce the incomes gap in Latin America will bring in its wake a demand increase in the domestic markets and thus — *ceteris paribus* — fewer goods available for export. In view of the present economical and political facts it is to be expected that in many Latin American countries the incomes policy will have an increasingly easier stand to prevail versus postulates of the export policy running counter to it.

The aimed-at higher grade of employment is another target of economic policy possibly clashing with export diversification. "Estimates by the UN Economic Commission for Latin America (CEPAL), taking into consideration all variable features of (open and hidden) unemployment, speak of 25.4 mn unemployed persons in Latin America, or about 30 p.c. of the able-bodied population"⁹.

On the strength of the indicated population development, and in particular the development of the labour market, CEPAL¹⁰ rightly says that "the governments of many (Latin American) countries will be forced to increase the level of employment because of the rapid population growth and the equally rapid growth of the potential labour force, the flight of rural labourers to towns and cities and the substantial open and hidden unemployment by way of giving preference to particularly labour-intensive industries . . . , but frequently these very industries do not rank among those for whose goods the demand from abroad is dis-

⁷ Banco Interamericano de Desarrollo, op. cit., p. 101.

⁸ CEPAL: La Distribución del Ingreso en América Latina. New York, 1970. Also: Banco Interamericano de Desarrollo, op. cit., p. 9.

⁹ A. Córdova: Strukturelle Heterogenität und wirtschaftliches Wachstum (Structural Heterogeneity and Economic Growth), Three studies of Latin America (German by B. Preker), Frankfurt, 1973, p. 9.

¹⁰ CEPAL: Estudio Económico de América Latina. Volumen III: Estudios Especiales, 1972, p. 64.

tinctly strong." It can be assumed that, in the wake of the explosive population growth and the corresponding increase of people looking for work, the prospects for a collision between the aims of the export policy and those of employment policy will in future become rather more evident. In the long run, however, the doing away with the labour market problems is likely to have priority over the export aims.

Undesirable Overall Economic Effects

But for the future, one will have to be aware in Latin America not only of the danger of collision between the interests of export policy and other policy aims, but in addition there is also the danger of an unlimited policy of export promotion possibly resulting in undesirable effects on the economy as a whole. In this connection, there is the well-founded general ascertainment in the BID Annual Report for 1972¹¹: "It is obviously becoming more and more clear in the Latin American countries that export promotion at any price is no less senseless than an exaggerated policy of import substitution".

Import substitution, meaning the boosting of domestic production for the meeting of the demand for formerly imported goods by means of tariff protection, tax concessions, credit support and other subsidies has led into a "cul-de-sac if and when exaggerated". In such cases one has, first of all as a rule, failed to utilize "the comparative advantages for the respective country arising in the field of international division of labour... by directing the resources into import substitution"¹². It is undoubtedly to some part the result of "protectionist measures linked to import substitution" that, in Latin America's economic hothouse climate behind tariff walls, "too many small enterprises shot up" which are not capable of mass production. It is estimated that three quarters of all Latin American industrial enterprises employ less than 20 workers and clerks each. For this reason, in spite of low wage costs... "the production costs of a multitude of industrial goods made in Latin America are often too high in order to be able to compete with foreign goods"¹³.

As maintained by Giersch¹⁴, this development has led to a "process of re-thinking: There are... indications of more and more LDCs realizing that they would have to go over from the policy of import substitution to a strategy of export diversification". Today, however, one believes in Latin America that even export diversification might run counter to an exploitation of the comparative benefits for any given export country if and when applied too rigidly and for too long. Such a policy entails the danger in the long run that with the

help of public subsidies new industrial capacities are created that have no chance of ever making themselves independent from state aid.

Such a development is bound to be of particularly severe consequences in the no longer rare cases of industries being established as a result of state measures for export promotion which have achieved selling successes abroad solely, or mainly, through temporary over-stretching of competing capacities in the chief countries of destination. In cases of this nature the existence of the newly created export capacities in Latin America can, at subsiding boom conditions in the countries of destination, continue to be secured only with the help of larger and indefinite subsidies. In this context there is inevitably a blatant contradiction to the principle formulated by CEPAL¹⁵ as follows: "In the long run an export policy must not rely on permanent subsidies as an equivalent to the inefficiency of enterprises". At the same time, the deployment of public funds for purposes of export diversification of this nature must necessarily cause collisions with other and more urgent development aims, such as the promotion of backward rural regions in the export country, a higher degree of employment, the achieving or, respectively, the maintenance, of an equilibrium of the balance of payments, the fight against inflation, the narrowing of the incomes gap, and others.

It has to be kept on record, as a result of these deliberations, that there will in future be obstacles in the way of further growth of Latin America's non-traditional export as a result of fiercer conditions of competition in foreign markets, the expected greater dangers of collisions between the aims of export policy and other important aims of economical and development policies and, finally, the negative influences of unrestrained export promotion. There could even be impassable obstacles for some branches of production.

It would undoubtedly appear possible to avoid quite some false decisions, and thus false investments in the Latin American export economy, if only the limits of the export, already recognizable today, as well as the equally recognizable negative influences of a limitless export diversification, were to find their due recognition and consideration in the present and future export policy of the Latin American countries.

¹¹ Banco Interamericano de Desarrollo: op. cit., p. 21.

¹² H. Giersch: Wandel unserer Wirtschaftsstruktur im Zuge weltwirtschaftlicher Veränderungen (Change of our Economic Structure in the Course of International Economic Changes). In: Deutscher Industrie- und Handelstag: Standortvorteil Ausland. (Locational Advantages Abroad), Publications, Vol. 134, Bonn, 1973, pp. 20.

¹³ German-South-American Bank, Short Report on Latin America, No. 3/73 (August 1973), p. 14.

¹⁴ H. Giersch, op. cit., p. 24.

¹⁵ CEPAL: Estudio Económico de América Latina. Volumen III: Estudios Especiales, 1972, p. 60.