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PREPARATORY MEETING FOR THE CONSULTATION ON THE
RESTRUCTURING OF THE CAPITAL GOODS INDUSTRY
IN LATIN AMERICA AND THE CARIBBEAN

Sao Paulo, Brazil, 25-27 March 1992

REPORT*

* This document has been translated from an unedited original.

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INTRODUCTION

1. The preparatory meeting for the Consultation on the Restructuring of the Capital Goods Industry in Latin America and the Caribbean was held in Sao Paulo, Brazil, from 25 to 27 March 1992. The meeting was organized by the United Nations Industrial Development Organization (UNIDO) with the cooperation of the Economic Commission for Latin America and the Caribbean (ECLAC), the Latin American Economic System (SELA), the Latin American Association of Capital Goods Industries (ALABIC), the Brazilian Association of Machinery and Equipment Industries (ABIMAQ) and the National Trade Union for the Machinery and Equipment Industries (SINDIMAQ). It was attended by 12 participants, together with representatives of SELA, ECLAC and ALABIC. 1/
2. The discussions at the meeting concentrated on four topics:
 - (i) Competitiveness of the Latin American capital goods industry;
 - (ii) Production of capital goods and financing of purchases and sales;
 - (iii) The environment and its impact on the Latin American capital goods industry;
 - (iv) Current trends in the Latin American capital goods sector.

I. AGREED CONCLUSIONS AND RECOMMENDATIONS

3. The preparatory meeting selected the following topics as the main subjects for the Regional Consultation:
 - (a) Measures to improve the international competitiveness of the Latin American and Caribbean capital goods industry;
 - (b) The role of the State, industry associations and the private sector in the development of the Latin American and Caribbean capital goods industry.
4. It was agreed that:
 - (a) It was important to assess the viability of alternative sectoral policies for economies in transition towards an open market;
 - (b) It was necessary to identify the financial alternatives for the sector, with specific proposals for the establishment of trust funds to make viable the operationalization of more competitive systems of "securitization" and financing such as could serve as the basis for setting up a private regional bank specializing in financing the production and marketing of capital goods, with special emphasis on those produced to order;
 - (c) The establishment of these trust funds should be proposed under the ALABIC/ECLAC/UNDP regional project, which is designed to strengthen this capital goods subsector, ensuring the involvement of UNIDO in the project. The proposal should include alternatives with regard to the design and the potential contributors;

1/ See annex I: List of participants.

(d) It was necessary to study measures for combining initiatives for the development of machinery for environmentally clean policies at the enterprise level with the formulation of policies on innovation and human resources training;

(e) The Consultative Meeting on the Restructuring of the Latin American and Caribbean Capital Goods Industry should be dedicated to the memory of Dr. Fernando Fajnzylber, for his technical and scientific contribution to the development of the industrial sector in the region. The content and range of his work should be highlighted.

II. ORGANIZATION OF THE MEETING

Opening of the meeting

5. The meeting was declared open with the initial statement by the Director of the UNIDO System of Consultations Division. In his introductory comments, the Director thanked ECLAC, SELA, ALABIC and ABIMAQ/SINDIMAQ for their cooperation in organizing the meeting.

6. Statements were also made at the opening meeting by the Senior Technical Adviser of the Regional Programme for Automation of the Latin American Capital Goods Industry and the Vice-Chairman of ABIMAQ.

Election of officers

7. The following officers were elected:

<u>Chairman:</u>	Mr. Pedro Buzatto Costa (Brazil), Director of Technology and Vice-Chairman, ABIMAQ
<u>Vice-Chairman:</u>	Mr. Victor Cruz Lozada (Ecuador), Executive Secretary, Ecuadorian Capital Goods Commission
<u>Rapporteur:</u>	Mr. Antonio José Londoño Vélez (Colombia), Adviser, New Colombia Industrial Foundation, and STN, Regional Automation Programme.

Adoption of the programme

8. The meeting adopted the following programme:

Wednesday, 25 March 1992

9-9.30 a.m.	Registration
9.30-10 a.m.	Opening ceremony
	Address by the host authorities
	Address by UNIDO representative(s)
10.30-10.45 a.m.	Election of officers
	Adoption of the programme

Wednesday, 25 March 1992 (continued)

- | | |
|---------------------------|---|
| 10.45-11.15 a.m. | Introduction of the paper on the competitiveness of the Latin American capital goods industry (UNIDO) |
| 11.15 a.m.-
12.30 p.m. | Debate on the competitiveness of the industry |
| 2.30-3 p.m. | Introduction of the paper on capital goods production and financing of purchases and sales (ECLAC) |
| 4-4.30 p.m. | Introduction of the item on current trends in the Latin American capital goods sector (ALABIC) |
| 4.30-5.15 p.m. | Debate on current trends in the capital goods sector |
| 5.15 p.m. | Closure |

Thursday, 26 March 1992

- | | |
|---------------|---|
| 9.30-10 a.m. | Introduction of the paper on environmental issues and their impact on the Latin American and Caribbean capital goods industry (UNIDO) |
| 10-10.45 a.m. | Debate on environmental issues and their impact on the industry |
| 2.30-5 p.m. | Round table on modernization of the capital goods sector |

Friday, 27 March 1992

- | | |
|-----------------|--|
| 10 a.m.-noon | Selection of topics for the Consultation and adoption of conclusions and recommendations |
| Noon-12.30 p.m. | Closure of the meeting |
| 2.30 p.m. | Visit to the Sao Paulo Technological Research Institute |

Documentation

9. The documents listed in annex II were distributed to participants.

III. SUMMARY OF THE DEBATES

The main topics considered were the following:

10. The competitiveness of an enterprise can be measured in different ways: by its share of the market, by its productivity, or by the factors determining the consumer's preference for buying its product or service rather than another one. To be competitive is the firm's main aim, and to achieve that aim it must have a sustainable competitive advantage.

11. It was stressed that the basic requirements for achieving sustainable competitiveness involved:

A constantly updated assessment of the target markets, mainly with regard to the likelihood of their growing, remaining stable or shrinking;

The design of strategies on the basis of relevant and up-to-date success factors;

The creation and improvement of sources of advantage all along the value chain;

An international strategic approach.

12. Despite the decisive importance of factors relating to businessmen's behaviour as the basis for competitiveness, attention was also drawn to the need for a stable macro-economic environment and encouragement of interregional complementarity, with particular emphasis on the development of machinery for enterprise-to-enterprise cooperation.

13. Importance was attached to the role played by industrialists' associations and the State in supporting private enterprise in such areas as education, training, backing for innovations, infrastructure, information and subsidies.

14. Inasmuch as the return on investment in research and development is slow, the Government has a crucial role to play through the design of effective policies for science, technology and innovation.

15. It was stressed that infrastructure, communications and information are prerequisites for competitiveness in business.

16. Special emphasis was placed on the fact that no country could be internationally competitive in all sectors of industry, so that countries would have to decide in which sectors to concentrate their activities and resources and to set up clusters of firms in order to secure extra gains in competitiveness, enabling them to attack specific markets.

17. As a further step towards improving competitiveness, attention was drawn to the need to carry out strategic planning processes to support appropriate decision-making by individual firm managements and the construction of market scenarios and plans for complementarity and specialization by industry associations.

18. The significant growth in exports to third countries of capital goods produced to special order indicates the competitive capacity of the industry producing them.

19. Nevertheless, due note should be taken of the modest growth of the regional market, if not the fall in its share, as a result of the negative import substitution occurring in the region.

20. A major explanation for this phenomenon of negative substitution (regional production through imports from third countries) is the lack of adequate financing for purchases of products in the region and the existence of tied credits involving a preference for purchases from firms in third countries.

21. The problem should be thoroughly analysed and attacked as an urgent necessity, given the effects it is having on the competitiveness of enterprises and the equilibrium of the market.
22. It is proposed that the implications of leasing and "securitization" (trust funds) should be explored as alternative solutions.
23. Despite the situation described, it was noted how privatization processes are generating new market opportunities, already identified by purchasers from third countries.
24. The change in development model taking place in Latin America has had an impact on the economic situation, which is reflected in a growing trend towards privatization, a drop in levels of State investment and the transfer of its reduced purchasing power abroad. This situation has affected capital goods producers, with particular emphasis on the sectors producing to special order.
25. The virtual disappearance of purchasing agencies, which until recently supported the growth of industries in the sector, explains its high rate of under-utilization, which on average is around 50 per cent.
26. As an aggravating factor, reference was made to the preference for third country supply backed up by financial terms for the purchase with which regional suppliers could not compete. There has been a movement from a competitive market situation to one in which the market is distorted by the effect of subsidies paid by developed countries.
27. The effect of financing for purchases and conditions of access constitutes a new element to be taken into consideration in the definition of competitiveness, which is combined with a regional supply image that is not yet good enough in its own markets, all of which affects the present crisis in the capital goods sector.
28. There needs to be a closer correspondence between political statements and the action taken in practice. The region should actually act as a region.
29. In Latin America, environmentally aware industrialization processes are still rare and do not form part of the tools of public policy available to investors and Governments.
30. The tendency hitherto has been to regard environmental investment as an extra cost, leading people to see environmental policies as a factor limiting competitiveness.
31. Some international standards and national standards in developed countries can be used as barriers to entry into their markets.
32. The experience of some Latin American countries seems to indicate that a strategy of encouraging "clean" investment could represent a competitive advantage.

Annex I

LIST OF PARTICIPANTS

Argentina

Roberto Almaraz, National Director, Automation Programme, Association of Metallurgical Industrialists of the Argentine Republic (ADIMRA), Alsina 1607, Buenos Aires

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Annex II

LIST OF DOCUMENTS

Competitiveness of the Latin American Capital Goods Industry

Financiamiento para la Operación de la Industria Latinoamericana de Bienes de Capital

The Impact of Environmental Issues in the Capital Goods Industry in Latin America

Notas sobre la Situación Crítica de la Industria Latinoamericana de Bienes de Capital