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NATIONAL POLICY WITH REGARD TO MACHINE TOOLS^{1/}

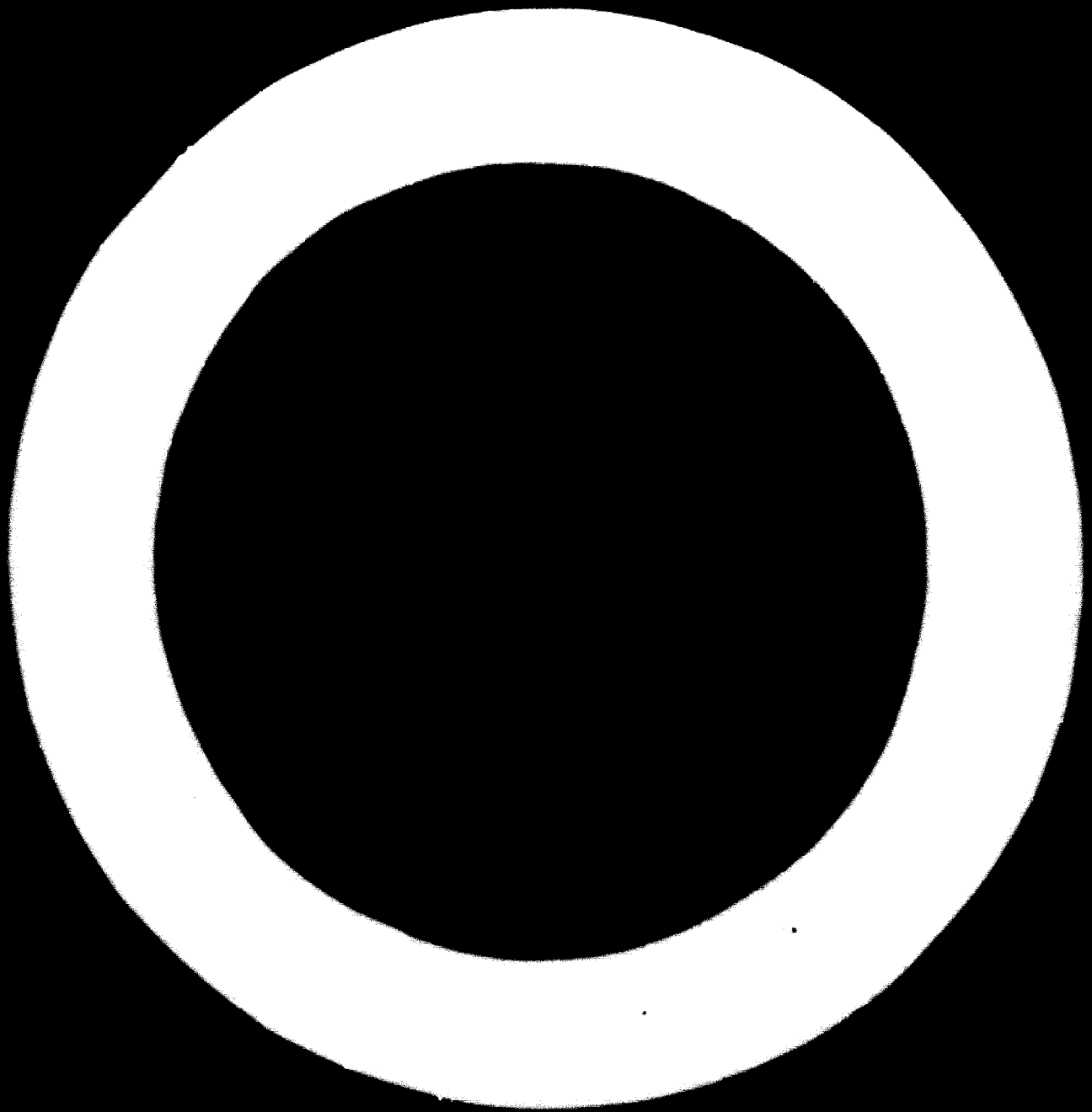
submitted by

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^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO.

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We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



1. Problems of this sector in Argentina

1.1 Modern studies on industrial economics stress two special characteristics of the capital goods industry from the standpoint of developing countries. On the one hand, it is well known to be a sector of strategic importance, one which has positive effects on the economy as a whole and without which there can be no question of achieving economic autonomy.

On the other hand, the difficulties encountered in seeking to achieve the full development, consolidation and expansion of this sector in practice are considerable.

1.2 An approach based purely on import substitution is not the only effective policy for establishing and developing this sector, even though there is no doubt that the main factor which led to the establishment of this sector in the Argentine economy in the first place was the need to replace imports.

1.3 It can in fact be said without great risk of error that in some Latin American countries, especially Argentina, the capital goods industry, and in particular the machine tool industry, had its origin in the practical difficulties arising from the Second World War, in the post-war restrictions on supplies from the traditional sources of this kind of machinery, since those countries directed their output largely towards renewal of their own industrial plant, and in the restrictions of a general nature imposed on imports into Latin American countries, due in large part to their balance of payments deficits.

1.4 The subsequent change in the international economic situation led to an abundant supply of machine tools to the developing countries, a gradual easing of the terms of payment and the offer of large quantities of highly sophisticated models using a precise and complex technology, designed for specific purposes and having a high rate of output.

1.5 Within the country, on the other hand, the general adherence to an over-all policy of import substitution for most industrial products in practice created various advantages and benefits for machine tool imports. This policy paradoxically neglected local machine tool production and in some cases did it manifest harm.

1.6 On the one hand, it has been characteristic of these promotional arrangements to encourage the establishment of substitution industries within a broad general range, the aim being to encourage initiative over a wider group of products. On the other

hand, one of the most usual protection measures has been customs exemption for imports of machinery, which also implies machine tools. This has led to a marked switch in purchases to foreign sources, to the disadvantage of local production.

The machinery introduced under these arrangements to protect national production of machine tools (refusal of customs exemption in the case of goods produced locally etc.) has not in practice achieved the desired results, because the system generally leads to lengthy negotiations and tiresome disputes, at best, and at worse to a distortion of demand.

1.7 Although the intention behind the legislation is clear, in practice its application has on occasion been hindered by the requirement imposed on the manufacturer to demonstrate his capacity to produce specific kinds of machines, which is not easy to do in this industry, both because of the nature of the production process and because of the variety of specifications, which makes it necessary on many occasions to work to special order.

1.8 Mention must also be made of the strong support which the developed countries give their machine tool exports through such institutions as special credit agencies, which enable suppliers to offer their goods on very favourable financial terms, and of the fact that credit provided by national credit institutions is often "tied".

1.9 There are a whole series of problems of the most various kinds which are specific to the sector and derive from the very nature of the products and of the manufacturing and marketing processes. As has been said, many of these goods are produced to the client's order (or at all events in relatively short series), to special specifications, and the process of producing them is complex and relatively slow. This ability to adapt to the user's needs is precisely one of the major advantages of having a national industry to produce these goods, and this process of adaptation leads to technological progress.

Nevertheless, it involves considerable problems, to do with such matters as the ability of suppliers to respond fast enough, the availability of highly skilled labour and the need for equipment to be sufficiently reconvertible, which directly affects the cost of the product.

1.10 For the purchaser, on the other hand, the productivity of the machine tool is such that he is obliged to write it off over a relatively long period (as a rough indication we may say about 10 years), which means that sales tend to be conducted on a medium- or long-term basis.

- 2 -

From this standpoint, the foreign competition at present enjoys favourable conditions, as regards both production costs and payment periods. This makes the position of national producers more complicated.

The inflexibility of the traditional credit machinery has on many occasions led producers to weaken their financial position in order to be able to place their output. This may have limited their chances of getting new orders and may possibly have created obstacles to their expansion.

2. Policies

2.1 The policies that can be proposed for the machine tools sector must necessarily be related to the general context of the objectives set for national industry as a whole.

It has therefore been thought desirable to draw attention to the provisions relating to industrial activity as a whole in the National Development and Security Plan for 1971-1975 (Act No. 19039) which directly or indirectly affect the machine tools sector (2.3 and 2.4).

These provisions are then broken down into more specific policies for this sector (sections 2.5, 2.6 and 2.7).

2.2 General objectives

To strengthen and expand enterprises whose capital is domestic, particularly in growth sectors, promoting greater concentration of enterprises and seeking to establish them on a sounder financial basis;

To develop and introduce technology which will reduce dependence on foreign sources;

To secure a sustained growth in exports of industrial goods, increasing efficiency as an essential prerequisite for greater access to international markets.

2.3 Targets

The target set by the Plan for machinery and electrical apparatus as a whole, which includes machine tools, is a rate of growth in value added of 10.5 per cent for 1971-1975, as against the rate of 3.4 per cent actually achieved during the period 1960-1967-1969.

2.4 General measures

State action (with regard to this sector) will involve formulating a consistent set of promotion measures which will act as a guide to private enterprise and provide it with a framework for expansion.

In this connexion the Industrial Promotion Act and related regulations will be the guide for allocating resources in the industrial sector.

Going into more detail, the action taken will include measures on finance, taxation and customs, and exports.

The measures proposed will be an incentive to the machine tools industry as producer, on the one hand, and stimulate the consumer market for these products, on the other (emphasis is laid on the provisions that relate directly to this sector).

Finance

Measures to facilitate the granting of medium and long-term finance to basic industry, through the National Development Bank, and over-all support for the rest of industry whose capital is domestic, particularly industry located in the interior of the country. Agreements concerning loans granted by the National Development Bank must inter alia lay down conditions and standards with regard to productivity, export targets, minimum enterprise size and use of national technology.

Action to promote a healthier state of affairs in the stock market, by the following means:

Revision of Act No. 17811 as a tool for investment control and of the basic legislation on limited liability companies;

Measures to protect the savings of minority investors, through appropriate regulation of enterprises' dividend distribution policies;

Establishment of the medium-term loan system at commercial and investment banks by attracting special deposits. These loans will be intended to finance investment in domestically produced goods and to meet the ordinary needs that evolve in the course of investment programmes, for a period of not less than 2½ years.

Introduction of special regulations governing the activities of banks and financial bodies in channelling funds to small- and medium-scale enterprises with domestic capital.

Taxation and customs

Revision of the present tax system, with the basic aim of simplifying it, abolishing surtax and replacing the sales tax by value added tax.

Basing of customs tariffs on index prices constantly brought up to date, in order to give domestic industry adequate protection against dumping of imports and other unfair commercial practices.

Export promotion

Greater measures to assist plant renewal by industries which undertake to produce a considerable proportion of their output for export.

Revision of Decree No. 3056/70 in the light of experience with export financing and trends in industrial exports, in order to ensure that Argentine products are sufficiently competitive on the international market.

Introduction of a system of certificates corresponding to the requirements of the international markets with regard to weight, quality, processing, etc.

Support for research into industrial design in order to adapt the presentation of manufactured goods to the requirements of the international markets.

Geographical decentralization of administrative and promotional procedures relating to foreign trade, so as to allow the various regions exporting industrial goods to operate directly, particularly in their relations with neighbouring countries.

Promotion of industrial exports through permanent Argentine trade offices abroad, in order to gain a better knowledge of foreign markets and sales opportunities.

Encouragement of greater Argentine participation in international fairs and exhibitions, and at the same time encouragement to private enterprise to attend such events.

2.5 Industrial promotion system

It is proposed that one of the main characteristics of the industrial promotion system should be the following:

The benefits granted should be such as to stimulate investment in domestic equipment and to encourage research and development.

2.6 Within the general framework of the policies explained above in sections 2.2, 2.3 and 2.4, which, covering industrial activity as a whole, also apply to the machine tools sector, mention should be made of another set of objectives and measures which relate to this sector as such.

This more specific set of objectives and measures is intended to deal with the problems discussed in section 2.1.

Objectives

- To direct public sector demand towards the domestic market;
- To organize private demand in some branches of this industry;
- To bring the capacity of domestic suppliers and the needs of purchasers into line with each other;
- To place local suppliers on an equal footing with international suppliers from the financial point of view;
- To improve the design and technology of domestically produced capital goods;
- To organize series production of light and medium equipment and thus reduce costs.

Measures

The following set of measures is proposed in order to achieve these objectives:

- General application of a tariff protection system which will not in practice lead to distortion;
- Development of a credit system which will take into account the financial difficulties of medium-term investment and will be competitive with the facilities obtainable abroad;
- Establishment of bodies to publicize and spread knowledge of what domestic suppliers can offer;
- Encouragement of the formation of planning teams and firms of consultants specializing in the design of factories and equipment which can be supplied by domestic industry;
- Negotiated agreements between the public sector and the production sector with regard to price, quality, quantity, delivery periods and finance;
- Promotion of standardization of orders for medium and light equipment by means of agreements between the various State bodies;
- Promotion, at the level of chambers of industry or groups of enterprises, of bodies concerned with technical advice, technological research and foreign marketing.

2.7 Finally, there are the following measures aimed especially at the problems of machine tool production:

Measures

Tax exemption for users of goods produced by domestic industry.

Replacement of exceptive provisions by an automatic system for imports under which products used in domestic manufacture will be rapidly covered by a system of protection, thus avoiding the accumulation of imported stocks.

Preparation of an appropriate tariff nomenclature and the establishment of customs advisory boards to ensure that imported goods are classified correctly.

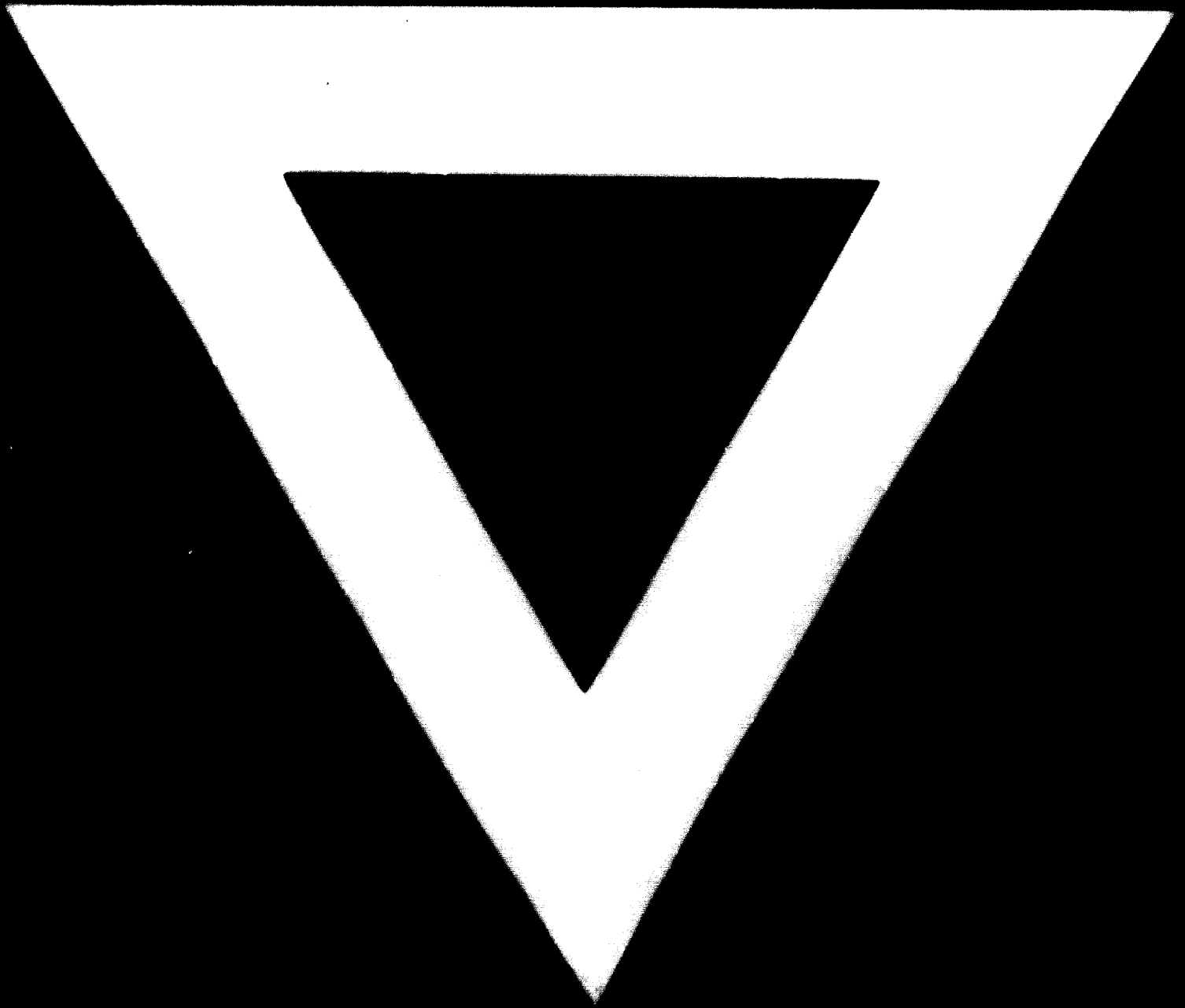
Establishment of a machine tool technological research institute, with extension services.

State financing of 50 per cent of the cost of prototype design and production, together with the introduction of measures to assist the first user.

Introduction of a comprehensive set of regulations governing licensing contracts which will prohibit restrictions on exports.

Measures to promote mergers of smaller workshops so that they can operate on a more efficient scale. Plans for financial assistance are being worked out in this connexion, under which State participation will be conditional upon enterprises periodically supplying statistics on production and price trends and their development programmes. This would mean that through the financial plans there could be an efficient system for keeping a check on the process of integration.





7 . 8 . 74