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E C L A C

Economic Commission for Latin America and the Caribbean

THE EXPORT POTENTIAL OF SMALL- AND MEDIUM-SIZED ENTERPRISES OF
SOME SELECTED COUNTRIES OF LATIN AMERICA TO THE
EUROPEAN ECONOMIC COMMUNITY (EEC) */

Summary

*/ This work is a summary of the document "El potencial exportador de pequeñas y medianas empresas de algunos países seleccionados de América Latina respecto de la Comunidad Económica Europea (CEE)", LC/R.740, which was published only in Spanish, prepared by the ECLAC International Trade and Development Division as part of the work carried out for the Project "An analysis of the export potential of small- and medium-sized industrial enterprises and the restrictions on them in selected Latin American countries to EEC markets", with the financing of the Government of the Federal Republic of Germany.

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INTRODUCTION

ECLAC has always been concerned with promoting Latin American and Caribbean exports. The International Trade and Development Division has completed several studies on the subject. All sought the same objective: to find new routes --or strengthen existing routes-- for establishing trade flows for Latin American products.

Within this framework, the project "An analysis of the export potential of small- and medium-sized industrial enterprises and the restrictions on them in selected Latin American countries to EEC markets", was begun in 1984 with the financing of the Government of the Federal Republic of Germany. Designed for this crucial sector of the regional economies, it was intended to study not only the productive capacity of the enterprises, but also the results achieved by the promotional mechanisms put into practice. This was the Latin American part. However, there was also the European part of the study where it was intended to study the potential demand for the products selected in the Latin American countries.

Two stages have been carried out to date, each one covering three countries. The first studied Ecuador, Mexico and Uruguay. The second covered Chile, Paraguay and Peru.

This document is a consolidated report of the six studies. When it was drawn up, research into European demand for the products selected in Chile, Paraguay and Peru was still being carried out. Therefore, the report only covers the Latin American background.

Chapter I contains all the background of the project. Chapter II covers Ecuador, Chapter III Mexico, Chapter IV Uruguay, Chapter V Chile, Chapter VI Peru, Chapter VII Paraguay. Finally, Chapter VIII contains the general conclusions.

SUMMARY

Chapter I contains the background to the project.

The preface covers the elements preceding the carrying out of the work, itself. Among them, which situations should be considered for the selection of

the countries and which consultants designated. Further, the objectives of the study are outlined and developed in two settings. One is Latin America, where the potential exportable supply of the selected products is to be studied. The second takes place in Europe, and studies the potential demand in EEC markets. Next, the terms of reference are given which were to bind the Latin American consultants and the European consulting company in carrying out their respective work. Later, the selection of products is detailed. Further, background is given on the methodology employed. The chapter finishes with a summary of the activities carried out and presents some of the results.

Chapter II deals with Ecuador.

The results reached in each country are divided into: export potential, restrictions, and conclusions and recommendations. In the case of Ecuador, the most interesting export potential was shown by the shrimp industry. The restrictions on export detected were at the enterprise level, in legislation, and in the national administrative structure.

Chapter III covers the case of Mexico.

As for export potential, no products were discovered which would appeal to EEC markets. With respect to limitations, the Mexican legislation on export promotion is probably one of the most advanced in Latin America, but still suffers more or less serious faults. Suggestions for overcoming these are given in the recommendations section.

Chapter IV treats the case of Uruguay.

Sea products and leather goods were the lines with most export potential. However, no potential demand was discovered which would considerably increase the volume already exported. At the same time, there were also difficulties in achieving a significant increase in production for the export market.

As for other restrictions, official restrictions were almost overcome and limitations at the enterprise level were improvable in the short or medium term. Recommendations to this effect were made in the appropriate place.

Chapter V deals with the case of Chile.

Export potential was found in various areas. The research into European demand is not yet finished at the moment of preparing this report so that the possible acceptance of these products in EEC markets is not known.

With respect to the limitations of the enterprises, the necessary recommendations are made. Recommendations are also made with respect to official difficulties in exporting.

Chapter VI deals with the case of Peru.

Export potential was discovered in various areas whose potential demand has not yet been determined, since the research Europe continues.

With respect to limitations of the enterprises and legislative and bureaucratic restrictions, recommendations are made for overcoming them.

Chapter VII cover the case of Paraguay.

The products discovered with export potential, as in the cases of Chile and Peru, have not yet been compared with European demand.

At the end of this chapter recommendations are made which were considered necessary to overcome some deficiencies found both at the enterprise level and at the bureaucratic and legislative level.

Chapter VIII includes the general conclusions which follow this summary.

GENERAL CONCLUSIONS

1. Research problems

a) An analysis of the terms of reference indicates that the project had at least two groups of activities perfectly outlined. One was the evaluation of export and demand potential with their respective degrees of difficulty. The other related to materializing trade agreements between Latin American exporters and European importers by means of a workshop.

Although these activities are in the terms of reference, the first appear essential both for the success of the project as a whole and for the drawing up of contracts. However, soon, the project seemed to suffered a significant variation in the direction of its priorities. This may be due to the heterogeneous nature of the sample chosen for the project and to the difficulties in eliminating the distortions thus created.

In fact, the possibility of establishing agreements between importers and exporters took on a new dimension. In the first stage --Ecuador, Mexico and Uruguay-- the carrying out of a workshop between Ecuadorian shrimp exporters

and European importers seemed to be one of the most easily overcome stages. At least, much more attractive than the export potential discovered in products selected on the basis of European demand.

The lesson learned from this first stage made it clear that the idea of attempting to mediate trade agreements would be difficult in practice. The ECLAC Secretariat is not competent --it is not its job, nor was it created for it-- to carry out this function. The consulting company, Agroprogess Kienbaum International, which at that moment was covering the European part, also had difficulty with this aspect. Finally, the effort provoked a suspension of the meeting between Ecuadorian shrimp exporters and European purchasers.

This experience led to a considerable decrease in the second stage-- Chile, Paraguay and Peru-- of the role played by the German consulting company. It was not asked to participate in the selection of the products, or in the preparation of the surveys. With respect to the workshop, since it was in the originally approved terms of reference, it was not eliminated, but was subjected to an ECLAC evaluation at the end of the research into potential European demand.

Studying the first stage, it was concluded that ECLAC should not enter areas for which it was not created and where it completely lacks experience.

b) The implementation of the tasks imposed by the basic orientation of the project limited its possibilities. Since it was materially impossible to cover the totality of small and medium enterprises, the most representative had to be chosen according to the objectives of the project. This selection was made arbitrarily. It is true that the opinions of State export promotion bodies and export groups was solicited, but this is not sufficient guarantee that the groups of products suggested were those with real export potential. As well, the wide spectrum of aspirations was reflected in an overly large range of products to investigate.

In the first stage this created serious problems since in the selection decisive importance was given to European demand. Moreover, this demand was only measured according to general statistical information in the first place. The result was that the products selected did not coincide with the main exports of Mexico, only partially with those of Ecuador, and better with those of Uruguay.

Even without considering these problems, the project took in a reduced part of export potential and did not take into account total potential or the framework of global economic policies.

An analysis of the experience leaves the feeling that in spite of the fact that an effort was made to concentrate the study on a more or less reduced number of enterprises, their numbers was still very high. A sufficiently careful treatment of each productive group was impossible and the information provided was, generally, insufficient for definite conclusions about the total export potential of each line.

Perhaps research into a smaller number of product groups should have been attempted, but with sufficient depth to achieve really representative results. Something of this can be seen in the case of Peru where the study was concentrated on few products.

Possibly, by concentrating the analysis on the most restricted number possible of products results could have been achieved with intrinsic value, making a real contribution independently of whether the study of potential demand coincided significantly with supply or not. If this were achieved, it would be an extra point. However, if this were not the case, the governments of the countries and the export unions would have full information on a production segment. It would be solid backing for efforts to open new trade flows which would benefit a part of a significant sector of their economies, as are the small and medium industrial enterprises. The results of the research into demand, would also provide information of undeniable value for this purpose.

It is clear that the project was well oriented with respect to the research subject in Latin America and in Europe. The weight of small and medium enterprises in the economies of the region is undeniable.

c) The study shows an evident lack of thematic unity as a result of the field in which it had to operate. The differences among the economies of the Latin American countries make it very difficult to establish a common pattern permitting homogenous definitions. Therefore, the concepts of small and medium industry are proportionately different in each nation. The level of economic development is a first consideration, but not the only one. Enterprises which

in some countries could be described as small, in others are handicraft. Examples are numerous and varied.

All this made it impossible to achieve the homogeneity required to make generalizations.

d) It was also impossible for the project to run normally as a result of some delays in sending funds on the part of the German government. The second stage was delayed practically two years in the phase of researching European demand. The study of the Latin American cases was completed in 1986. Only in 1988 was the financing available to study the potential demand for the products selected in Chile, Paraguay and Peru.

Obviously, this delay militates against the successful outcome of the project. Although it is certain that the potential European demand for specific products may not vary substantially in two years, it is also possible that the potential exportable supply would suffer considerable changes.

In spite of the deficiencies of the project, its results can provide information about the potential demand in European markets. At the same time, the countries have an illustration --more or less modest, depending on the case-- of the export potential of small and medium enterprises producing goods whose export is worth stimulating.

With some differences determined by the completeness of the research in the countries, the project also contributes a good analytic basis for revising the performance of some promotional instruments.

2. General problems in the six countries

a) Of the enterprises

A large majority of the enterprises surveyed in the six countries did not have export experience or their relationship with the international market had been centred on the United States. Generally, their management was still marked by a long experience supplying almost exclusively, reliable domestic markets. The use of outside services was scarce.

The six countries have problems of training personnel in various productive areas. There are also problems of transport. And in the majority of them, financing problems are of some significance.

b) National problems

There are infrastructure problems in the six countries. Also, there is unanimity in criticizing the incoherence of export promotion policies. In several cases, the currency exchange policies were criticized.

Generally, no case was found where the economic policies had been designed for --or were adequate for-- a model encouraging export promotion. There were credit, fiscal, exchange, and regulation maladjustments, etc.

Notes

- 1/ Jaime Moncayo García, Informe sobre el Ecuador, p. 13.
- 2/ Ibid, p. 5.
- 3/ Gerardo Hemken Ugarte, Informe sobre México, vol. I, p. 35.
- 4/ Refers to the Banco de Fomento Nacional.
- 5/ La industrial pequeña y mediana en México. NAFINSA. Mexico City, November 1983.
- 6/ Gerardo Hemken Ugarte, op. cit., vol. II.
- 7/ Oscar Libano M., Informe sobre Chile, p. 5.
- 8/ Ibid.
- 9/ Ibid., p. 55.
- 10/ Ibid.
- 11/ Jaime Quijandria y Carlos Garaycochea, Informe sobre Perú, p. 12.
- 12/ Ibid., p. 122.
- 13/ Ibid., p. 124.
- 14/ Ibid, p. 128.
- 15/ Ibid, p. 141.