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## The export behaviour of Spanish manufacturers: An evaluation of interviews

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**The Export Behaviour of Spanish Manufacturers  
— An Evaluation of Interviews —**

by Juan Viúdez

**CONTENTS:**

- Spanish industrial exports have shown considerable change over the last decade in both level and composition. It seems appropriate to conduct research at the firm level in order to gain some knowledge concerning the soundness and "staying power" of the recent export upsurge. 65 firms were interviewed for this purpose.
- Export prospects until 1975 vary considerably among firms. Many firms are not able to give an estimate about future export activities - which, reportedly, can be attributed to the fact that planning is one of the weakest areas of management in Spain.
- Manufactured exports are likely to become more important in the future since entrepreneurs are becoming aware of the increasing saturation on the home market. Therefore, they may react by seeking export outlets for their production.
- Traditional export industries, using labour-intensive and/or raw material-intensive processes, are able to sell abroad at the same price as in the domestic market. For some non-traditional export industries producing technologically standardized goods there is no price differential either. Other new exporting industries still have to price their sales abroad considerably below the domestic prices.
- No conclusive relationship was found between estimated export performance and firm size. Interestingly enough, the small firms in the sample do not consider size as such to pose a serious disadvantage in exporting.
- There is evidence about the negative influence on exports of clauses in the licensing agreements with foreign investors forbidding or restricting foreign sales. The stand of the Spanish Government against such restrictive business practices is often easily sidestepped through informal "gentlemen's agreements."
- For many exporters the main problem in selling abroad is the fact that they are not yet known and that Spanish products have to overcome the resistance arising from a poor industrial image. This situation may improve as foreign investors make available marketing facilities to the Spanish industry.

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# The Export Behaviour of Spanish Manufacturers — An Evaluation of Interviews —

## I. Introduction

The aim of the study

1. This study examines the information collected from a survey of 65 Spanish exporting companies, which was conducted for the purpose of contributing information, gathered at the firm level, for an appraisal of the Spanish potential in industrial export. The last decade marks a very intensive industrial development of the Spanish economy and a very impressive growth and diversification of its manufactured exports. Although Spain's industrial export activity is clearly in motion, its destiny still is somewhat uncertain. The descriptive and analytical work on Spain's industrialization and export performance, which has been done at the Kiel Institute of World Economics and elsewhere up to now, normally had to rely upon the use of aggregate data, as they are provided through available statistics. Therefore, it was felt that research at the firm level can be expected to improve the basis from which the results are to be interpreted, since it studies more factors affecting export performance than are statistically measured or measurable. As a result, more can be learned about the role of exports given by individual firms within their long-run aims. This knowledge may be desirable not only from the academic point of view; it should also help policy-makers to understand the problems being faced by Spain's exporters and, thereby, to implement their measures in the most appropriate way.
2. The survey begins with a brief description of the method used. This is followed by three chapters which focus on the firms' prospects for future exports, the competitiveness and export-mindedness of these firms, and the relationship between exports and foreign investment. A concluding chapter summarizes the major points of this study.

The procedure

3. The most important step of the research was to determine the sample of firms to be interviewed. In order to derive the appropriate inferential conclusions, the sample of firms to be covered by the survey should have been drawn at random from the relevant population of exporters.

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Remark: This paper is a product of the research I did during an association with the Kiel Institute of World Economics from September 1971 until April 1972. It forms part of a larger research project on import substitution and export diversification which is being undertaken at this Institute. Special thanks are due to three people: to Professor H. Giersch, the director of the Institute, for involving me in this challenging project; to J.B. Donges for encouraging my efforts in undertaking and completing this study and for sharing in the elaboration of the questionnaire; and to R. Banerji for his constructive comments on an earlier draft. Needless to say that without the kind contribution of Spanish businessmen, officials and professional economists this study would not have been possible.

- (a) For that purpose, the use of the Official Census of Exporters, comprising more than 2,000 firms, was considered. Some facts, however, advised against doing so. First, we were told by qualified people at the Spanish Ministry of Commerce that the large majority of the firms registered in that Census had not carried out exports either in significant value amounts or on a permanent basis; it was sufficient, on the contrary, to have realized a single export transaction and to have applied for the export tax refund in order to be shown in that Census. Therefore, the money amount of total industrial exports was, according to the same sources, very unevenly distributed among the firms meeting those requirements for inclusion in the Census. Secondly, in view of the small percentage of total industrial production going until very recently into exports, it is not hard to see that most firms in the Census are rather marginal exporters, not only concerning total industrial export values, but also their own total output. Thus, a sample drawn at random from it would have seriously risked missing the companies representing the bulk and substance of Spanish industrial exports; and the quality of the information gathered from the firms in such sample would suffer from an understandable lesser interest in that - from the firm's point of view - minor activity. Thirdly, the current high rate of growth of Spanish industrial exports and their present state of dynamic flux suggests the possibility of a considerable number of new entrants into the field, not yet included in the most updated Census.
- (b) There is, however, an instrument of Spanish export promotion policies which helped to find an alternative course of action. There is a segment of industrial exporters which the Government has singled out by granting them an "Exporter's Charter" (Carta del Exportador), intended to reward and encourage those firms, which, in accordance to specific criteria<sup>1</sup>, offer some evidence of being exporters on a significant and not merely transitory basis. At the time the survey was made (November/December 1971) there were 113 industrial companies with such Charter. Most of them were requested to either answer to a questionnaire and/or grant an interview.

A total of 65 firms were finally included in the survey; 40 firms are "Carta" holders. The remaining firms were considered on account of other criteria, such as their weight in the Spanish economy, or because they belonged to capital-intensive industries, where investigating into the reasons for Spanish export success offers greater interest. Also, some of the interviewed entrepreneurs were informally asked to point out their most important Spanish competitors in the export field, who sometimes proved to be relevant ones for the purpose at hand in spite of the fact that they had not yet been included in either the Census or the lists of companies with "Carta," because of their recent entry into export business.

Most of these firms interviewed are located in the areas of Barcelona, Bilbao and Madrid. Their distribution according to industrial branches is the following: processed food: 2; textiles and clothing: 5; footwear: 1; leather products: 1; wood and cork manufactures: 1; paper and paper products: 1; printed matter: 1; rubber products: 3; chemicals: 10; petroleum products: 2; non-metallic minerals: 2; iron and steel: 5; non-ferrous metals: 2; finished metal products: 2; non-electrical machinery: 8; electrical machinery: 3; shipbuilding: 4; railway equipment: 3; automobile industry: 7; miscellaneous manufactures: 2.

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<sup>1</sup> These criteria are related to the absolute value of exports and/or to their relative value with respect to the industry's exports or to their own total output.

4. The basic questionnaire for the interviews had been drafted at an earlier stage and then discussed with competent people at the International Trade Center in Geneva and at the Instituto Internacional de Dirección de Empresas in Bilbao. The final version of this basic questionnaire, which is reproduced in the Appendix, was sent to 155 firms. Since the Kiel Institute of World Economics was not expected to be known by most Spanish private firms, the Deusto Commercial University at Bilbao, which cooperated in the project, took the pains to send it to the selected firms with an attached letter signed by its Director. However, in spite of the strong friendly ties linking that University with many Spanish firms, only 14 answered, stating that they were willing to arrange for an interview in order to discuss the questionnaire, and among them only 3 made an attempt to fill in the questionnaire in advance. In retrospect, it appears that using a long and rather sophisticated questionnaire for initiating contact with the relevant firms proved to be a handicap. The requested data had to be supplied by people from different departments of the firms and it would have often required to elaborate some of them for that special purpose.

In view of this, a shorter questionnaire was used, intending to cover salient variables influencing export behaviour. However, it only served as a basic reference, as other matters not included in this short version (but included in the basic version) were also frequently discussed during the interviews, which were always conducted in a very cooperative manner.

## II. Predictions for Export Growth

### The results

5. Since the main purpose of this survey is the assessment of the export capability of Spanish manufacturers by 1975, all firms were requested to supply their estimates for the percentage growth of their exports by that date, taking 1970 as the base year. The results are summarized in Table 1. By simply taking a glance at these results, two remarks can be made: First, there is a high proportion of firms (35 %) which failed to give the estimate. Export planning was probably something too new or too unreliable for them to be taken seriously<sup>1</sup>. Apart from the acknowledged intrinsic difficulty of export forecasting, a contributory explanation for this situation may be found in the fact that, reportedly planning is in general one of the weakest areas of management in Spain. Secondly, even leaving aside two instances in which an expected decrease in export - rather than an increase - was reported<sup>2</sup>, a great deal of inter-industry variation appears in the estimates given.

<sup>1</sup> During the conversations with exporters only two firms mentioned the use of planning techniques other than projection of past trends. Both of them were large companies with a substantial amount of foreign investment.

<sup>2</sup> One case refers to a natural resins manufacturer. He gave priority to serving the domestic market, while being confronted with rigidities in the supply of both rural labour and raw materials (depending the latter on the forestry wealth of the country). These combined circumstances explained the declining export trend. The other case was a U.S. oil company, which attributed its low (1.49 %) and declining share of output exported to the lack of profitability involved in selling abroad.

Table 1 - Export Predictions from 1970 to 1975  
(Estimated percentage increases for 1975,  
Base year: 1970)

	Firm responses									
	1	2	3	4	5	6	7	8	9	10
Processed food	75	30								
Textiles and clothing	200	nr	51	50	7					
Footwear	40									
Leather products	30									
Wood and cork manufactures	60									
Paper and paper products	30									
Printed matter	50									
Rubber products	80	nr	20							
Chemicals	10	nr	nr	de- crease	100	nr	50	nr	60	nr
Petroleum products	-30	5								
Non-metallic minerals	nr	nr								
Iron and steel	100	nr	80	nr	70					
Non-ferrous metals	nr	nr								
Finished metal products	50	nr								
Non-electrical machinery	10	1,000	25	70	50-70	25	nr	100		
Electrical machinery	100	23	150							
Shipbuilding	nr	100	35	nr						
Railway equipment	nr	nr	100							
Automobile industry	nr	150	30-40	nr	500	nr	nr			
Miscellaneous manufactures	50	50								
nr = no response										

6. Companies were also requested to state the reasons on which their estimates for export growth were based. The purpose for so doing was to complement with qualitative cues the quantitative information previously supplied, as well as to try to obtain some insights concerning the general export picture of Spanish industry.

Four major groups of explanations emerged from the answers<sup>1</sup> as is shown in Table 2.

<sup>1</sup> Some of the supplied answers, like "our price and quality" were too general for the purpose at hand and have, therefore, been excluded.

Table 2 - Frequency Distribution of Main Causes for Estimates of Export Growth

Explanation	Number of answers
a. Declining future rate of growth of domestic demand	7
b. Improving ability to enter new export markets	12
c. Continuing growth of the existing export markets	4
d. Persistence of actual supply conditions	18
No response	24
Total	65

#### The role of domestic demand

7. If domestic demand desaccelerates due to trend or business cycle factors, firms may react by seeking export outlets for their unsold stocks. Although lower international prices for their products and inexperience with export markets may induce companies to discontinue their sales abroad as soon as home demand picks up again, occasionally some firms realize that, in spite of initial disappointments, their products are potentially capable of international competitiveness.
- (a) In this context, the Spanish shipbuilding industry offers the outstanding example of entrance to and consolidation in the export field as a result of the 1959 Stabilization Plan.
- (b) After the recession of 1967, companies which started to look again for export markets were in many cases aware that the trend in domestic demand could not be expected to reproduce the same rate of growth as that experienced in the period 1961-67. Consequently, those which felt long-term reasons for encouragement as a result of their export performance during that recession, showed a definite export commitment, when domestic demand stagnated again in 1969-71 as a result of restrictive policy measures adopted for balance of payments reasons. In addition, new companies entered then for the first time the export market in a significant measure, the automobile industry being perhaps the outstanding example on that occasion.
- (c) The promising results of industrial exports since 1969 suggests the possibility that in the seventies the trend will play a larger role - and the cycle a lesser one - in industrial export behaviour than during the sixties<sup>1</sup>. In this respect, Spanish Government top officials have recently spoken about the balance of payments-constraint on the growth of domestic demand being eliminated by the expected increased exchange earnings from industrial exports in the coming years.

<sup>1</sup> For a statistical test of the relationship between domestic demand and export performance see J. B. Donges, "Spain's Industrial Exports - An Analysis of Demand and Supply Factors", *Weltwirtschaftliches Archiv* (Review of World Economics), Vol. 108, Tübingen, 1972, pp. 198 sqq.

8. The industry producing home appliances is a good example for the above general considerations:
- (a) Demand elasticity is very high for a certain region of the income-consumption curve; it quickly declines, however, once a given income level is attained. At the same time, the demonstration effect provided by tourism is likely to be particularly intense. In addition, the standardized nature of these products tends to increase their supply elasticity, as only a fixed number of inputs are necessary for their manufacture and, in general, they can be provided by the Spanish industrial system<sup>1</sup>.
  - (b) In terms of marketing theory and as a consequence of the above, this industry can be viewed as one offering a specially quick and predictable life cycle. Moreover, it clearly fulfills the conditions specified by the Vernon's model for successful domestic manufacture<sup>2</sup>. In fact, it could be argued that in the case of Spain the dynamics of the Vernon model have been so obvious to businessmen, that an excessive number of investors have been attracted to this industry, partially frustrating thereby the achievement of economies of scale and giving rise to excess capacity. This causes a very competitive climate, which, when necessary, can lead to greater dynamism in export.
  - (c) The companies interviewed in this industry had decided to take one step further in the Vernon's cycle beyond domestic manufacture, by starting to export to richer countries on the basis of lower domestic labour costs. Moreover, they indicated that they had taken decisions to this effect, as soon as they were in a position to predict the downturn in the business cycle. In addition, they are aware of the downward trend in the rate of growth of domestic demand for their products and, consequently, are planning their export drive on a long-term basis. It is noteworthy, incidentally, that the refrigerator manufacturer gave the most optimistic estimate in the survey for export growth by 1975.
9. Another case in point for a "spill over" into exports is the industry producing special steels. The evolution of exports followed a similar pattern in the three companies interviewed. They all began their search for export markets as a result of the 1967 recession. They found out that the more "finished" their products were (in the sense of incorporating a higher percentage of value added by labour), the stronger their international competitive position was. Consequently, they started a process of specialization in certain types. Since there are many different specifications for such products, normally not all of them can be manufactured in a single country, with the result that chances for export are not scarce. However, this pattern, showing the classical effect of international trade, is a self-reinforcing one: the more the company specializes in production, the narrower the domestic market becomes and the greater the subsequent need, therefore, to further diversify markets and to depend on export.

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<sup>1</sup> The jump from a production of 21,000 refrigerators in 1958 to 640,000 units in 1966 is sufficiently expressive concerning this industry's supply elasticity. See José Miguel de la Rica Basagoiti, "Análisis del Sector de Electrodomésticos frente al Mercado Común", Boletín de Estudios Económicos, Vol. XXV, Bilbao, 1970, p. 454.

<sup>2</sup> See R. Vernon, "International Investment and International Trade in the Product Cycle", The Quarterly Journal of Economics, Vol. 80, Cambridge, Mass., 1966, pp. 190 sqq.



## Penetration of new export markets

10. 12 companies out of a total of 37 which answered to this question referred to their improved ability to gain access to new markets as the most important reason for their expected increase in exports. This relatively high frequency for this category of answers shows that any confrontation with the real world of export business will point out at the convenience of discarding the usual disregard of the marketing function found in the conventional theory of international trade.
11. More specifically, the answers provided by the companies emphasized each of them a different given stage in the process of penetrating a new export market. These stages range from tentative exploratory measures to promotion means only normally available to accredited exporters of sophisticated equipment, which is indicative of the high degree of diversity already attained by Spanish industrial exporters in this respect. As most important factors to enter new markets were reported the following:
- (a) Market research;
  - (b) successful product testing and previous export experience in other markets<sup>1</sup>;
  - (c) improvement or extension of the distribution network<sup>2</sup>;
  - (d) promotion of trade marks;
  - (e) contact with a known foreign consulting engineering firm<sup>3</sup>;
  - (f) the only reference made to Government action on behalf of exporting, as a

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<sup>1</sup> This reason was given by a manufacturer of base products for the perfume industry. Although its most important export markets are still in Latin America, it entertains high expectations for the moment when its present efforts in the U. S. come to fruition. Adoption of input products by manufacturers in that country proves to be a slow process, on account of the many tests to which they are submitted. However, the U. S. market for this kind of products is a large and rapidly expanding one and the encouraging results of the tests conducted plus its past export experience in other countries give this company grounds to feel confident about its competitiveness there.

<sup>2</sup> The example of a publishing company can be given in this regard. It indicated that it was going to establish either a chain of branches or Spanish-dominated mixed companies in Latin America. This new distribution system was expected to bring about better results than working through local agents. In the past, the lack of seriousness in effecting payment shown by these agents had been the major difficulty found in the export business with that area. Those undesirable practices were particularly serious, inasmuch as the publishing company, being a rather small one, lacked an adequate retaliatory power.

<sup>3</sup> This factor was mentioned by a manufacturer of cranes and railway equipment. The consulting firm will recommend or specify the products of this firm in some of the projects it prepares for its customers abroad. This means an exceptional reversal of a situation frequently found in Spain, where domestic manufacturers complain about foreign consulting firms recommending to their Spanish customers the use of foreign equipment.

major cause for export expansion, was made in connection with the recent Spanish preferential agreement with the EEC<sup>1</sup>.

#### Continuing growth of the existing export markets

12. Only four companies mentioned this factor as the main reason for their estimated export growth. All of them belonged to industries enjoying a comparative advantage in the production of the export good and/or with effective marketing channels in developed countries already established.
- (a) Three companies are exporting traditional products, the competitiveness of which is determined by raw material availability and relative cheapness of labour<sup>2</sup>.
- (b) One firm turns out a new export product thanks to a natural resource comparative advantage, plus technical assistance and special export marketing facilities<sup>3</sup>.

#### Future supply conditions

13. Eighteen companies referred to supply conditions as the predominant influence for the future course of their exports. In these cases it can be inferred that progress had already been made in penetrating international markets and that it was at least possible to meet their minimum quality standards. Therefore, a necessary but not sufficient condition for sound exporting had been thereby fulfilled.
14. If we proceed one step further, we find that the emphasis varied considerably between positive and negative supply factors.

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<sup>1</sup> Two companies indicated that it would mean a significant improvement for the future of their exports. In general, we were surprised by the minimum spontaneous reaction shown by exporters to the signing of that agreement. When we brought up the subject ourselves, the answers given by manufacturers of non-traditional exports were rather ambivalent from the economic point of view. We gained the impression that precise calculations had not been yet made, concerning the tariff reduction effects on both competing imports and exports. Some of the exporters, however, took the occasion to comment favourably - and on a rather philosophical plane - on the advantages of tighter relations with the EEC, which is in line with the intense, and somewhat mystifying, political heat generated by this issue in Spain.

<sup>2</sup> Two of the three companies belong to the food industry and send respectively 95 % and 90 % to the U.S. One of them restricts its sales in that market to its U.S. parent company, which, therefore, takes charge of the whole marketing process. It differentiates its product (bottled olives) for export, by having the olives symmetrically placed by hand. This value added in presentation, contributed by labour, increases the saleability of the product in the high-income U.S. market.

<sup>3</sup> This company was the only one interviewed which was specially created for export. It uses a Spanish raw material - esparto grass - for the production of a special paper paste, developed by a British company, which also helps place 50 % of the Spanish company exports and 40 % of its total output on the U.K. market.

(a) Positive supply factors were mentioned by two groups of industries. On the one hand, there are firms which export for reasons not directly connected with their international competitiveness. Two chemical companies and a third one in the oil-refining industry, which belong to this group, offered the following major explanations for their export activity:

- Discontinuous capacity growth, due to capital indivisibilities, in the face of a gradual growth of demand. In order to keep satisfactory levels of capacity utilization, when new productive facilities are put into operation, unsold stocks tend to accumulate. Consequently, pressures build up for exporting, even if it has to be done at lower prices.
- By-products may be exported under similar conditions when their production exceeds domestic demand, while this is not the case for the main product, from whose manufacture they are derived.
- Other causes, as random as weather, may originate exports. The oil refining company reported in this respect that a surplus of fuel oil occurs when thermic plants - which use this kind of fuel - are not in service, because favourable weather conditions permit the utilization of cheaper energy from hydroelectric sources. Attempts are made, therefore, to channel excess supplies into exports.

On the other hand, there are companies whose export products, being traditional and/or relatively labour-intensive ones, are competitive. Export sales amount to a large proportion of the companies' output and are priced at little or no differential with respect to domestic sales. Three different reasons for export expansion in this group were given:

- Capacity increase, as reported by a textile company and a manufacturer of fire-arms, selling 100 % and 90 %, respectively, of their output abroad.
- Addition of new products to the export line, as reported by a machine-tool producer, who is exporting 55 % of its output at no price differential.
- Lower units costs due to the increased scale of production made possible by exporting, as reported by a wood company which exports 85 % of its production.

(b) Negative supply factors, which limit future export expansion, are seen either in factor supply bottlenecks or in selling priorities.

- As to the bottlenecks, one (small, but very export oriented) shipbuilding company pointed out the limited supply of capital as the major obstacle for export expansion. This is serious because this industry is exposed to intensive international competition in the granting of liberal credit terms. Furthermore, a manufacturer of natural resins predicted a decline in its export-to-output ratio due to rigidities of both raw materials and rural labour. Finally, a leading clothing firm, which is exporting 40 % of its production almost totally to the U. S., faces an ample foreign demand for its products but feels itself constrained inasmuch as the Spanish textile industry is not able to provide inputs in the quantity and quality required.
- As to selling priorities affecting adversely exportation, the following explanations were given: Two tyre companies accorded selling and delivery priorities to the domestic market because of its higher profitability and

the oligopolitic structure of Spain's automobile industry, which makes it advisable to pay special attention to its few but very important firms. Moreover, one manufacturer of communications equipment reported that there were decisive economic and public interest grounds for according the domestic market all kinds of priorities, inasmuch as it is made up by a monopsony and the company itself is a monopolist. However, since all sales were practically contingent on acquisitions by one single customer, the company felt the need to develop an active export policy as well, aiming at the creation of a buffer against demand fluctuations originating from the monopsonist's changes in purchasing levels. Finally, another source for anti-export bias was found in the commitment felt by two INI (Government) enterprises to supply first the domestic market, when the public interest so advises, as it is the case with fertilizers. This may again result in priorities against exports. This situation, however, does not seem to pose by itself a serious difficulty for exporting, inasmuch as the higher prices and profitability of the domestic market would dictate the same course of action.

### III. The Issue of Marginalism versus Competitiveness in Spain's Industrial Exports

15. There is a widespread view of the Spanish industrial boom in the sixties, as having been caused by forces largely exogenous to the economic system. Then, there were additional internal factors, which contributed to the "miracle," such as the absence of serious population pressure and militant independent unions, the existence of an relatively industrious and competent labour force and the liberalizing turn of Government economic policy<sup>1</sup>. However, scepticism still remains about the quality of Spanish entrepreneurship, technology and public administration and, in general, about the potential for international competitiveness offered by the whole Spanish industrial climate. There were also facts which seemed to lend some credence to this cautiousness, like the relatively low percentage of industrial output which is exported, as well as the low percentage of imports covered by exports; the MATESA "affaire" showing large amounts of Government credit going in support of exports, which do not appear to have been actually made; and the high sensitivity of exporting to the domestic business cycle and the frequent talk of Government promotion of industrial exports, which may have it look like a tender plant, kept alive only by Government care.
16. Against this background it is not surprising to be confronted during the interviews with a double image of industrial exporting, which probably corresponds to the existence of a double reality. While some exporters showed pride in exporting, in facing the acid test of international competition, there were others who said that

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<sup>1</sup> See J. B. Donges, "From an Autarchic Towards a Cautiously Outward-Looking Industrialization Policy: The Case of Spain", *Weltwirtschaftliches Archiv*, Vol. 107, 1971, pp. 48 sqq.

"they did not have to export, " implying thereby that they were able to sell in the more lucrative domestic market and had no serious problems with unsold stocks.

17. In view of all this, the purpose of this section will be to go behind the impressive aggregate figures of industrial export growth and to inquire into the qualitative nature of the export activities carried out by the firms we interviewed. In order to do so, we ought to know the objective function of the firms in question. Are they profit maximizers? Are they pursuing a kind of full-cost pricing? Are they trying to maximize their sales? Or are they attempting to achieve multiple targets including non-economic ones? Each of these objective functions implies for a rational firm different decisions about the allocation of output between domestic and export markets<sup>1</sup>. Unfortunately, most firms are unable to specify insofar their behaviour, so that it seemed reasonable to approach our task intuitively. By doing so, we also can take into account the fact that individual firms may be in different situations as to foreign demand, degree of capacity utilization, export-to-output ratio, etc.
18. The following issues might be most interesting in this context: First, the relative profitability of export sales versus sales in the domestic market; secondly, the differential between the domestic price of a product and the fob export price which the domestic producer can get; thirdly, the importance of markets in developing countries for the manufacturer's exports; fourthly, the export intensity of production as expressed in the export-to-output ratio; and fifthly, the relationship between exports and domestic demand. These criteria can be expected to provide some basis for determining the degree of price and quality competitiveness of Spanish firms. Moreover, they may also help us to learn about the export-mindedness of these firms. Some of these criteria are obviously interrelated. A company passing successfully all these tests would emerge as one which regularly exports a high proportion of its output, regardless of the business cycle, under profit conditions at least as favourable as in domestic sales and without need to discriminate prices or to concentrate on some geographical markets. Only companies interviewed in the shipbuilding and machine-tools industry consistently fitted this picture. The reverse situation could be easily imagined. However, predictably enough, most companies interviewed were found to be placed on some intermediate spot on the scale.

#### Relative profitability of export versus domestic sales<sup>2</sup>

19. The answers provided by the companies as to the relative profitability of exports are given in Table 3. For 15 firms the profitability of exports is higher than that of domestic selling; for 8 firms it is equal, and for 34 firms it is lower (8 firms did not answer).

<sup>1</sup> For a survey of the export implications of alternative hypotheses about firm behaviour see: R. A. Cooper, K. Hartley, Ass. by C. R. M. Harvey, *Export Performance and the Pressure of Demand, A Study of Firms*, University of York Studies in Economics, London, 1970, Ch. 4.

<sup>2</sup> When questioning about profits we were aware of the fact that businessmen are likely to define profits in another way than academic economists would do. Nevertheless, we can assume that the sales policy of a firm depends on what its management believes on relative profitability.

Table 3 - Profitability of Exports vis-à-vis Home Sales

	Firm responses									
	1	2	3	4	5	6	7	8	9	10
Processed food	L	nr								
Textiles and clothing	L	L	H	L	E					
Footwear	L									
Leather products	H									
Wood and cork manufactures	H									
Paper and paper products	L									
Printed matter	H									
Rubber products	L	L	E							
Chemicals	L	L	L	L	L	L	H	L	H	nr
Petroleum products	L	L								
Non-metallic minerals	L	nr								
Iron and steel	L	nr	L	L	L					
Non-ferrous metals	L	L								
Finished metal products	E	L								
Non-electrical machinery	E	L	E	E	H	H	nr	H		
Electrical machinery	E	L	L							
Shipbuilding	nr	L	H	H						
Railway equipment	nr	H	L							
Automobile industry	L	L	H	L	E	H	nr			
Miscellaneous manufactures	L	H								
H = Higher										
L = Lower										
E = Equal										
nr = no response										

20. In 60 % of the answers, exporting turned out to be less profitable than selling in the domestic market. In these cases, it seems worth to look further into management motivation for remaining in the export business. The following two alternative explanations can be considered:

- (a) A firm may visualize this situation as being the result of its own export-immaturity and, therefore, as being likely to be corrected through time. Present unfavourable conditions are consequently seen as more than compensated by the potential for future company growth to be derived from exporting. A company's assertion in this sense may be verified by its recent engagement in exporting and/or by the absence of delivery priorities for domestic orders.
- (b) On the contrary, exports may be carried out, because, provided prices cover variable costs, they contribute to overhead costs in periods of slack demand. Long, but intermittent exposure to export markets, coupled with absence of trade marks promotion and, above all, delivery priority for domestic orders in periods of high domestic demand may contribute evidence that such is, in fact, the case.

21. If we next turn our attention to the companies which reported higher or equal profitability in exporting, we discovered that in cases (roughly 50 %) it is due to export prices higher than or equal to the ones charged in the domestic market. Since price differentials will be discussed later, only the other reasons for equal or higher profitability will be examined here. They were found to be the following:
- (a) Larger orders for export: It affects profitability favourably by permitting either a larger volume of sales in the export than in the domestic market (like in the case of a food company, which in 1970 sold 80 % of its exports and 59 % of its output to its U.S. parent company) or less selling costs per unit and bigger production runs (like the case of a truck manufacturer, which in 1970 sold 80 % of its exports and 13.6 % of its output to Latin America). That the firms, which consider exports to be more profitable than domestic sales, continue to produce also for the home market is partly due to the belief that many markets provide more security.
  - (b) Indirect advantages of exporting: They are derived, as was pointed out by a crane manufacturer, from the fact that a company, which becomes an important exporter, gains in standing vis-à-vis the banking community even for matters not related to foreign trade and that it increases its leverage with the Government. Moreover, the ability to export sophisticated products make for excellent advertising material to be used in the home market. And finally, export inquiries and orders familiarize the company with technological developments abroad, increasing thereby its potential for production versatility and the climate of efficiency in the whole company. Interestingly enough, in the opinion, perhaps somewhat biased, of the export manager of this firm, all these "intangible effects" more than compensate for a relative unprofitability of exports which the firm actually faces.

#### Export-domestic price differentials

22. While the relative profitability of exports is an index of the degree of competitiveness of the firm concerned, an analysis of export-domestic price differentials takes into account also those cases in which a firm prices its exports lower than its domestic sales, thereby worsening the relative profitability of exports. On the basis of available empirical evidence it can be argued that the export performance of a country depends on external factors as well as on internal ones. However, for products in which a country is not a major exporter it seems reasonable to assume that, under given external demand conditions, the export success or failure of a firm will depend on its ability and willingness to sell abroad at prices lower than its foreign competitors. This ability and willingness is influenced largely by domestic factors.
23. Taking net ex-factory prices of the product involved as 100, exporting companies were requested to supply the net price, also ex-factory, which they would have had to quote in order to secure an export order. As expected, the question on price differentials turned out to be the touchiest one of the questionnaire. Some firms simply declined to supply an answer; others eluded it by referring to the variability in the prices quoted for exports. Some of the firms which were reluctant to give a numerical estimate, at least provided information as to whether the export

price was higher, lower or roughly equal to the domestic price. The frequency distribution of higher, equal or lower export prices vis-à-vis domestic ones is given in the following Table<sup>1</sup>.

Table 4 - Frequency Distribution of Export Prices Relative to Domestic Ones

Export prices in relation to domestic ones	Frequencies
Higher	8
Lower	30
Equal	15
No response	12
Total	65

24. The most remarkable finding was that 8 firms were able to price exports higher than domestic sales. They told us that they were in a position to do so because a buoyant export demand for their products was well above their production capacity. Another reason which came out in the interviews is that their export possibilities were much more affected by non-price factors like quality, delivery time, and terms of payments, than by the price itself.
25. More in accordance with a priori expectation is the fact that a large number of the firms interviewed sells abroad at lower prices than in the home market. The following reasons were given most frequently:
- (a) The domestic markets for particular manufactured goods (refrigerators are an outstanding example) are approaching saturation rapidly. As a consequence, stronger pressure for exporting results even if it has to be done at a substantial negative price differential.
  - (b) There seems to be a common practice to low export prices when firms approach new export markets. Apparently, companies weigh up the costs and benefits of investing in publicity versus the alternative investment implied in quoting lower "penetration prices." In this respect, a manufacturer of machine-tools found the latter course of action to be the most profitable one and references from satisfied well known customers in the country in question to be the most effective initial publicity. He thought that standard advertising practices are likely to be insufficient for overcoming the distrust usually encountered by exporters from countries, which, like Spain, lack a strong tradition in industrial export.

<sup>1</sup> For more details see: Donges, "Spain's Industrial Exports", op. cit., p. 209. - J. Casas Pardo, A Study of the Productive Structure and the Export Performance of Eight Spanish Industries in the Sixties, Madrid, July, 1972. (Mimeogr.)



- (c) The intensity of competition encountered in securing a particular export order should also logically be another factor with a bearing upon price. Manufacturers in the railway equipment and electrical machinery industries stated that prices quoted are normally - and substantially - lower when international biddings (like those financed by the World Bank) are entered upon than when, for instance, the sale is conducted under cover of bilateral arrangements or tied loans supplied by the Spanish Government.
- (d) In some cases we got the impression that "dumping" occurs. In these cases, an economic "rationale" was found by some companies in the need to prevent the depressive effects of accumulating unsold stocks upon the overall profitability. Such export pricing policy was admittedly followed by a company manufacturing special steel products<sup>1</sup>.
26. Positive export-domestic price differentials are suggestive, at a given exchange rate, of the existence of a comparative advantage in international trade. It was not surprising to find such positive ratios for traditional exports. Since for products such as textiles, footwear, leather manufactures, processed food and natural resins comparative advantages stand out due to labour or raw material intensity of production.
27. It seems surprising, on the contrary, to find also indications of comparative advantage in firms belonging to industries with a higher capital intensity and/or of a more recent export vintage<sup>2</sup>. The metal-working machinery, shipbuilding and automotive industry are interesting examples in this regard.
- (a) As to machine-tools, we realized that Spain seems to have a considerable export potential on the following grounds: They are light machines and the capital requirements are not so high as to be difficult for the industry to meet them. Moreover, although large differences among types do exist, in general they do not incorporate complex technology; efficient production is, therefore, possible in a country that, like Spain, does not spend much money on Research and Development (R&D) of its own. Finally, although most of the labour force has to be qualified, its educational requirements do not go beyond the elementary school level as a basis for gaining later on the job the necessary skills.
- (b) Almost the same holds true for Spain's shipbuilding industry.
- (c) As far as the automotive industry is concerned, the only company which was interviewed and which produces mainly parts told us that it is optimistic about its export competitiveness since the level of income per capita and the size of population in Spain now permits to some degree the attainment of economies of scale; the technology, although it was developed in the more industrially advanced countries, can be easily absorbed; the domestic industry is able to offer the necessary inputs in generally satisfactory price and quality conditions; and the quality of the labour force at all levels is judged as generally excellent, even by the Spanish entrepreneurs themselves.

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<sup>1</sup> Interestingly enough, the EEC steel authorities filed a protest against dumping practices by Spanish exporters of steel products in May 1972.

<sup>2</sup> For further evidence see: D o n g e s, "Spain's Industrial Exports", op. cit.

28. Since the export potential of Spanish firms originates from the fact that in Spain both wages and social security benefits are lower than those prevailing in the other Western European countries, which are Spain's major trading partners, we discussed with Spanish entrepreneurs whether this wage gap will continue to exist in the future and whether it is associated with a quality gap. We learned that entrepreneurs did not see that wage gap as being in almost any way compensated by an offsetting quality gap. Indeed, they were unanimous and emphatic in denying any perceptible efficiency superiority, for example, in labourers who had returned from work in other Western European countries. Unfortunately, the question as to whether returning workers can be taken as being representative of the qualification of foreign manpower was not responded to. This claimed absence of a quality gap was extended by entrepreneurs to technicians and engineers as well. In their opinion, both their general theoretical background and their ability to absorb new technology leave nothing to be desired, when compared with those of their foreign counterparts from the more industrially advanced countries. Only one reservation was added, at some times, regarding the skill level of workers, technicians and engineers. Their familiarity with a given specialized equipment was said to be often inferior to that shown by their foreign colleagues. This means, in short, that there is a lesser chance in Spain for specialization at depth on a narrow basis. It was readily conceded, however, that such discrepancy was function of differences in the size, wealth and diversification of the economies to which they belonged.

More puzzling to us was the conviction shown by entrepreneurs that the actual wage gap was bound to progressively diminish and eventually disappear. Forces behind this trend could not be, however, persuasively identified, considering especially that entrepreneurs admitted that Spanish unions are not so militant pressure groups on behalf of labour demands as those operating in the other Western European countries. They indicated, nevertheless, that such pressure are mainly brought to bear at the plant level. In this respect, as it could be expected, wide differences could be appreciated among industries and firms.

#### Spain's industrial exports to developing economies

29. A country with the industrial level and the factor endowments of Spain could have been expected to carry out industrial exports to highly developed markets consisting of consumer goods, such as food, textiles, leather and shoe products, as well as simple raw material-intensive chemical compounds and standardized consumer durables. However, during the sixties Spain also became an exporter of products which are technologically more complex, such as cars, ships, machine tools, tyres<sup>1</sup>. These products are generally made on order, in accordance with specification designed to meet given needs. Within certain limits, price considerations are subordinate to quality and, therefore, wage differentials play a lesser role in international competitiveness. A large diversification in input supply is necessary for fulfilling special quality grades and specifications. In-depth specialized personnel is also required, to assist in starting operations and in providing maintenance service. Against this background, chances for Spain's ability to export this kind of

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<sup>1</sup> See Donges, "From an Autarchic Towards a Cautiously Outward-Looking Industrialization Policy: The Case of Spain", *op. cit.*, pp. 64 sq. - *Idem*, "Spain's Industrial Exports", *op. cit.*

equipment to richer countries appear very limited indeed. However, an exporting flow of this sort already exists, going mostly to underdeveloped countries. This fact lends itself to speculation regarding the possible function of such exports as "pioneers," meeting international competition on favourable (or at least neutral) basic conditions, created by bilateral trade and/or financial arrangements and other factors, such as the presumably less exacting quality demands in underdeveloped countries. Furthermore, this export activity has attracted considerable attention by publicists and has brought about, therefore, the important by-product of emphasizing the role of technology and of multinational companies upon the structure of Spanish foreign trade.

30. A few factors emerged from the interviews, which may help throw some light on the causes for the destination of Spanish industrial exports to LDCs:
- (a) In general, underdeveloped countries are in no position to exact the same quality standards as richer countries do. Occasionally, however, Spanish exporters reported that, for satisfactory results, quality requirements were actually higher, in order to compensate for poorer maintenance practices and substandard accessories and other accompanying materials. Similarly, an added paradox was found in cases in which Spanish-made equipment performed better than that coming from industrially more advanced nations. Tyres, for instance, have a sturdier manufacture in Spain, due to the need to withstand generally tougher road conditions, and are, therefore, specially appropriate for export to underdeveloped countries.
  - (b) The size of the export market in most underdeveloped countries is determined less by the intensity of demand than by the availability of hard exchange to make it effective. This situation is partially matched by a corresponding "export eagerness" of "infant exporters," seeking propitious markets for their new export activity. In the case of Spain three channels are used: through clearing agreements or Government purchases, through tied loans, and through joint ventures.
    - In the first case, Spanish exports are thus financed by sales, made to Spain. Pressures for discrimination on behalf of purchases for Spanish equipment can be made on the basis of an expanding Spanish market for Latin American and Arab staple export products, resulting from the considerable growth recently experienced by the Spanish economy, and on the basis of the prevailing Spanish trade deficit with those areas. In this respect, we learned from the interviews that the existence of a large and growing Spanish market for Latin American export products explained the preference given on occasion to Spanish companies over their Japanese competitors, on the fear that the latter may resell, disrupting thereby international markets. Sometimes, it was also argued that under the temporal cover provided by clearing agreements, Spanish exporters could gain the necessary experience for achieving later full international competitiveness. However, one manufacturer of railway equipment and an industrial vehicles company expressed scepticism about their chances for being able to sell their products in the near future to industrially more advanced countries.
    - As to the second channel, the Spanish Government has shown willingness to channel part of its exchange and gold reserves into tied credit programs, concerning specially Latin America, in order to promote industrial export. To this effect, the Organization of American States was informed in 1965 that

Spain stood ready to extend credit for the intensification of trade. The changing state of the Spanish Balance of Payments after 1965 has caused, however, a cautious implementation of this pledge. Doctrinally, it has been also subject to considerable controversy, some writers doubting that the present stage of Spanish development would warrant a serious adoption of the role of a capital-lending country. Present optimistic expectations regarding balance of payments trends for the seventies may likely result in a steadier and more substantial application of this policy. Most exporters interviewed gave credit to these credit policies in creating at least more permissive conditions for the expansion of industrial export.

- Finally, some companies reported that Latin American Governments tend to view with increasing disfavour continuous or increasing imports of a given product. They pointed out to the establishment of joint companies as their suggested solution for this problem. Local equity participation offers the added advantage of permitting a sounder marketing system, specially concerning relations with Government agencies. One chemical company reported that it was already their established policy to allow for local manufacturing, whenever a certain level of exports has been attained. All the companies which commented on this matter proposed simpler and more liberalized regulations for exports of capital goods.
- (c) We were told that Spanish exporters profit sometimes from the vacuum created in a number of Latin American countries by hostility to U. S. companies. Likewise, Spain's failure to recognize Israel proves to be an additional favourable factor in the Arab World. This is sometimes recognized by multinational companies, which use the Spanish subsidiary for export to those areas. However, a tyre company said that they had encountered difficulties because of Arab awareness of the real situation.
- (d) Differing views were expressed as to the real effectiveness of language and cultural affinities. Small and medium companies stated that in the case of Latin America, distance poses a more significant barrier than language, while modern-minded firms reported a closer affinity with business practices in the industrially more advanced nations. We could appreciate ourselves that, paradoxically enough, foreign managers of multinational companies in Spain tended to give greater credence to the effectiveness of these language and cultural ties than most Spanish firms themselves.

#### Firm size and ability to export

31. One of the most crucial problems of Spain's manufacturing industry is the predominance of very small enterprises in almost every branch<sup>1</sup>. Spanish authorities are aware of this problem and have, consequently, offered incentives and threatened pressures in order to promote industrial concentration and, thereby, to exploit the potential in productivity, to be gained by attainment of economies of scale<sup>2</sup>. If successful, this policy is believed to improve also Spain's possibilities in becoming

<sup>1</sup> For empirical evidence see Donges, "From an Autarchic Towards a Cautiously Outward-Looking Industrialization Policy: The Case of Spain", op. cit., Table 4.

<sup>2</sup> See Manuel Azpilicueta Ferrer, "La concentración de empresas, como instrumento de la planificación industrial", *Economía Industrial*, Año VII, Madrid, Noviembre, 1970, pp. 7 sqq.

more than a marginal supplier of manufactures in the world market. This belief is reflected in the granting of a so-called "Carta del Exportador" to export firms (as result of which they gain access to special benefits within the whole set of export incentives actually in force): Firms qualify for the "Carta, " when the average value of their exports for the two preceding years attains a minimum of 10 million pesetas and, at the same time, constitutes 10 % of total industry exports or 50 % of the firm's own total sales; they also qualify in any case, when the average export value, for the two preceding years, reaches a minimum of 100 million pesetas.

32. When entrepreneurs were asked how they evaluate the influence of their firm's size on the ability to export, the most remarkable finding was that the smaller firms in the sample did not consider size as such - as distinguished, for instance, from access to finance - to pose a serious competitive disadvantage<sup>1</sup>. Responses of this nature have even been found in industries where economies of scale play an important role, such as mechanical machinery, industrial vehicles and steel<sup>2</sup>.
33. When requested to explain their answers, the reasons given suggest that the possible disadvantages of smaller size were seen as compensated by better entrepreneurship and greater flexibility. To use the interviewees' own words, small and medium firms offer "greater capacity for quick reaction," "lack of bureaucratization," "better and more immediate grasp of opportunities" and so forth. These answers were given by small and medium sized exporters not only in connection with larger Spanish competitors, but also in the context of the multinational corporation system. We were told that export inquiries are sometimes passed on to the Spanish subsidiaries by their bigger parent or sister companies abroad, because they cannot be properly - or promptly enough - fit into their production programs or marketing policies.
34. All this is to say that there is no a priori reason to disregard the export possibilities of smaller firms. On the contrary, a case could be made that the greater alleged capacity of smaller firms to accomodate new or special market needs suggests the possible existence of more flexible production functions, which may result in higher minimum costs, but which imply also a greater adaptability in fulfilling demand requirements. In addition, small or medium size exporting firms are similarly more likely to show higher price-flexibility, even if it is only due to more responsive decision-making processes. Under such circumstances, more significant increases in export-intensity (export-output ratios) in smaller than in larger size firms are not unlikely. In turn, a higher export-output ratio might be conducive to a steadier commitment to exporting and a greater independence of sales abroad from fluctuations in home demand.

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<sup>1</sup> Somewhat related to this point, it should be stated that there is a growing awareness in Spain about the fact the industrial structure suffers more from the absence of large firms than from the existence of too many small ones. Although 99 % of the Spanish firms have less than 100 employees, the corresponding figure for Japan - a relevant example when export performance is considered - is as high as 98 %.

<sup>2</sup> Interestingly enough, there is no conclusive association between the export increases until 1975 according to estimates of the firms themselves and the firm's size (measured by the employed labour force). The rank correlation coefficient is -0.184.

#### IV. Exports and Foreign Investment

35. The influence of foreign investment on exports has become a much debated issue in Spain among policy-makers, economists and publicists in general. The reason for so much attention lies in the fact that this problem is in the critical point where three lines of public concern meet: export potential of manufacturers, the national need for industrial research and the degree of foreign domination of Spanish technology in particular and of industry in general. On the other hand, a negligible attention has been paid to the issue of the role of foreign investment in overcoming the export marketing barrier, which is a factor, that emerged from this survey as a major problem. Therefore, we were mostly interested in discussing the following three issues with Spanish entrepreneurs: the existence of clauses limiting exports in licensing agreements, the influence of research on export performance, and the role of foreign investment in export marketing.

#### The case of restrictive business practices

36. The companies were requested to supply information as to whether or not they had any foreign investment in the form of significant capital contribution or technical assistance. They were further asked to specify whether there were agreements forbidding exports either altogether or limiting them to some geographical areas. The results are given in Table 5 and can be summarized as follows: In 35 firms there is no licensing agreement at all; in 28 there is such an agreement and while in 12 cases exports have not been restricted, in 2 cases exports are forbidden totally and in 14 cases they are only allowed to specific countries.

The almost absolute absence of total export restrictions stands out, which turns out to be even more so, if we take into account the fact that the two only companies, which reported a prohibition to export to all countries, indicated that it was only applicable to some among those of their products which are covered by licensing agreements. Furthermore, if only those companies which reported the existence of important licensing agreements are considered, the extent of the limitation on exports does not seem to be great (the two companies with general export prohibitions represent only 7 % of the companies in this group).

37. At first sight, this findings could seem surprising, if these results are compared with previous ones on this matter<sup>1</sup>. However, the nature of the sample should be kept in mind. It is heavily weighted in favour of companies with "Carta del Exportador," which is granted to outstanding exporters. Consequently, it makes sense to think that one of the factors which permitted these companies to achieve that status was precisely the little negative role played by export restrictions in licensing agreements. Consequently, it appears that the question of limitations of exports in licensing agreements is, rather than a black or white distinction,

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<sup>1</sup> See, for instance, José Felipe Bermejo, "Problemática de la asistencia técnica", *Economía Industrial*, Año IV, Enero, 1967, p. 22. According to this study almost half of the licensing agreements, which were in force during the sixties, explicitly prohibited exports, while only one tenth explicitly authorized them without any limitations.

Table 5 - Regulation of Export Activities by Licensing Arrangements (limitation)

	Firm responses									
	1	2	3	4	5	6	7	8	9	10
Processed food	N	Y <sub>a</sub>								
Textiles and clothing	N	N	N	N	Y <sub>a</sub>					
Footwear	N									
Leather products	N									
Wood and cork manufactures	N									
Paper and paper products	N									
Printed matter	N									
Rubber products	Y <sub>b</sub>	Y <sub>b</sub>	Y <sub>b</sub>							
Chemicals	Y <sub>b</sub>	N	N	N	Y <sub>a</sub>	Y <sub>a</sub>	N	Y <sub>c</sub>	N	Y <sub>b</sub>
Petroleum products	Y <sub>a</sub>	nr								
Non-metallic minerals	Y <sub>b</sub>	Y <sub>b</sub>								
Iron and steel	N	N	N	N	Y <sub>a</sub>					
Non-ferrous metals	N	Y <sub>a</sub>								
Finished metal products	N	N								
Non-electrical machinery	Y <sub>b</sub>	Y <sub>a</sub>	N	N	N	N	Y <sub>b</sub>	N		
Electrical machinery	Y <sub>b</sub>	Y <sub>b</sub>	Y <sub>b</sub>							
Shipbuilding	N	N	N	N						
Railway equipment	Y <sub>c</sub>	N	N							
Automobile industry	Y <sub>a</sub>	Y <sub>a</sub>	Y <sub>a</sub>	Y <sub>a</sub>	Y <sub>b</sub>	Y <sub>b</sub>	nr			
Miscellaneous manufactures	N	N								

N = No significant licensing agreements

Y<sub>a</sub> = Licensing agreements but no export prohibitions

Y<sub>b</sub> = Licensing agreements with export prohibitions to only some countries

Y<sub>c</sub> = Licensing agreements with export prohibitions to all countries

nr = no response

a matter of degree. We saw that 50 % of the companies with foreign investment reported that the prohibitions were restricted to some particular countries or areas of the world. They further indicated that a great deal of variation existed both according to the countries and to the products involved. And they said that the licensees are not generally permitted to export to those countries where the licensor or its affiliate have manufacturing facilities.

38. As a rule, bargaining power and ability play very important roles in this matter, as it is often the case with contractual situations. In this respect, in all cases when the question was brought up, we were informed that the stand of the Spanish Government against export restrictions has little or no influence on the outcome of the negotiations for a licence contract. Government regulations can be - and actually are - sidestepped informally through gentlemen's agreements, independently of the letter of the contract. At best, the Government attitude is sometimes used as an argumentative point by the Spanish firm when trying to secure broader export conditions.

Two companies informed us with some detail about the factors, which often come into play at the bargaining table. The following ones were mentioned:

- (a) Since the licensor will be interested in maximizing his profits, he will ponder those to be realized from royalties and dividends paid by the Spanish affiliate against those to be made by direct sales. The larger his equity participation in the Spanish company and the greater the export competitiveness of the latter, the more inclined he will be to let it expand its exports.
  - (b) A licensor will be less interested in imposing export restrictions, the less the production of the Spanish affiliate competes against its own. Such will be the case when the Spanish company specializes in older models, older technology or cheaper products, for which there is little or no demand in the licensor's market or in those of developed countries, preferably served by the licensor himself.
  - (c) The Spanish licensee will be forced to countenance export prohibitions, when acquisition of the technology in question is essential to him and he is unable to secure a similar one from other sources in better conditions or to produce an up-to-date one himself, due to its complexity and/or rapid rate of change.
  - (d) Obviously, the licensor will press for as high as possible manufacturing quality standards from the Spanish affiliate, specially when the right to use its trademarks is granted. On the other hand, a progressive affiliate will bargain for securing technology as modern as possible, as well as the widest possible export markets, including those of industrially advanced countries.
  - (e) The interests of both sides will be served by letting the affiliate export to those countries in which it is better placed on account of the state of political relations, bilateral agreements or other ties.
39. In view of all this, it seems to many firms that the Spanish Government could improve the effectiveness of its present policies by relying less on discouragement of export restriction clauses on licensing contracts and by operating, in its stead, on two different fronts:



- (a) Conditioning licensing contracts and, in general foreign investment, to attainment of positive export goals. However, Government action in this area should be both flexible and pragmatic.
- It should be flexible by forsaking the usual approach of passing new general legislation. Cases should be handled individually and on the basis of their own merits in the light of explicit guidelines. In so doing, pains should be taken to avoid a regulatory authoritarian attitude. On the contrary, conversations with would-be foreign investors and their Spanish associates should be conducted on a business-like and cooperative manner, Government officials making every effort to provide assistance and information and showing additional flexibility and gradualism in arriving at a reasonable timetable for the attainment of export targets.
  - Pragmatism should be used in relating the level of export targets to the benefits that the foreign company, its Spanish affiliate and the Spanish economy in general may expect from foreign investment in that industry. To this end, factors such as the size and expected rate of growth of the Spanish market, the quality to be attained from Spanish manufacture, the modernity and utility of the technology transferred, etc. should be considered.
- (b) Strengthening the bargaining position of the Spanish firm versus its would-be parent company during the negotiations for the licensing contract. Our discussions led to the following suggestions:
- Operating under a well-thought framework for encouraging the promotion of technology by Spanish firms. The attention given to technological development in the Third Development Plan (1972-75) seems to be an auspicious beginning in this respect.
  - Awareness of and militancy about these problems by Spanish companies should be encouraged. It is fair to assume that firms which can show evidence of active interest on technological development will normally rate better in these matters. In this sense, participation in joint-research programs with the Government might, for instance, be used as a relevant indicator. Furthermore, financial aid for such research programs should be made more readily available to firms showing satisfactory export success or export promise, in order to foster the international competitiveness and specialization of Spanish industry.
  - Incentives should be also provided to the would-be licensor for a greater transmission of technology to the Spanish firm. This purpose could be served by granting a sort of "infant technology" protection to those Spanish firms which show progress in technological absorption. The usual tools of preference in Government purchases, and perhaps even tariff barriers against products from competing foreign firms, could be also used. Technologically advanced foreign companies would be then interested in association with an appropriate Spanish company, in order to gain access to the protected Spanish market.
  - Keeping and promoting bilateral trade and/or financial agreements as well as good relations with countries in which Spain, due to special factors, is better situated for trade than important industrially advanced nations.

## The relationship between exports and technology

40. The positive influence of R&D expenditures on export performance has repeatedly and convincingly emphasized<sup>1</sup>. It was further amply born out in our interviews. Companies engaging in both research and exporting described the former as "very profitable" or "indispensable" in terms of the latter. The direction of causation, however, might not always be the same. Although research effort is generally thought to explain export success, our discussions with a pharmaceutical and with a large steel company suggests the possibility of cases of interaction of effects and even of causality moving, at least initially, in the opposite direction. In the specific case of the former company, it indicated that a considerable amount of its research program was motivated by its exports to tropical areas and by the subsequent need to study the behaviour of pharmaceutical products under those climatological conditions.
41. From the results of the interviews, a gradation could be observed concerning organizational arrangements for research in connection with exports. Some companies, like a fairly large machine tool manufacturer, conduct research on an "ad hoc" basis, without need to departmentalize it. In other cases, the size of the firm, its attitude towards absorption of technology and the philosophy of high management appear to have an influence on this score<sup>2</sup>.

To the extent that these factors combine favourably, a progression was observed in the interviews, according to which Spanish firms

- adopt foreign technology and, if necessary, conduct their own, to adapt it to local needs, as it was reported by a automobile company;
- carry out joint research with the parent company;
- create their own designs, up to given levels of complexity and size, as we found in a railway equipment company;
- achieve a prominent role in R&D, within the multinational corporation system division of labour, due to the relative profitability of employing local researchers<sup>3</sup> and, finally,

<sup>1</sup> See, for instance, W. Gruber, D. Mehta, and R. Vernon, "The R&D Factor in International Trade and International Investment of United States Industries", The Journal of Political Economy, Vol. 75, Chicago, 1967, pp. 20 sqq. - D.B. Keasing, "The Impact of Research and Development on United States Trade", *ibid.*, pp. 38 sqq.

<sup>2</sup> A chemical company, employing 260 people, described the role of its research laboratory as consisting mainly on "solving the problem of customers and creating new needs to them." This fits the description of a technical Sales Dpt., with a modern marketing philosophy, but does not seem to have any specific direct bearing on exports. A crane manufacturer, employing 403 people, has only one engineer active in full time research. The company export manager views the influence of such minimum research on exports as "problematical." However, he values the contribution of the one researcher as imparting a "long-term mentality" to the company which shows thereby some measure of "research consciousness," usually associated with progressive management.

<sup>3</sup> A large communications equipment multinational company, employing 16,500 people, indicated that it had a laboratory with 500 technicians. The fact that foreign researchers are attracted to do work at this laboratory and, therefore, gain familiarity with the products manufactured in that factory, has been found to bear positive results as far as export marketing is concerned.

- export technology, as a large chemical company and a mediumsized pharmaceutical one actually do.

42. It should be noted in this connection that a similar gradualist pattern rests at the basis of SERCOBE's views on these matters. Although this organization was not interviewed during the survey, it seems nevertheless appropriate, considering its representative character, to include here with some detail its views on the problems at hand.
- (a) These views amount in fact to an advocacy of import substitution policies in the field of technology, which, incidentally, has also been maintained by the OECD in its recent report on science in Spain<sup>1</sup>.
  - (b) On the subject of absorption of technology, SERCOBE makes a distinction between companies which limit themselves to a mechanical copying of foreign blueprints, without making any effort at assimilating technological knowledge, and those, which actively carry out such an effort, being able, therefore, to design later by themselves similar products. Licensing agreements should be reviewed periodically in order to determine whether the progress made in the absorption of foreign technology as such is to justify their extension.
  - (c) SERCOBE has also called attention to the apparently important role of engineering consulting firms in foreign trade. In a relatively capital-poor country, like Spain, undergoing at present an ambitious expansion of its educational system and with indications of excess supply of engineers in some fields, this line of activity poses interesting prospects, as consulting firms compete almost solely on the basis of human capital. Reportedly, the abundance of foreign firms of this kind in Spain creates a bias for the import of equipment, at the expense of purchases of domestic ones, because, being unconnected or unfamiliar with Spanish companies, they are not likely to specify or recommend Spanish machinery for the projects they design. Therefore, there is some rationale in pleading for the establishment of efficient Spanish engineering firms. Besides the saving of consulting fees, otherwise paid to foreigners, they would make less likely the import of foreign equipment which is unsuitable to the conditions prevailing in Spain's economy. Indirectly, they would contribute to an improvement of the industry's export-competitiveness.

#### Foreign investment and export marketing

43. It is not surprising that a survey like this, conducted among businessmen on the subject of exporting, turned out to prove right the recent advocacy made by some writers about the convenience of relaxing the pure competition assumptions, customary in conventional international trade theory. In addition to the mobility of factors of production - of obvious relevance in a consideration of foreign investment - factors usually disregarded in theoretical analysis, such as the export marketing function and the cost and availability of knowledge, were soon found to be much at play in the real world of export business<sup>2</sup>. Among the favourable effects of foreign investment on export marketing, at least, the six following ones can be listed:

<sup>1</sup> OECD, Reviews of National Science Policy: Spain, Paris, 1971.

<sup>2</sup> See, for instance, John Fayerweather, International Marketing, Prentice-Hall Foundations of Marketing Series, Englewood Cliffs, N. J., 1965.

- Broadening the marketing spatial horizon of the Spanish partner,
- contributing knowledge about export markets,
- providing distribution channels,
- providing access to the prestige of a brand or trademark and its corresponding investment in good will,
- mitigating the effects of the business cycle on export behaviour,
- strengthening the competitive climate at home.

44. The broadening of the marketing spatial horizon of the Spanish partner is specially relevant in view of the abundance of small and new exporters in the Spanish economy, which, in turn, only recently emerged from secular isolation. Independently of foreign investment, we found that companies try to attain a similar result by taking the following lines of action, by decreasing order of difficulty or expense<sup>1</sup>: creation of an export department, frequent personal travel by directors or top executives<sup>2</sup>, attendance to fairs<sup>3</sup>, contracting the services of export-import firms<sup>4</sup>, utilizing the services provided by industry or sector-wide organizations.

Surprisingly enough, we interviewed companies which initiated their export business without having taken any of these measures or, for that matter, any export measure at all. In these cases, outsiders "discovered" them (through, for instance, catalogs, domestic advertising or contacts via third parties) and noted an obvious export comparative advantage, which only their small size and/or unfamiliarity with markets abroad had prevented them from realizing. Therefore, from the marketing point of view, they constitute extreme cases of "export spill over" from inward-looking industrialization.

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<sup>1</sup> The expected value of exports, the export-output ratio, the size of the firm and the degree of its export-commitment were the variables found to determine the mix of the weights given to these alternatives.

<sup>2</sup> In two cases, a company's decision to engage in export activities was explained by the commitment of a person, influential enough to create company policies and dedicated enough to implement them with his frequent travelling. These two people attributed to their previous life experience abroad the in-depth cause for their motivation and saw promise for the future further opening of the Spanish economy in the increasing number of young people studying in foreign countries.

<sup>3</sup> This was especially emphasized by machine-tools manufacturers. The two companies interviewed in this industry stated that they initiated their exports by contacting customers and traders at fairs. Fairs are particularly important for non-standardized products and for standardized products undergoing frequent changes in models.

<sup>4</sup> Some companies do it as a means for getting started in exporting. As they gain experience and their volume of export sales increases, they might regard later these outside services as dispensable. Furthermore, instances of conflicts of interest between the export companies and their customers were reported. For instance, the former prefer larger sales, on which they charge a commission, at prices lower than those the manufacturer would have preferred. The manager of an export-import company conceded the existence for this tendency, but he added that, in the case of his firm, the commission rate, if any, is always agreed upon with his customers, together with other key marketing factors, like price and allocation of the risk burden.

45. To the extent that foreign investors, and especially large multinational companies, provide substantial help in improving the knowledge about export markets, they permit a reduction in market research expenditure, which was reported to have a significant influence on the prospects of export growth. Knowledge about a given export market includes knowledge about the optimum ways to become known in that market<sup>1</sup>. The nature and importance of the market research to be undertaken by Spanish exporters was found to vary markedly in relation to the countries concerned. In general, to be profitable, sophisticated and expensive research has to be justified by the expected value of export sales and the risk involved in the inventory investment required for support of commercial action.
- (a) In the case of exports into rich and large markets, the usual wholly-Spanish-owned exporting company is in no position to bear such risk. Consequently, it was found that in most cases the burden was tried to be transferred to the foreign importer. This solution is admittedly an easy one for the manufacturer, but it is also conducive to serious inconveniences. The importer attains thereby a dominant bargaining position and is able to impose on the exporter not only the market segment to be served, but also important product characteristics. For instance, a clothing manufacturer found that mix to be conducive to much production effort and little profitability. A multinational company, on the contrary, is likely to be familiar with the market through its systematic and regular research there and uncertainty will be minimal when importing from the Spanish affiliate inputs or models not competing with its own manufactures.
- (b) In contrast to what was found to be the situation in rich countries, in poor importing countries the importer is not normally able to bear the burden of inventory risk. We learned, for instance, that one large Spanish-owned company had to shoulder the expense of research and usually chose to contract the services of specialized US firms operating in those countries. Moreover, on the basis of what we were told, the smaller equipment firms, unable to afford sufficient research, might be wise to start their export operations in a particular country by shipping little experimental orders, to make sure that the characteristics of their products can be adapted to local conditions. It needs not to be emphasized that because of their accumulated export experience, multinational companies again have minimal research needs. Moreover, whenever some studies are further required, the cooperation of an expert distribution force can be usually enlisted and other ways are also known, in order to conduct them promptly and at the least expense.

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<sup>1</sup> In the case of industrial goods, advertising in specialized international publications constitute excellent publicity. Most companies in the field are familiar with them. At any rate, public trade agencies or the appropriate unions should readily fill in the deficiencies felt by the private sector on this score. In the absence of a distribution network, there were two areas in which the need from further help from Spanish trade offices was expressed by companies interviewed. In the case of a machinery manufacturer, giving correspondence and delivery priorities to export, many requests for detailed quotations were received, which took considerable company time. It was suspected that most of them came from unimportant would-be customers or possible competitors studying price possibilities for export to Spain. This company thought that the Spanish Embassies should provide to qualified exporters lists of the most important potential customers and competitors in their countries. Likewise, a steel manufacturer stated that Embassies should also furnish information about prices in the country where they are located.

46. One of the key factors for a successful export operation is the establishment of an effective distribution network. However, this is a rather complex matter, in which much uncertainty prevails, because much depends on face to face negotiations, requiring considerable experience and skill. Spanish exporters will have to compete on an international basis for the services of specialized distributors, who, in addition, will usually have to bear the burdens of inventory risks. They will want their products to be handled on an exclusivity basis. But normally the Spanish exporter will have little to offer in compensation, specially regarding non-traditional exports. His position on the international supply market will be relatively modest. Being very likely new, he will pose a significant "innovating risk" to the importer and in many cases, this liability will be compounded by the traditional bad industrial image of Spain.

Attempts to overcome these distribution hurdles will generally call for a solid comparative advantage or considerable export rebates. However, multinational companies with operations in Spain stated that distribution constitutes no serious problem for them, as they could avail themselves - within the constraints of the system - of the parent company's international commercial network. Moreover, at a later moment, when the Spanish associate expects a substantial level of exports, the expense of establishing its new distribution network in some markets may be justified on account of the potential benefits to be derived by the exclusive attention paid to its products. The largest Spanish automobile company - SEAT - provides an interesting example in this respect<sup>1</sup>.

47. From our conversation we derived the impression that the dynamics of the multinational corporation system may render to some extent the benefit of providing access to the prestige of a brand or trademark. Parent companies accustom to refer to subsidiaries the inquiries received at the main headquarters which may in some case originate in the prestige of the trademark. Then, the subsidiary makes a decision as to its ability to meet internationally competitive prices and other conditions<sup>2</sup>. On the other hand, trademarks do not seem to play a role as far as simple licensing agreements are concerned, inasmuch as their use for Spain is generally forbidden by the licensor.

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<sup>1</sup> SEAT employs 23,524 people and has a 36 % equity participation by FIAT. Lower per capita income in Spain than in most Western European countries determined the Spanish specialization within the FIAT system in the production of the small 600 model, which today is exclusively manufactured in the SEAT factory. According to Linder's hypothesis, exports of the 600 model would go to market with demand structure similar to the one it serves in Spain. This theory seems to be confirmed by the fact that it was the best sold car in Finland in 1970 and 1971 and that 78 % of SEAT exports went to Western Europe in 1971, suggesting that they are aimed at the lower income segment of their automobile markets. The recent substantial growth in SEAT exports - from 36,744 units in 1970 to 54,871 in 1971 - appears to have been the decisive factor in the establishment of exclusive distribution facilities, independently of those belonging to FIAT, in some countries.

<sup>2</sup> However, we were told in a tyre company that the parent firm trademark proved to be a handicap in some countries because of the state of political relations.

48. As far as the relationship between business cycle and export behaviour is concerned, it would seem that, to the extent that the subsidiaries' output and export quotas are set by overall centralized planning, exports would tend to be insulated from fluctuations in home demand. However, two qualifications should be made on this respect: First, domestic recession may be taken into account by the central of the multinational cooperation planners, especially considering that often representatives from every national affiliate participate in the planning process; they might have accurate predictions concerning the course of demand in their own countries and then successfully argue for larger export quotas, in order to attain a more satisfactory degree of capacity utilization. Secondly, when significant deviations occur between expected and actual domestic sales, because of insufficient home demand, this is again generally used as a valid argument for a higher export quota than it was originally planned.

The evidence found in this survey on the matter was scarce and only of indicative value. Three foreign-owned companies stated that they do not intensify their selling efforts in periods of low domestic demand<sup>1</sup>, but a fourth such company answered affirmatively<sup>2</sup>. Furthermore, this ratio is quite different from the one found for the sample as a whole. Of the 37 companies, which provided information on this point, only 12 gave a negative reply, while 25 answered affirmatively.

49. Since the relatively small size of the Spanish market in most capital intensive industries is conducive to the existence of important ties, of a business (i. e., Bank-centered groups), family or personal nature<sup>3</sup>, it seems plausible to think that entry of foreign companies contributes to a more competitive climate at home, increasing thereby the potential for a greater export dynamism later. Furthermore, some sort of competition can take place among the different subsidiaries of a multinational corporation system. To illustrate this, the export manager of

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<sup>1</sup> The question assumed that companies react to domestic recession by increasing their export selling effort, rather than by cutting output or export prices. However, the prevalent practice of export price discrimination by firms in the sample suggests the possibility of price reduction as well. In fact, some companies understood that to be precisely the meaning of "making a greater effort."

<sup>2</sup> Two companies, exporting more than 50 % of their output to the U. S., pointed out to a reversal cyclical relationship between exports and domestic sales. In these cases, selling efforts are intensified in Spain, whenever U. S. demand happens to falter.

<sup>3</sup> The Director of a chemical company, belonging itself to an important Bank-related business group, emphasized the existence of a certain "esprit de corps" among major industrialists, dating back to the autarchy years of the forties and fifties, when the advantages of mutual cooperation and the dangers from retaliation were crucial in an isolated and bottleneck-plagued economy. He further stated that even today the level of tariff protection is not a good indicator of the measure of external competition to which domestic companies are exposed, since liberalized goods may not be bought abroad because of the fear of antagonizing domestic producers. He related this situation to the low business mortality rate, which, according to him, exists in Spain. Foreign investors may adjust in differing degrees to these local conditions. However, we are under the impression that, at any rate, they have improved the traditional poor image of business as a career in Spain, opened new avenues for social mobility to strongly motivated middle class young people and created a considerable, though often superficial, management demonstration effect among the larger Spanish firms.

a large U.S.-owned company told us that different "alternatives" from the national subsidiaries are submitted to international biddings, which, in fact, amount to internal competition within the large multinational corporation structure<sup>1</sup>.

Besides, it is a well known fact that in oligopolistic international markets (very frequent in manufacturing), foreign investment is attracted to countries expected to show a high rate of growth in the given industry, in order to follow or forestall a competitor's move. The growth prospects may be perceived at about the same time by the competitors, who overrate their estimated market shares because they do not possess accurate information regarding the extent of the actual investment being undertaken by the rest. In a country of the size of Spain, this "presence policy" results sooner or later in excess capacity, which is a consequence of the tendency to reproduce on a smaller scale the structure of the international market. This fact, combined with a "growth mentality" developed in expanding industries plus the availability of international commercial channels in the case of multinational companies, creates powerful pressures for exporting. In our interviews with manufacturers of tyres and especially of home appliances we have found conditions in these industries to fit roughly the above description. As it was the case when technology was discussed, Government could step into this picture to reinforce tendencies already at work. Good prospects for growth in given domestic markets could be used in order to bargain for export commitments, as a condition for authorizing investment projects from foreign firms. Only in two cases there were indications that that had already been done with significant results<sup>2</sup>.

## V. Summary

50. At least three facts explain why the results of this survey were more significant from a qualitative than from a quantitative point of view. In the first place, the sample used was not a random one and, therefore, no scientifically valid inferences could be derived from it. Secondly, most of the interviews were informally arranged and conducted and often the interviewees could not readily avail themselves of data from different departments in order to answer to the questionnaire in full. Thirdly, at any rate, the level and composition of Spanish industrial exports is changing at present so rapidly that it would have seemed unwarranted to use even the most accurate data for projecting them into the future without considering as well qualitative factors from the environment in which exports are taking place.

<sup>1</sup> At times, however, competition may prove to be more apparent than real. Some companies submit harder conditions, i. e., higher quotations, to biddings, so that the offer presented by a sister company may appear on a more attractive light.

<sup>2</sup> Five of the 100 respondents to a questionnaire mailed by Stanford Research Institute to nearly 400 companies, believed to have US investment, indicated that they "had guaranteed the government that they would export a certain percent of their production but two had so far been unable to comply with their agreement although they anticipate being able to do so as business conditions improve." American Investments in Spain, Compr. a Report by Stanford Research Institute (Intern.) on The Role of American Investments in Spain's Development, and an Opinion Survey by DATA, S. A. (Madrid), Barcelona, 1972, p. 47.



51. Among the reasons given by entrepreneurs for explaining their estimates for export growth by 1975, it seems to be worth focusing on the expected lesser future rate of growth of domestic demand. The entrepreneurs interviewed tended to regard the kind of expansion which took place during the sixties as having had unique characteristics and also as having by now critically approached its ceiling. Exports, therefore, are likely to become more important in the future for an increasing number of firms.
52. As far as the competitiveness of Spain's export industry is concerned, three groups of industries can be identified:
- (a) There is a group of traditional export industries, which are able to sell abroad at no price differential. It includes companies in the food products, textiles, footwear and raw material-intensive chemical industries. Competitiveness can be explained in terms of relative factor endowments, according to the Heckscher-Ohlin theory.
  - (b) There is, secondly, a group of non-traditional export industries, which is also able to sell abroad at no price differential. The following examples of such industries were found in the survey:
    - Technologically simple light machinery, which, being also non-standardized, requires considerable intensity of not too specialized labour. This description fits the majority of the machine-tools exported by Spain and it seems to be the first kind of producer goods a developing industrial country can be expected to export.
    - Heavier, but technologically simple, products like ships (particularly oil-tankers and bulk-carriers). Rationalization of production, high elasticity of productive capacity, advanced design and process engineering facilities enable Spanish firms to compete abroad.
    - Technologically simple standardized intermediate products, which show soon constant returns to scale on the production side and no need for brand development on the distribution side, like parts for the automobile industry.
  - (c) A third group is made up by new exporting industries, which still have to price their sales abroad considerably below those placed in the domestic market. Their willingness and ability to sell abroad in periods of high domestic demand will be an indication as to whether their international sales can be viewed as those of "infant exporters" or simply as "buffer exports." The following industries can be included in this group:
    - Standardized technologically simple consumer durables like home appliances. To a country like Spain this kind of goods offer the advantage of their relatively high labour intensity which may outweigh the disadvantage that market shares secured by a brand in a given country are normally protected by a considerable "marketing barrier." In addition, multinational firms tend to increase production in their subsidiaries located in Spain and then let them sell under their trade mark.
    - Standardized intermediate goods, like special steels, glass and tiles. If we compare these products with parts for the automobile industry, we notice that in the case of steel diseconomies of scale are not rapidly overcome and that in the case of glass and tiles transport offers an important obstacle due to the fragility, bulk and weight of these products.

- Standardized relatively labour-intensive technologically complex intermediate goods, like tyres. Although market shares are protected by considered brand and technological development, the tyres industry has been so far one of the non-traditional industries which successfully started selling abroad.
- Standardized consumer durables with increasing returns to scale. Passenger cars are a good example. Although all Spanish automobile industries are subsidiaries of foreign multinational companies, this seems to be no longer a hindrance for the Spanish firms to sell abroad, since the foreign mother companies are increasingly interested in turning the Spanish plants into a production base for certain models.
- Non-standardized technologically complex equipment (like heavy machinery). Since these exports go mostly to less developed countries, they can be also partially explained by the Heckscher-Ohlin theory.

53. Since two thirds of the firms in the sample are holders of "Carta del Exportador" (which, as we saw, means fulfillment of some minimum requirements of export activity), their average size is considerably higher than that corresponding to the average firm, taking the economy as a whole. Therefore, when the companies interviewed mentioned the alleged advantages of small size - essentially a greater capacity for quick reaction and for a better grasp of opportunities - they were in fact referring to what we might consider an intermediate size (from 100 to 500 employees). If we further distinguish between three types of firms, type I being personalized-managed, routine oriented companies, type II being bureaucratic ones and type III problem-solving, change-oriented ones, it seems that intermediate sized firms are more likely to belong to type III than the very small or the very large ones do. Furthermore, their entering the export business in non-traditional exporting industries is an indication of their change-oriented management outlook and, therefore, of their greater chances for success in selling abroad. As a final remark, it seems that sociological research into the influence of company size, entrepreneurship and management outlook upon export performance offers considerable interest, although it certainly falls beyond the scope of this paper.
54. The present level of Spanish exchange reserves and the size and diversification of its economy indicates that the country is able to produce or to import whatever products (and in almost whatever quantities) it may require. Since access to physical capital is no longer the main bottleneck for the further development of Spain, attention has now shifted, among others, to the problem of her ability to use and produce knowledge and technology. This question was examined in this paper under the framework of the effects of foreign investment on export ability. The companies interviewed pointed out to the fact that it is often unrealistic to try to compete in this area against larger and richer foreign companies. However, the Third Development Plan shows that there is already awareness on the part of the Government to the effect that it has a role to play in this field. Apart from the establishment of general education, science and research programs, there is a growing realization that use of foreign technical know-how should be eventually followed by production of national technology within the limits set by available resources. Therefore, a "creative technological absorption" approach through policing of licensing agreements should be encouraged and completed with a "technology import substitution" policy.

55. Concerning more specifically licensing agreements, the survey made it clear that the effects of Government prohibition of clauses restricting or forbidding exports have little - if any - effect, as formal contracts may be superseded by informal gentlemen's agreements. It became apparent that the licensing contracts have to be understood in terms of the bargaining process from which they originate rather than by a merely legalistic approach. As a consequence, some suggestions are given in this paper in order to avoid the negative influence of foreign investment on exports and to foster a positive one. Export goals should be set to foreign companies which derive a substantial benefit from investment in Spain and other measures are also recommended for strengthening the militancy and bargaining power of the Spanish companies vis-à-vis their foreign associates with respect to the acquisition of technology as modern and export possibilities as ample as possible.
56. One of the major findings of this survey was to discover the importance attributed by the interviewed companies to the marketing angle of international trade, which fits the current trend in theory of relaxing the usual assumptions - especially that regarding the existence of pure competition - traditionally made in this field. Many exporters find their main problem in selling abroad in the fact that they are not known and that the products of a new or semi-industrialized country, like Spain, have to overcome the reluctance arising from a "poor national industrial image." On the other hand, there is every indication that the existence of marketing means and know-how made available to the Spanish industrial sector through foreign investment was one of the factors explaining the considerable export-flexibility shown by the economy during recession times and that it may also contribute to explain a possible future greater attention to exports because of trend considerations as well.

## Appendix A

### QUESTIONNAIRE

(basic version)

Name of the firm:

Industrial Branch (according to I. S. I. C.):

#### I. General

1. What are the main products of your enterprise (please specify as, e.g., medicinal products, metal working machines, electrical household appliances, motor vehicle etc.) and which is their percentage share in total sales?
2. a) What were your total sales in 1960, 1965 and 1970 (in millions of national currency)?  
 b) To which percentage amounted the share of these sales in the total sales of the industrial branch to which your firm belongs in these years?
3. How many people do you employ presently in your enterprise?
4. How is this total number divided among the following categories (in percentage)?
 

- Managerial and executive personnel	.....	%
- Engineers and technicians	.....	%
- Sales personnel	.....	%
- Skilled workers	.....	%
- Unskilled workers	.....	%
5. In what way have the shares of these professional categories in the total number of employees changed over the last 10 years?
 

- Managerial and executive personnel:	constant/increased/decreased	
- Engineers and technicians:	constant/increased/decreased	
- Sales personnel:	constant/increased/decreased	
- Skilled workers:	constant/increased/decreased	
- Unskilled workers:	constant/increased/decreased	
6. How many working shifts per day are practised in your enterprise?
7. What were the amounts (in mill. of national currency) of the following items in 1965 and 1970?
 

	1965	1970
- The value added	.....	.....
- Total production per employee	.....	.....
- Total wages and salaries	.....	.....
- Wage costs per unit of production	.....	.....
- The gross physical capital asset	.....	.....
- The volume of investment	.....	.....
- The share of foreign capital in the total value of asset (in percentage)	.....%	.....%
8. What part of the total cost consisted of:
 

	1965	1970
- Wage costs	.....%	.....%
- Cost of energy	.....%	.....%
- Expenditure for imported inputs	.....%	.....%
9. a) Please indicate the most important raw materials and intermediate products used in your firm  
 b) What part of these is imported from abroad? .....
10. How important is, at present, the role of applied research in your enterprise?
 

- Proportion of scientists to total number of employees	.....	%
- Proportion of research expenditure to total cost	.....	%
- Proportion of research expenditure to total sales	.....	%
11. a) What is the estimated average age of the installed machineries in your enterprise?
 

- Less than five years	.....	
- Between five and ten years	.....	
- Between ten and twenty years	.....	
- More than twenty years	.....	

 b) As compared with your foreign competitors, is the average age of the installed machineries in your enterprise: higher/the same/lower?  
 c) Do you install second hand equipment?
12. In what form - if at all - do foreign investors participate in your enterprise?
 

- through majority shares	.....	
- through minority shares	.....	
- through grant of license	.....	
- through technical cooperation	.....	
- through transfer of managerial and/or technical personnel	.....	
- in other ways (please state)	.....	
13. a) If you are importing foreign techniques, are these related to the import of:
 

- new capital goods?	yes / no	
- second hand equipment?	yes / no	

 b) If your answer is "yes" to both, please state which is more important:
14. In case you have foreign capital participation or licenses, is there any agreement which restricts your exports either totally or partly to specific countries?

## II. Export Performance

15. What are the main items of your actual exports, (please specify as, e.g., medicinal products, metal working machines, electrical household appliances, motor vehicles etc.) and which is their percentage share in total value of exports?

16. a) What is the present share of export in total sales?

b) In what way has the export - to - sales ratio changed over the last 10 years?

Increased/Decreased/No change

c) If there has been any deviation from the above trend in case of individual items of exports, please state in which items.

17. a) Which are the most important short- and long-term factors that caused an increase of a decline of your total exports. (Please give points, ranging from 10 to 0, to each factor according to its importance to you.)

	Short term Increase/Decline	Long term Increase/Decline
- price of the product	.....	.....
- delivery time	.....	.....
- quality and design of the product	.....	.....
- suppliers' credit	.....	.....
- capacity utilisation rate	.....	.....
- export promotion policies of the government	.....	.....
- restrictions on export by foreign investors	.....	.....
- other factors (please state)	.....	.....

b) If only individual items of exports are considered, is there any change in the ordering as stated above and, if so, in which way?

18. How do you obtain information on the sales possibilities for your products in the foreign market?

- through own representatives in the foreign country
- through participation in international fairs in foreign countries
- through market studies prepared by the Ministry of Trade of your country
- through market studies undertaken in your country by the foreign Chambers of Commerce and/or by the Chamber of Commerce of your country in foreign countries
- direct from the foreign participating firms
- through analysis carried out, on your behalf, by domestic or foreign market research institutes
- other ways (please state)

19. Do you differentiate between your sales price according as whether the product is for the home market or for the foreign market?

20. In the export market, how do you rate your new customers as compared with the standing ones?

- in terms of prices: better/worse/same
- in terms of payment conditions: better/worse/same

21. Suppose that the average ex-factory price (without indirect taxes) obtained from the home market in the year 1969/70, for each of your product, is equal to 100.

- What prices would you have fixed for these products, if you had wished to export them earning the same net profit?
- What were the c. i. f. prices of the competitive imported products in 1969/70?

22. How do you assess the profitability from exporting in comparison with the home market?

- substantially smaller
- smaller
- the same
- higher
- substantially higher

23. If you consider the export market as less profitable than the domestic market, please state for what reasons? (Please give points, ranging from 10 to 0, according to the importance of each factor.)

- greater risks
- lower volume of orders
- larger competition in the international markets
- longer time of payment
- other reasons (please state)

24. a) In the past, were you prepared to export more than you actually did?

b) If yes, for what reasons did you not do it?

- Shortage of skilled labour
- Shortage of capital
- Difficulties in procuring material inputs (raw materials and investment goods)
- Handicap in international competitiveness due to the pressure to buy inputs from the higher priced domestic sources
- Delay in the grant of export licenses by the Ministry of Trade
- Lack of knowledge about the potential sales market in foreign countries
- Incomplete and faulty sales net-works
- Unfair competitive practices by rival domestic exporting firms
- Other reasons (please state)

## III. Export Objective

25. How would you define your export objective? (Please give points, ranging from 10 to 0, to each factor according to its importance.)
- To maintain the present market share .....
  - To avoid a decline in the volume of export below a certain minimum .....
  - To provide an outlet for the excess production in times of deficient domestic demand (due to business cycles) .....
  - To increase the share of export in total sales .....
  - To diversify the export supply .....
  - To capture markets in:
    - a) Other developing countries .....
    - b) West Europe .....
    - c) Other industrialised countries .....
    - d) Socialistic countries (Sino-Soviet type) .....
  - Other objectives (please state) .....
26. If you are considering to expand your export activity, please state your reasons (give points, ranging from 10 to 0, to each factor according to its importance).
- Saturation of the demand for your products in the home market .....
  - Increasing pressure for rationalisation which will also improve the competitive position in the home market .....
  - Greater scope for expanding the size of your enterprise .....
  - To take advantage of the relatively easy entry into the booming market of the Western Europe, following the preferential agreement with the E. E. C. ....
  - To avail yourself of the opportunity of obtaining easier credit when this is dependent on your export performance ("Carta del Exportador") .....
  - Other reasons (please state) .....
27. What weight would you attach to the export promotion measures of the government which are actually in operation? (Please give points, ranging from 10 to 0, to each measure according to its importance.)
- Turnover (sales) tax-rebate at the border .....
  - Duty free import of the inputs under the "temporary admission system" .....
  - Duty free import of inputs and finished goods under the "replacement regime" .....
  - Duty free import of goods destined for re-export under the "temporary import system" .....
  - Supply of finance on preferential terms .....
  - Export risk sharing by the state .....
  - Other measures (please state) .....
28. a) Is the expansion of your export activities dependent on the extension of the existing export promotion measures by the government?  
b) If yes, of which measures?
29. What efforts can you yourself make in order to increase the share of export in your total sales? (Please give points, ranging from 10 to 0, according to importance.)
- Adapting the quality and design of products to international standards .....
  - Intensifications of customers' service .....
  - Creation and extension of foreign sales net-work .....
  - Increasing the production capacity .....
  - Preference for foreign orders over the local ones .....
  - Tightening the organisation of the firm (including if necessary discharging the excess personnel) .....
  - Not any more than before? .....
30. a) In case that your enterprise has foreign capital participation and that you are under obligation (through agreement) to restrict your exports - do you believe that such practices could be eliminated in the future?  
b) On what basis do you think so?  
Concrete: are you considering to reduce your dependence on foreign licenses through more intensive applied research in your own enterprise?
31. a) If you are considering to increase your exports, by how much do you plan to increase your production capacity up to 1975, as compared with the present situation?  
b) Which export-to-sales ratio are you trying to achieve by 1975?  
- for all products taken together .....
- for the main products .....

32. What do you consider to be the major sources of your export competitiveness? (Please give points, ranging from 10 to 0, to each factor according to its importance.)

  - a) Relative abundance of basic raw materials .....
  - b) Relatively lower wage rates .....
  - c) Relatively lower transport costs .....
  - d) Relatively large scale of production .....
  - e) Use of standardized technologies .....
  - f) Marketing capacity .....

## Appendix B

QUESTIONNAIRE  
(short version in Spanish)

### EMPRESA

1. ¿Qué tamaño tiene actualmente su plantilla? .....
2. ¿Qué tamaño tenía aproximadamente en  
1960 .....?; 1965 .....?
3. Sírvase indicar el número de empleados correspondiente a las siguientes categorías profesionales:
  - ingenieros y técnicos .....
  - investigadores técnicos .....
  - obreros especializados .....
  - obreros no especializados .....
4. ¿Cuáles son las principales producciones específicas de su empresa? Sírvase indicar el porcentaje aproximado sobre la cifra total de ventas.
  - a) .....%
  - b) .....%
  - c) .....%
5. ¿Con qué porcentaje participa la exportación en las ventas globales de todos estos productos? .....
6. ¿Cómo se ha desarrollado esta participación en los últimos diez años?  
constancia/incremento/descenso
7. ¿Cómo se distribuyen geográficamente sus exportaciones?
  - Estados Unidos .....
  - Países del Mercado Común .....
  - Otros países de Europa Occidental .....
  - Iberoamérica .....
  - Demás países .....
8. ¿A cuánto ascendieron sus exportaciones en 1970? .....
9. ¿Qué porcentaje aproximado de esta exportación realizó en  
1960 .....%; 1965 .....%?
10. ¿Qué incremento sobre la exportación de 1970 proyecta para 1975? .....
11. ¿En qué basa sus expectativas para dicho aumento?  
.....  
.....
12. ¿En qué porcentaje tiene proyectado el aumento de la capacidad productiva para 1975 con respecto a la actual? .....
13. ¿Tiene acuerdos con inversores extranjeros excluyendo o limitando la exportación de sus productos?
  - No existe inversión extranjera en su empresa .....
  - Existe, pero no hay acuerdos limitativos de la exportación .....
  - Existen acuerdos excluyentes de la exportación .....
  - Existen acuerdos limitándola geográficamente .....
14. Sírvase indicar los factores que tienen influencia sobre sus exportaciones
 

	Favorable	Desfavorable	Ningún efecto
- Precio .....	.....	.....	.....
- Calidad .....	.....	.....	.....
- Grado de utilización de la capacidad productiva .....	.....	.....	.....
- Plazo de entrega .....	.....	.....	.....
- Política estatal de fomento a la exportación .....	.....	.....	.....
- Créditos de pago al comprador .....	.....	.....	.....
- Competencia nacional .....	.....	.....	.....
- Dificultades de suministro de materias primas y productos intermedios .....	.....	.....	.....
15. ¿Qué importancia asigna a las actuales medidas de fomento a la exportación? Sírvase puntuar de 0 a 10.
  - Desgravación fiscal .....
  - Régimen de importación y de admisión temporal .....
  - Reposición con franquicia arancelaria .....
  - Sistema "draw-back" .....
  - Crédito a la exportación .....
  - Seguro de exportación .....
16. ¿Sugeriría Ud. más medidas de fomento? si / no  
En caso afirmativo, ¿cuáles?  
.....  
.....
17. ¿Intensifica su firma las gestiones de exportación cuando existe un período de baja coyuntura interior? si / no

18. Suponiendo que el precio de fábrica de su principal producto de exportación fuese igual a 100 (excluyendo impuestos indirectos) en el mercado nacional
- ¿Qué precio hubiera debido fijar para poder vender el producto en el exterior? .....
  - ¿Cuál fue, aproximadamente, el precio de la competencia extranjera antes de pasar la Aduana? .....
19. ¿Cómo aprecia la rentabilidad de la exportación comparada con las ventas en el mercado interior? menor/igual/mayor
20. ¿Con qué porcentaje aproximado participó su empresa en la cifra total de ventas de su sector? 1960 .....%; 1965 .....%; 1970 .....%
21. ¿Qué porcentaje aproximado en los costes totales de producción corresponde a
- Costes de personal .....%?
  - Gastos de importación de materias primas y productos intermedios .....%?
22. La antigüedad media de la maquinaria de su empresa es de ..... años