Liner shipping in Latin Americas: economic and managerial analysis

Alejandro C. Arroyo

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Liner Shipping in Latin America: Economic and Managerial Analysis

by

(Alejandro Carlos Arroyo)

(Argentina)

A paper submitted to the Faculty of the World Maritime University in partial satisfaction of the requirements for the award of a

MASTER OF SCIENCE DEGREE

in

(GENERAL MARITIME ADMINISTRATION)

The contents of this paper reflect my personal views and are not necessarily endorsed by the UNIVERSITY.

Supervised and assessed by:

Captain Richard Soper

Co-assessed by:

Professor Age Os
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1. - LATIN AMERICA: ECONOMIC ANALYSIS

1.1 INTRODUCTION

In order to have a better understanding in regard to what is coming at a later stage, I consider it essential to give a general picture of the main features comprised in the Latin American regional growth and development from the political economy judgement point of view. It is my willing to explain firstly, the actual and present status of macroeconomic variables included in such an economic analysis of Latin America as a whole region, and secondly to go more deeply into the Argentinean case within the frame of the maritime problematic but never by splitting it into different subjects, since shipping as a whole is strongly linked to macro and microeconomic variables, therefore, no shipping analysis could be seriously carried out by isolating it from the main leading concepts found in both the domestic economies and the international environment, wherein Argentina and the whole Latin American region keep certain common factors regarding economic growth and development under what I would call certain standards of economic and political behavior.

Before starting, I want to point out that in addition to the fact that Latin America presents countries with different productive structures and therefore not very homogeneous degrees of development, it has the very typical problems faced by a less developed area during the industrialization process through quite strict import substitution schemes. In other words, the difference among those countries is mainly given by the way the resource allocation is carried out and
by the degree of efficiency in the utilization and optimization of those resources, so long as on the other hand they keep approximately the same national and even regional targets for reaching higher indexes of productivity, wider and more efficient resources distribution, better income allocation, better inter and intra-regional relationships, etc.

I consider these brief concepts of top importance in order to understand the methodology and extent of my analysis; thus shipping variables will find their different sources in the master variables of the national economies.

1.2 ECONOMIC OUTLOOK

The arguments set out in this thesis, as far as development planning is concerned, are applicable to developing countries, but more specifically to those located in Latin America. Therefore, I consider it necessary first of all to observe a series of restrictive or limiting features:

-- Most of the countries are on the way of getting consolidated as nations. This means that not only in physical and political terms but also in economic and social terms, the national territories are still not totally integrated.

-- Their social systems are still not well structured not only on their organizational side but also regarding their categories or divisions. In real life, even the systems called formally "federals" are in fact highly, if not totally, centralized structures regarding the decision making process.

-- Their economic systems are definitely less developed and are crossing a period of transition toward industrialization, which in practical terms generates
different changes and therefore different patterns in the distribution of population and economic activity.

-- Countries are relatively poor and therefore they lack of economic capacity so as to afford any sort of waste or overlapping with respect to governmental functions in its different levels.

-- Countries have experimented a urbanization process considerably faster than the processes related to their own economic developments.

-- Latin American countries are generally primary product exporters, excluding certain segments of production of a few regions, whereby they have to face problems of demand limitation as well as downward movements in product unit price terms.

-- Latin American countries are tied to operative restrictions, informally set up into huge amounts of foreign debt.

-- Countries have individually different productive structures within the same domestic economy and a very low integration degree or relationship among those structures.

-- Very large shares of the public administration in the GDP of each country, thus generating huge figures in terms of fiscal deficits as a result of mismanagement or lack of cost consciousness, among other topics, on the part of the public officials.

The concepts above mentioned are, although not all, the main restrictions that are playing a decisive role against development in this region of the world.

Now, if we check the existing national planning schemes we can find the following similarities regarding national targets:
1) to increase the GNP at a rate which allows the improvement of the income per capita. Such a goal has the top priority in most of the countries, (Argentina - Brasil - Chile - Panama - Venezuela - Paraguay).

Further objectives must be taken into account in the great majority of the cases, as restrictions:
2) to improve income distribution.
3) to reduce inflationary pressures.
4) to increase the economic autonomy, either by raising exports and decreasing imports or by balancing the foreign debt. Within this context, it is normally assumed that imports substitution and exports diversification have a major role to play in the achievement of this goal.
5) to increase the employment rate. Such a goal should rather be understood in the way of creating new vacancies instead of diminishing the firing rate.
6) to raise the standard of living so as to increase consumption together with its multiplier effect, in order to reach educational and health standards among many others.
7) national integration: elaborated and thought in terms of economic access of all the subsystems or regional markets to the master system or national market, as well as in terms of the participation of all available human resources in the development process.

Now, if we take these national targets and translate them in terms of regional objectives, it is possible to examine to what extent the regional policies could contribute to the creation of national policies and goals.
1) GLOBAL OBJECTIVE: to increase GNP
   IN REGIONAL TERMS: a) to promote investments towards areas where higher capital-product rates can be obtained, without overlooking the concept of economies of scale and cumulated capital in infrastructure.
   b) to incorporate new regional resources (human, natural, financial, etc) to the development process.

2) GLOBAL OBJECTIVE: to improve income distribution
   IN REGIONAL TERMS: a) to increase the income per capita in those areas of lesser relative development by means of assigning capital endowments and know-how from outside the area concerned, and to encourage the transference of population towards other areas.

3) GLOBAL OBJECTIVE: to reduce inflationary pressures
   IN REGIONAL TERMS: a) to increase the endowment directly productive of the total investment and to canalize such an investment towards areas wherein the existing infrastructure allows an additional expansion of those sectors directly productive.

4) GLOBAL OBJECTIVE: to increase the economic autonomy
   REGIONAL TERMS: a) to assign importance, within the framework of the regions involved, to the export industries through a better utilization of the regional resources. The multiplier effect arising out of such a process, should contribute to the reduction of regional imports within the context of their national comparative advantages.

5) GLOBAL OBJECTIVE: to increase the employment rate
   IN REGIONAL TERMS: a) to increase the geographical mobility of capital and manpower endowments according to the potential resources allocation.

6) GLOBAL OBJECTIVE: national integration
   IN REGIONAL TERMS: a) economic aspect: to promote
inter and intra-regional links by improving the access between all the areas of production and consumption.

b) social aspect: to improve the access of all the inhabited areas to the capital of social infrastructure.

c) political aspect: decentralization of the administrative and political structure in order to integrate the regions to the decision making process by spreading out the existing powers.

And now, we can discuss how these global objectives for Latin America can be influenced by shipping activities and through the regional policies. Then, following the same order we have:

1) The countries involved in development processes show a great heterogeneity in this regard. Consequently, that is the reason whereby the positive return of the investment depends to a great extent on the right allocation of the available investment funds. In case a country takes the decision to invest in shipping, we might say there are certain advantages, although some drawbacks as well, to consider before starting to think in terms of shipping investments. Let us now look upon only the advantages and deal with the disadvantages at a later stage.

Then we can state the typical favourable arguments about shipping, advocated by any international organization as well as by any successful shipping nation:

A - IMPORT SUBSTITUTION
B - FOREIGN EXCHANGE SAVING
C - EFFECTS ON FREIGHT COST AND TRADE
D - EMPLOYMENT
E - SHIPPING INVESTMENT AND RELATED SECTORS
F - SECURITY AN NON-ECONOMIC FACTORS

A) Nowadays, Latin American countries are engaged, as a whole, in a very strong import substitution process with the purpose of accelerating domestic industrialization, of creating employment opportunities and specialization, of getting rid of economic dependency as much as possible from the industrialized centers, of saving foreign currency by limiting imports, of being capable of exporting manufactured products to get foreign currency. Such a process was and still continue being so strong, that the substitution coefficients of the main three countries (ARGENTINA - BRASIL - MEXICO) were even lower than those obtained by USA during the crisis in the 30s. Import substitution is a quite useful economic mean, whenever it is known how to make good outcomes out of it; but on the other hand, it could perfectly lead to shortage of capital goods and industry inputs within the scope of economic stagnation if it is not well understood and run. In such a case, investments in shipping for a country's foreign trade, provided such a country counts with specialized and skillful people, can initially be looked upon as the avoided import cost or freight payment, and the cost of imported goods and services and national resources used so as to provide the shipping service, taking into account shadow prices where appropriate.

B) The potential for avoiding substantial foreign exchange payments for maritime freights is often given by LDC's as one important reason for invest-
ments in ocean-going shipping.
Although the total freight paid to national flag lines in a country's foreign trade is a gross foreign exchange saving, the net saving from the national point of view will be significantly less depending on a number of factors, including:
(1) the type of vessels involved and their age and cost structures under national and foreign flag;
(2) the extent to which the vessel is acquired from abroad and the financing arrangements;
(3) the extent to which the national resources are used in its operation (crew, management, repair facilities, etc.);
(4) the operating efficiency and profitability level;
(5) the impact on freight rates;
(6) the general conditions on the particular trade routes in question.
The relative savings might be greater if, apart from crew and management costs, a significant part of the repair costs, insurance and some other items could also be procured nationally. In this regard, Argentina together with Brasil, are in a better position than the rest of the Latin American countries. Therefore, there is no reason for believing that the infrastructure owned by these two countries could not help to achieve this goal, either nationally or even regionally. However, foreign currency savings do not come up so easily, but with a good and experienced management and with the necessary knowledge to carry out actions connected with the real needs of the balance of payments. In addition to that, it should be noticed that in some other nations of this area, shipping management may initially have to be partly obtained abroad and would therefore, in part, involve a foreign exchange cost. While crew costs might largely be a
national currency cost, there could be partly offsetting foreign currency losses if the employment of national crews of national flag vessels meant a transfer of such crews from foreign flag vessels to national flag vessels rather than the employment of previously unemployed people or persons locally employed in other national industries. Once again, both the Argentinean and Brazilian vessels have their own officers and crews whereby such a transfer of human resources is not required. Therefore, this could be another argument in favour of shipping investment with the aim of saving foreign currency. In the case the national currency is overvalued, like the one in Argentina, the value of the net foreign currency savings would be understated if the official exchange is used without adjustment, which actually is not a big constraint if we bear in mind the fact that such a gap in the Argentinean case is only of 10% and belongs to a special economic program with a finite extent. Then, we could state that, although significant gross foreign exchange earnings or savings may be obtained from investments in shipping, the net savings will be smaller, although still potentially interesting. This would, however, have to be considered on a case-by-case basis by the relevant candidates.

C) The chance of bringing down freight charges and to improve services is often cited as reasons for LDC's investing in merchant marines. Such a statement, might be true or not, strictly depending on two fundamental issues so far not very well understood in this region of the earth:

--- MANAGEMENT CRITERION
--- FREEDOM OF UNDERTAKING

These concepts are supposed to be applicable to the
same extent to both, the public and private sectors, subjects to which I will refer later on during the strategic planning stage. But anyway, I consider it necessary to mention the main guidelines whereby trades and their costs could be directly affected and therefore probable generators of indirect positive effects on both the domestic economy and the foreign sector, and always bearing in mind their results on the balance of payments.

Firstly, an important cost is labor, covering both crew and management. This would be particularly significant and generally favourable for the LDC's in liner shipping and could become increasingly important in bulk shipping if open registry shipping were curtailed through international agreements. It should, however, be noted that in the case of some LDC's, the potential advantages in terms of lower units wage rates may be partly offset by larger crew sizes.

Notwithstanding, the River Plate market is presently dominated by those ships enjoying lower crew costs like container ships and others built under high-tech standards, which brings about comparative advantages in real terms.

Secondly we have the ghost of the economies of scale. According to the universally accepted theory, we have the economies of scale associated with vessel size, and economies associated with number of vessels operated by a single company. In principle, there are considerable economies of scale in bulk shipping from increased vessel sizes, particularly in the long-distance and large volume trades; however, the extent to which increasing vessel sizes can be economically used in particular trades, depends, apart from vessels costs, on the trade volumes involved and
the capacity of the existing port and storage facilities or the cost of new facilities. These factors are even more important for liner vessels. For both liner and bulk vessels there may be a trade-off between decreasing ship operating costs per ton-mile from fully used larger vessels and increasing port and storage costs. It is, however, likely that increasing bunker prices and the reduced bunker costs per ton of cargo for larger vessels may gradually result in increased vessel sizes, particularly in the average size of bulk vessels. In liner trades, this could also increase the use of larger container vessels for main-line port trades, supplemented by feeder services as in the case of US LINES, EVERGREEN and others. But in fact, in most of the Latin American traffic systems, two barriers seem to come up before the argument of economies of scale:

--- no port is efficiently outfitted, neither from the safety nor from the operations point of view, as to receive vessels aimed at achieving economies of scale.

--- no volume of trade is available as to reasonably serve those vessels, unless the existing traffic structures were eliminated by law, which frankly speaking is not very likely to occur.

Furthermore, there are many examples of successful shipping undertakings carried out by a certain number of small companies operating in the range of one to four ships and in those markets where economies of scale are perfectly feasible for those interested owners. This could be the case of several shipping lines operating in the Scandinavian markets as well as in the North Atlantic. Therefore, I do not foresee any reasons for believing that operations carried out with a reasonable dose of
managerial common sense under market freedom terms, and without taking the scale concept, would not lead to a more competitive liner market together with all the direct and indirect effects on the domestic and foreign sector of the country's economy. Specifically speaking, I think that the River Plate market and its deep hinterland, would largely benefit from any positive effect caused on its trade provided that both the foreign trade and the shipping field do not get divorced before getting married.

D) Although investments by LDC's in shipping may increase the employment opportunities both on board and on shore, they generally cannot be justified solely in terms of employment created; shipping is, despite large variations, a relatively capital intensive industry in terms of capital cost per job. But the concept of employment creation must not be looked upon in domestic terms only, but also in foreign market terms. Shipping requires certain skills which, although available in some LDC's, are unlikely to be readily available in many others without considerable expenditures on training and, in the case of officers, considerable time as well. According to an IMO estimate, the cost of training a radio cadet is some 7/8000 us dollars and that of a navigator or engineering officer 11/13000 us dollars. These are very good reasons for thinking in terms of the international market for employing nationals in foreign flag vessels, and specially in those of LDC's by means of bilateral or regional agreements as far as the supply of officers is concerned. Argentina, once again, seems to have all the suitable conditions for fulfilling the requirements of marine personnel set out by those LDC's suffering from shortage on a regional basis.
Let us take the example of South Korea, whose seafarers have increasingly been employed by foreign flags in recent years, which normally represents an income of 120 million US dollars per year.

Another example is given by the Philippines, where foreign exchange earnings from seamen employed in foreign vessels presently means 160 million US dollars per annum. Of course, it would be dangerous to think in professionalizing this career in such a way that hundreds of people should get their diplomas every year without chances of signing on national flag vessels and with the only viable way out of leaving far away in order to find jobs. But if we take the Latin American market, we can identify a certain market that in itself lacks of seamen and comes represented by most of these nations. Therefore, such a shortage could be matched with the assistance of Argentinean seamen under any sort of regional agreement, and thus representing more people employed and a better resources allocation in manpower terms, which could always be absorbed once again by the national fleet, provided there is a demand reactivation in any liner trade segment.

E) Investment in shipping may, in appropriate cases, create further employment and output in related sectors. The extent of these economic linkages will depend largely on how far shipping is planned as an integral part of the economy and can draw on, and provide service for, other sectors of the economy. The main economic linkages between shipping and other sectors of the economy, apart from employment of crew and onshore personnel, could be shiprepair and shipbuilding and their supply industries as well as many other support industries such as insurance, communications, financing, etc. Within this context, it is
known that Argentina has kept and developed during many years an acceptable naval industry and repair yards from a technical point of view, although many times overquoted as regards to newbuilding prices. Therefore I wonder why, if this country has got the key installations to produce and expand employment either directly or indirectly, has not taken the necessary steps for doing so. Obviously, the answer leads by itself to the governmental shipping policy which was never aware of such matters and consequently, neither of maritime planning. I should add that all these secondary activities tend to be more labor-intensive than modern shipping. Ideally, therefore, the existence or possible development of such related industries should be evaluated in connection with any consideration of major investments in shipping, taking into account the economies of scale which might be involved.

A clear, although possibly unique, example of this approach appears to have been Korea. In S. Korea, shipping forms an integral part of the national economy and planning since the country's export-led development pattern depends both on the imports of large volumes of raw materials for the steel industry, particularly shipbuilding, and on the export of manufactured products to many different markets. Shipping, particularly bulk shipping, provides the transport for these essential imports and is, itself, a customer of the shipbuilding industry. As exports have increased, investments have been made in liner vessels to meet part of the transport requirements. Korean shipping, by focusing initially on bulk shipping, has been different from that of most LDC's, which have focused, at least initially, on liner shipping.

A second example where the development of shipping
seems to have been expanded as an integral part of the country’s economy is Brazil. It has developed a liner fleet to serve its foreign trade in liner goods, partly through cargo reservation measures as well as with economic growth and development acting as driving axis for tonnage expansion purposes.

F) The availability of shipping services to meet part of a country’s foreign trade needs in case of war or other emergencies, has been in consideration in connection with the development of many national merchant marines. At periods of high worldwide demand for shipping services and high freight rates (not necessarily related to wars) LDC’s with small trade volumes might find the availability of shipping services greatly reduced. This might be particularly so for essential imports when vessels are transferred to large volume trade routes and chartered vessels might only be available at higher rates, if at all. The question of security of service, for instance, seems to have been a major consideration, once again, in the development of Korean shipping, given the country’s geographical position, its dependence on imports of large volumes of raw materials for its industry, as well as the growing importance of exports to many different countries. While defense considerations fall outside the normal economic evaluation, they have been very convincing arguments to carry out fleet expansions of not few merchant marines (USA - ISRAEL - KOREA - BRAZIL). Other non-economic considerations could include, according to some theorists, the concept of national prestige or identity, which in my opinion could be totally overlooked for representing old fashion arguments probably used a couple of centuries ago,
and for being ignorant of the present economic and social reality of the international society.

2) In this case, human resources which are going to be used together with other production factors are not going to be transferred, strictly from one area to another as the theory sets out, but they will be absorbed by a region which before was not considered as an area; i.e., the sea and its related factors. Therefore, whenever we do not look upon the sea as an integral area of the country to be regionalized and developed, employing people by investing in liner shipping as a way of increasing the income per capita and fostering the transference of human resources from one area to another, is by no means justifiable. But if we assume that the sea is other area that needs to be developed within an integral regional development program, we can say that investments in liner shipping together with a strategic planning of shipbuilding and a ship repairing industry, it could be a valuable source of employment and specialization with all the economic components therein specified. Employment in shipping, even if of limited importance, may have, however, somewhat greater regional importance as the seamen may come from coastal areas with few employment alternatives. Employment in the national shipping administration or directly related service industries increases the total employment opportunities. International shipping is generally considered a relatively capital intensive industry although the capital invested per employee differs markedly for different types of shipping, and also on whether new or second hand vessels are used. The capital invested per employee is also affected by vessels crewing patterns, national labor policies,
onshore-onboard ratio, among others. Onshore employment for instance, is normally significantly higher for liners than for bulk services, and specially in LDCs. To give an example, the investment per employee in shipping in the UK increased between 1970 and 1980 by 89% at constant 1975 prices; the investment per employee in shipping in 1975 was slightly less than in electricity, gas and water but substantially higher than in other major industries. Another example could be the net (unrevalued) fixed assets per employee of the Shipping Corporation of India, which was about 58,000 US dollars in 1978 as compared with an average of 5,000 US dollars per employee for 22 other major Government of India undertakings in the same year. While on the other side we can see that the real capital per employee in ocean-going shipping in Norway was 150,000 US dollars in 1974, and therefore largely superior to the 70,000 US dollars per employee used for five major industrial concerns. From this, we can notice that in the Norwegian case, even when capital/labor ratios have been obtained four years before, they are much higher than those belonging to India, which obviously means that such a ratio may differ according to the technological needs of the traffic concerned as well as the degree of specialization desired by the owner.

In the case of South America, I would say there is no need for investing huge amounts of money to acquire high-tech vessels, even when markets of developed countries are involved, but to operate what they own with structural shifts regarding managerial procedures and manpower allocation.

3) Normally, the large investments in infrastructure represent important sources of inflationary pressure in LDCs, since those undertakings are generally in
the hands of the governments who usually run out of liquid resources, thus incurring large fiscal deficits with endless inflationary effects, unless they count on foreign capital resources for offsetting their internal negative balances by increasing foreign debt amounts, which in other words means purchasing hard currency without chances of letting such capital get self-amortized. But if we consider a port and its equipment such as a railway, a container terminal and others, as basic infrastructure to serve not only liner shipping but also bulk activities, tramp and many other segments which could eventually come up later, the likelihood of self-amortizing such a capital input in the long run, increases significantly even when inflation is still present therein. Very basically we could say that the better the harbour is outfitted and run, the more exports and imports will take place and therefore more ships will come with the consequent advantages for the balance of payments.

Besides the fact the better the traffic as a whole is managed, the more are the chances to reduce inflationary sources arising out of the national resources in terms of currency. In connection to this issue, shipping could have an outstanding role to play if governments should allow it, and provided that fiscal deficits are not going to be entirely financed by taxing and by getting foreign loans but by improving efficiency and effectiveness as regards infrastructure creation without inflationary effects.

4) Economic independency does not come only with shipping, but what we can say in this context is that shipping, certainly is an important link in the process of diminishing dependency from the international economic centers by means of the utilization of national units. Nevertheless, it can be said that the two fundamental
pillars as to reduce economic dependency, are given by the following policies:

--- **IMPORTS SUBSTITUTION**: it has the aim of producing locally what before was imported from abroad, with the consequent expected advantages in the domestic economy regarding employment and industrialization at different levels, as long as on the foreign sector such advantages are given by foreign currency savings and by what I consider very relevant, lesser economic dependency which can also be looked upon in terms of strategic value. This system has its advantages and drawbacks, to which I am not going to refer right now since it deserves a separate analysis related to liner shipping.

--- **PLANNED EXPORTS**: it means that all foreign loans obtained by one country, are supposed to be allocated, in very broad terms, to the existing local activities or starting local industries wherein such a current of money may reanimate the industry concerned, in such a way that its products will be exported leading to the generation of sufficient foreign currency as to refund the whole fund and generate profits as well in the medium, although preferably short run. Of course, I should point out that such a foreign currency drain might well be allocated among infant industries, which unless they are quite technologically advanced, could achieve the same goals other than the already existing or just starting ones.

Then the question is, how liner shipping and to what extent could help in achieving those targets? Evidently, liner shipping could be of great help whenever maritime policy-makers keep close links with the national economic planners with respect to the foreign sector of the economy. This is to say that national
liner shipping could follow and support, either profitably or in terms of expected earnings, the markets wherein national products are being gradually introduced; it could positively influence the export operation by increasing frequency together with fiscal or freight reimbursements for using national flag vessels, or by avoiding a general rate increase assuming a strong position in a conference through its share, or by fostering the participation of national outsiders and by discouraging foreign outsiders to operate therein, by getting those inbound goods on national flag vessels but exclusively those that are going to be used in some manufacturing processes capable of generating cash in hard currency terms, and which has still not been fit into a substitution process. Like these examples, we can find a long list, but it is up to the governments to lay down the regulations in order to have a shipping policy coincident with the main aims of the foreign sector of the national economy, which usually works out many models and trends but without getting any positive balance in real terms owing to the existing lack of understanding and coordination between the different governmental spheres.

5)6) Regarding these points I have already stated the main guidelines included in the previous items. However, I would like to highlight the fact that in Latin American countries, larger mobility of manpower is of top importance owing to the capital scarcity and to the traditional migratory trend of the countries comprised in such an area. Shipping could make its own contribution for the transference and mobility of human resources as well as capital endowments. But for doing so, countries involved in this area should first of all think of integrating themselves internally and afterwards, at a
later stage, of becoming a production and trade unit in regional terms, which could eventually be carried out only in the shipping field, but certainly with not so promising results as if it were done in actual regional terms bearing in mind both concepts, the social and economic environments in all their stages of development and interaction.

1.3 - ECONOMIC AND FINANCIAL COMPARATIVE ANALYSIS
LATIN AMERICA - EAST ASIA

In order to have a better understanding of the relationship between shipping policy matters and economic growth and development strategies, I consider it extremely useful to go into further detail in a brief but quite demonstrative comparative analysis between two areas perfectly differentiated from each other, regarding their productive structures and management styles, but with quite a big potentiality in common, which is represented by natural and non-natural resources. These two areas are represented by East Asia and Latin America and this comparative study could be looked upon as a tale of Asian winners and Latin losers. Then, anyone might wonder why did Latin America fare so much worse in the early 1980s than East Asia? In this context, there is a recent study by a special team from Harvard University, which refute some popular answers, and offers a not-so-obvious one instead.

Some Latin American economies grew fast enough in the 1970s to rival Asia's best. But between 1981 and 1984, the six Latin American countries considered in this study saw their economies shrink, on average. Meanwhile, the four East Asian countries grew almost as quickly as in the 1970s, at an average rate of 5.8% a year. Then, why the difference? We can look at several plausible-
—seeming reasons as to explain such a situation, but we can better focus our attention to those areas which are qualified as suspicious of being grounds:

A) **EXTERNAL ECONOMIC SHOCKS**: many economists maintain that swings in interest rates and commodity prices hit Latin America with greater force than East Asia. Column 1 on the next page summarises the economic impact of both kinds of shock—changing prices and changing interest rates. Let us take Brazil, mainly because of the rise in the price of oil. Its import prices rose much faster than its export prices after 1979. So in 1979—83, its terms of trade were on average 29% lower than in 1975—78. Translated into loss of income, the annual cost was 2.3% of GDP a year. Altogether then, external shocks cut Brazil’s potential annual income by 5% of GDP after 1979. Evidently, all this can be translated in terms of lower traffic volumes to be carried by national flag ships and a sort of impasse for carrying out any kind of investment in this field.

Obviously, the greater the economic stagnation of a country or region is, the more difficult it is to realize and to be aware of the multiplier effect of shipping and its incidence on a market economy structure.

The rest of column 1, though, shows that these shocks can not account for Latin America’s poorer economic performance. True, the Asian countries made, on average, a small gain (1.1% of GDP), while Latin America came out roughly even (a loss of 0.1% of GDP). But averages can mislead. The shocks left Venezuela, an oil exporter, well on top; its GDP still declined by 2.2% a year in 1981—1984. South Korea meanwhile suffered a relat-
ive loss of 3.8% of GDP from the shock, and Thailand of 3.3%, yet both still grew rapidly.

Now, if we compare economic development with the shipping evolution of these three countries, we could easily realize that lack of awareness is not of exclusive Latin American property, represented by Venezuela in this case, but also of an apparent economically successful country like Thailand. The outstanding one is South Korea, which seems to gather everything the others do not; i.e., economic development and growth together with shipping consciousness that comes represented through investments in shipbuilding and in maritime trade among other things. From this statement, it would seem to leave clear that no shipping policy can be successfully carried out in the practical field by shutting out the behavior of the economic variables of the domestic economy in all its branches, or by giving up any investment project in the maritime field, specially those related to the liner business during periods of reactivation and economic expansion.

% change in GDP
average 1970-81 1981-84
(+) external economic shocks

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<tr>
<th>Country</th>
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<th>1981-84</th>
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<td></td>
</tr>
<tr>
<td>Argentina</td>
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</tr>
<tr>
<td>Mexico</td>
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<td></td>
</tr>
<tr>
<td>Peru</td>
<td>-4.2</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>-6.2</td>
<td></td>
</tr>
</tbody>
</table>

(1) S. Korea  - 3.8 |
(2) Malaysia   - 4.8 |
(3) Thailand   - 3.3 |
(4) Indonesia  - 6.2 |
WEIGHTED AVERAGES

<table>
<thead>
<tr>
<th></th>
<th>7.8</th>
<th>5.8</th>
<th>EAST ASIA</th>
<th>1.1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.6</td>
<td>-0.4</td>
<td>L. AMERICA</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

(+ ) average annual change in income as a percentage of GDP comparing 1976-78 with 1979-83.

8) DEBT: column 1 already takes into account part of the harm from over-borrowing caused by higher interest charges. Some say that bigger debts can also be a drag on growth in their own right. Column 2, below, confirms that by 1981 the Latin Americans had a higher average ratio of debt to GDP. Yet the difference (31.3% compared with 25.9%) does not seem big enough to explain the growth-rate gap between the two regions. During the 1970s all of the Asian countries had run up debt-GDP ratios that were about as high as Brazil's.

COLUMN 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt/GDP ratio 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>27.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>27.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>25.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>24.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>26.1</td>
</tr>
<tr>
<td>Argentina</td>
<td>31.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>30.9</td>
</tr>
<tr>
<td>Venezuela</td>
<td>42.1</td>
</tr>
<tr>
<td>Peru</td>
<td>44.7</td>
</tr>
<tr>
<td>Chile</td>
<td>47.6</td>
</tr>
</tbody>
</table>

| EAST ASIA   | 25.9                |
| LATIN AMERICA | 31.3               |
So, even when there is greater constraint in such a ratio for Latin America, it is not so big as to justify such an imbalanced economic growth and so heterogeneous shipping policies between both regions, and sometimes among the member nations in the same region.

C) TAXES: it is commonly accepted that when governments overtax, not only in liner shipping but also in most activities, growth can suffer; that much is uncontroversial. The figures in column 3, however, suggest that in 1982 Latin American countries were no more highly taxed than their East Asian counterparts. Latin America's average share of taxes in GDP was 22.2%, compared with 20.6% in East Asia. Argentina, Brazil, Mexico and Peru all had lower tax shares than Malaysia.

<table>
<thead>
<tr>
<th>Column 3</th>
<th>Taxes as % of GDP (1982)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>19.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>29.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>22.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>26.1</td>
</tr>
<tr>
<td>Argentina</td>
<td>16.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>17.0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>29.3</td>
</tr>
<tr>
<td>Peru</td>
<td>16.8</td>
</tr>
<tr>
<td>Chile</td>
<td>32.0</td>
</tr>
<tr>
<td>East Asia</td>
<td>20.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>22.2</td>
</tr>
</tbody>
</table>
Obviously, high taxes can brake and consequently delay, if not refute, economic development. But the key concept in this context, is not how much a country is going to get from taxes or how many different kinds and shapes of taxes a country could apply, but the way they are allocated. In the specific case of liner traffic, taxes could be higher for foreign flag ships which use a certain kind of technology which obliges national ports to invest in equipment and infrastructure to serve them. Taxes could vary according to the number of containers utilized on each voyage, or might be based on the freight paid, or in other words on the value of the commodities, etc. Evidently, national vessels would benefit in the short and medium run because of the existing structure of the market, which is normally more favourable for foreign flags than for national ones. Of course, many people would start speaking about subsidies and so on, although I believe in such a case it would be more a commercial tool than what many academics call indirect subsidy. Anyway, taxes are supposed to keep a certain relationship with the market prospects and the needs of liner business evolution.

D) GOVERNMENT SPENDING: the four column shows the share of government spending in GDP in 1982. Again the average is higher for Latin America than for East Asia, but not much. Government spending in Malaysia was higher than in any of the Latin American countries. In Peru, was lower than in any of the East Asian nations. Bits and pieces of other evidence also suggest that Latin America's governments are no more economically intrusive than Asia's, and perhaps less so.

We can consider the following figures for public invest-
ment as a proportion of total investment in order to have a better idea of this item: 25% in South Korea in 1974-77, 32% in Taiwan in 1978-80, 13% in Chile in 1978-80, 15% in Peru in 1978-79.

Excluding Brazil, from the Latin American group, and South Korea from the East Asian group, all public investments are normally made up of any kind of projects in many fields except transport, or more specifically we might say excluding shipping.

<table>
<thead>
<tr>
<th>Country</th>
<th>Government spending in GDP 1982 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>19,5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>41,0</td>
</tr>
<tr>
<td>Thailand</td>
<td>19,9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>23,5</td>
</tr>
<tr>
<td>Brazil</td>
<td>21,8</td>
</tr>
<tr>
<td>Argentina</td>
<td>21,6</td>
</tr>
<tr>
<td>Mexico</td>
<td>31,7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>29,6</td>
</tr>
<tr>
<td>Peru</td>
<td>18,0</td>
</tr>
<tr>
<td>Chile</td>
<td>37,6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAST ASIA</td>
<td>23,7</td>
</tr>
<tr>
<td>LATIN AMERICA</td>
<td>25,8</td>
</tr>
</tbody>
</table>

Most of these countries, due to the fact that they have never had a clearly identified shipping policy, believe that by making a few investments for port maintenance and acquisition of harbour outfittings they reach an implied target, which is generally comprised in the development program of other field, like public works, communications and so forth, and
consequently without bearing in mind the concept of specialization by breaking down the main pillars into many independent undertakings, which do not even keep certain links between them.

E) EXPORTS AS % OF GDP: columns 5 and 6 show the largest difference between the two regions. In Latin American countries, the share of exports in GDP increased from 11% in 1965 to 15% in 1983; in East Asia, the increase was from 13% to 32%. In relation to total output, Latin America had not borrowed much more than Asia, and higher interest rate cost both regions roughly the same, but when the crunch came, Latin America had far less foreign exchange to use for repayment.

<table>
<thead>
<tr>
<th>EXPORTS as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLUMN................. 5 6</td>
</tr>
<tr>
<td>S. Korea .............. 9 37</td>
</tr>
<tr>
<td>Malaysia .............. 44 54</td>
</tr>
<tr>
<td>Thailand .............. 16 22</td>
</tr>
<tr>
<td>Indonesia ............. 5 25</td>
</tr>
<tr>
<td>Brazil ................ 8 8</td>
</tr>
<tr>
<td>Argentina ............. 8 13</td>
</tr>
<tr>
<td>Mexico ................ 9 20</td>
</tr>
<tr>
<td>Venezuela ............. 31 26</td>
</tr>
<tr>
<td>Peru .................. 16 21</td>
</tr>
<tr>
<td>Chile .................. 14 24</td>
</tr>
<tr>
<td>EAST ASIA ............. 13 32</td>
</tr>
<tr>
<td>LATIN AMERICA .......... 11 15</td>
</tr>
</tbody>
</table>

Such a scarcity of foreign exchange is represented by
the non-existence of undertakings regarding the development of the foreign sector of the national or regional economies, or in other words the lack of undertakings from the domestic economies towards the international markets in all their branches: international trade, international capital market, international transport and so on.

Without the output of foreign currency, not only a single country but also a whole region, like South America, is obliged to face serious problems in the long run and to suffer wider economic cycles of dependency from the centers and as members of the so-called periferia.

Column 7 shows that its ratio of debt service to exports averaged 153% between 1980 and 1983, compared with 61.7% in East Asia. To find that foreign exchange, the region had to slash imports, and in doing so brought on the recession of the early 1980s.

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt Service Ratio / Average 80-83</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>90.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>16.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>58.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>??</td>
</tr>
<tr>
<td>Brazil</td>
<td>132.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>214.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>161.8</td>
</tr>
<tr>
<td>Venezuela</td>
<td>117.8</td>
</tr>
<tr>
<td>Peru</td>
<td>122.2</td>
</tr>
<tr>
<td>Chile</td>
<td>153.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>81.7</td>
</tr>
<tr>
<td>Latin America</td>
<td>153.8</td>
</tr>
</tbody>
</table>
Most Latin American countries denied themselves rapid export growth in the 1970s because they kept their exchange rates too high. In 1982-83, the black market discount on the currencies of the Latin American nations in our table averaged 40.4%, compared with 6.9% for East Asia. But this begs for a question: why did the East Asian countries try so much harder to make exports competitive? In the short term, currency devaluations in poor countries usually helps rural workers and hurts urban workers: farmers get more (in local-currency terms) for the crops they export, but imported goods (which urban workers consume in greater amounts) become more expensive. In 1980, 72% of the people in our six Latin American countries lived in towns; the figure for East Asia was only 32%. In this case, we can say that the strength of rural interest in East Asia may deserve much of the credit for the region's triumph as an exporter of manufactures.

<table>
<thead>
<tr>
<th>COLUMN 8</th>
<th>urban population ratio -1980-</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>55</td>
</tr>
<tr>
<td>Malaysia</td>
<td>29</td>
</tr>
<tr>
<td>Thailand</td>
<td>14</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20</td>
</tr>
<tr>
<td>Brazil</td>
<td>68</td>
</tr>
<tr>
<td>Argentina</td>
<td>82</td>
</tr>
<tr>
<td>Mexico</td>
<td>67</td>
</tr>
<tr>
<td>Venezuela</td>
<td>83</td>
</tr>
<tr>
<td>Peru</td>
<td>83</td>
</tr>
<tr>
<td>Chile</td>
<td>80</td>
</tr>
</tbody>
</table>

| EAST ASIA | 32 |
| LATIN AMERICA | 72 |
In addition to the still low existing urban population ratio in East Asia, I should highlight that this region was on the one hand, deeply involved in a strong import substitution process, and on the other hand, the foreign currency amount this region borrowed from abroad, was mainly allocated on those activities capable of generating again foreign currency by exporting, as to get self-amortized such an undertaking. This is to say, by founding new feeding domestic sources with foreign oriented outputs.

Both facts were constantly joined and supported by a certain and quite defined shipping policy in the case of South Korea, wherein, and differently from other countries of the same region, gave its first steps in the bulk shipping, and afterwards in liner business. Of course, once more I should stress that a coherent shipping policy is not such, without a relevant support and logical connection with the foreign sector of the national economy. Even though national economies seem to grow up and to quickly become developed thanks to different policies externally oriented, like Thailand and Malaysia for instance, does not mean that shipping is going to grow and expand by itself, as if it were a consequence of a possible economic boom. The kind of activities which can be expected to get, to a great extent, a positive starting and promising performance, are those called collaterals: banking and capital markets, domestic transport (railway and trucks), general services, (storing, packing, stevedoring, surveillance, etc). But shipping will never come up by itself due to the fact that it gathers all the characteristics comprised in a quite capitalistic industry and all the aspects related to strategic functions subject to high degrees of state regulations and interventionism.

And this is what actually happened in East Asia with the
honourable exception of South Korea.

With respect to Latin America, its growth and development was, as this report shows, much lesser with the exception of Brazil. In these countries, economic innovation and progress were rather poor, so long as shipping, as a whole, was usually an isolated island within the immensity of the economic universe. In this case, a real and strong foreign trade did not exist so as to support the idea of developing the already existing maritime infrastructure and fleet, and neither could they have thought of going beyond their own market limits to compete as cross traders in a business where the uncertainty and fierce competition were even greater than the existing competition in the international trade of goods.

That is why I advocate the idea of developing the foreign sector of the economy first of all, but not only for carrying their own exports or imports a country could eventually get in a greater dimension as to multiply the existing tonnage several times, but also to increase in importance and to improve in quality the capacity and actual extent of governmental negotiations as regards to several and well differentiated markets, specially in the liner and dry bulk fields.

1.4 - STRUCTURAL PROBLEMS IN LATIRE AMERICA

The figures stated in table 1 represent total disbursed debt, debt owed by the public sector, private sector, and short term debt, end-year (US million dollars).

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>6026</td>
<td>19668</td>
<td>27065</td>
<td>32276</td>
<td>36680</td>
<td>40718</td>
</tr>
<tr>
<td>Public</td>
<td>3121</td>
<td>8557</td>
<td>10187</td>
<td>10506</td>
<td>16587</td>
<td>18590</td>
</tr>
<tr>
<td>Private</td>
<td>1193</td>
<td>5439</td>
<td>6593</td>
<td>12166</td>
<td>12311</td>
<td>12353</td>
</tr>
<tr>
<td>Short-term</td>
<td>1712</td>
<td>5672</td>
<td>10285</td>
<td>9604</td>
<td>7782</td>
<td>9775</td>
</tr>
</tbody>
</table>
From the huge amounts of money set out on tables 1 and 2, no money was allocated neither for shipping nor for collateral or ancillary industries or services. Not even the private sector was interested in investing in the shipping field, mainly owing to the non-existence of support and definition on the part of the government heads. But it is also true that there is a substantial gap between Brazil and the rest of debtors as regards the final beneficiaries of those money loans. This country became differentiated from the others due to the fact that most of the loans obtained in hard currency terms, were allocated with the planned purpose...
of producing and exporting manufactures as to get such loans self-amortized, and not just like internally oriented industries aiming to serve local needs, which actually could have been met as well from the amortization point of view. This is how Brazilian shipping received a valuable support from the foreign sector of its domestic economy with respect to cargo volumes to be carried on board national vessels under certain agreements or without them, and under clear definitions about what is truly called shipping policy or in other words, strategic planning of maritime targets.

Regarding the foreign debt problem, the shortage of liquid funds with which to service its debt was the immediate cause of Latin America's debt crisis in the summer of 1982. But there was a second, and longer-term, aspect to the problem. A number of structural features of the big Latin American economies contributed to the heavy indebtedness. At the risk of oversimplifying, we shall touch on four of the most important areas. First is the pattern of industrialization.

The major Latin American countries present a sharp contrast with the other big borrowers in the international capital markets (South and East Asian countries, such as South Korea and the Philippines). The industrialization programs of these countries have been export-oriented as I mentioned before, ensuring specialization in goods and services on which they were internationally competitive. This has forced them to generate the maximum amount of foreign exchange per dollar of foreign borrowing. Hence although South Korea's gross external debt stood at about 40 billion US dollars — not far from Argentina's — its debt service ratio in 1983 was only 24%, against 149% for Argentina. In the larger Latin American countries, export orientation
has been a secondary consideration. They have favoured the import-substitution model which, although not necessarily unworkable, was made so by distorted domestic prices caused by government subsidies and high tariff barriers. Many new industries in Latin America have required substantial protection in order to get by. Easy foreign bank loans made it possible to undertake projects whose priorities were primarily political rather than economic—Argentina's paper industry, Venezuela's steel mills, Peru's huge irrigation schemes and Brazil's nuclear power station (to give just a few examples)—and they were all motivated largely by prestige or employment considerations, neglecting the vital fact that the output they generated would not be sufficient to repay the capital cost. Shipping fits perfectly into these considerations and mainly into the political side, without considering at all, subjects such as balance of payments, manpower employment, spreading effect and so forth. Such tendencies have been exacerbated by a second factor: the importance of the public sector.

With the exception of Chile and Brazil (where public spending declined and remained roughly stable), public sector spending increased sharply as a proportion of GDP in Latin America during the 1970s; with revenues failing to match expenditures, public sector deficits also grew. Brazil's public sector deficit rose from 2.4 per cent to 6.1 per cent, Mexico from 1.9 to 16.9 per cent, Peru's from 0.8 to 8.2 per cent. We can say that inefficiently and sometimes corruptly managed, state enterprises were a major reason; and obviously within the concept of state enterprise, we should include national shipping lines which, in real life were and still are contributing to the
public deficits of their governments to a considerable extent due to the already known high degree of capital intensive of those companies and for all the huge investments they require to operate at a minimum level of entrepreneurial criteria, without considering of course the managerial and strategic matters which will be looked upon at a later stage. In Mexico, for instance, the public-enterprise deficit alone stood at around 10% of GDP in 1982. Spending by public enterprises was often subject to little central control, and their revenues were depressed by policies to hold down prices of their output as part of government efforts to combat inflation. The consequence of this uncontrolled expansion of the public sector was a crowding-out of private investment and especially in those countries with poorly-developed domestic capital markets. The deficits were financed not just by external debt but also by loans coming from the central bank, which simply increased the rate of monetary growth.

In many cases public enterprises, including national shipping lines, had direct access to both sources of finance without even having to seek the permission from the treasury or economy ministry. The result was an explosive build-up of both public-sector debt and of inflation caused by rapid expansion of the money supply. The third factor is the political prejudice against direct foreign investment. Politicians appear to believe that loans create less dependency than investments, which Latin American countries have encouraged. Direct investment in Latin America dropped from 30% of capital inflows in the 1960s to 20% by the end of the 1970s. This lack of encouragement for attracting direct investments had its impact on shipping by avoiding and shutting out any sort of policy related to the creation and
expansion of the national flags by means of either the existing transnationals in Latin America or those from Latin America with liquid assets abroad. Furthermore, and as I stated before, the few investments this area received during the last two decades were sent to the wrong areas whenever we should accept that every investment has a certain tangible priority and opportunity cost which is supposed to be taken into account for the decision making process. But normally, investments in activities related to the sea-borne traffic were unconventionally put off and even many times, not even spelt out. Eventually there has been a substantial build-up of overseas assets (much of it the result of capital flight) held by residents of the debtor countries. Overvalue in exchange rates in many countries not only worsened their trade deficits but also encouraged local residents to borrow abroad. The distorted exchange rates and artificially low domestic interest rates (often negative in real terms) made foreign currency denominated assets seem artificially attractive. And the fact that domestic residents clearly believed such policies were unsustainable provided a further incentive to capital to move abroad.

Despite the serious policy errors, it would be a mistake to conclude that all of Latin America's external borrowing was frittered away. Gross domestic investment increased significantly as a proportion of GDP during the 1970s for the major Latin American debtor countries, much of it financed by the external borrowing. Nevertheless the present problems would not have been nearly so acute if the policy errors had been avoided.
TABLE 3: external debt service as a percentage of export of goods and services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LATIN AMERICA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>42,4</td>
<td>43,4</td>
<td>38,3</td>
<td>43,8</td>
<td>59,0</td>
<td>64,6</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>16,5</td>
<td>19,2</td>
<td>21,2</td>
<td>26,4</td>
<td>34,3</td>
<td>37,8</td>
</tr>
<tr>
<td><strong>ARGENTINA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>41,7</td>
<td>22,9</td>
<td>43,5</td>
<td>53,3</td>
<td>113,0</td>
<td>149,4</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>9,5</td>
<td>12,7</td>
<td>21,8</td>
<td>32,0</td>
<td>56,9</td>
<td>56,9</td>
</tr>
<tr>
<td><strong>BRAZIL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>59,3</td>
<td>65,6</td>
<td>63,8</td>
<td>62,8</td>
<td>78,2</td>
<td>82,4</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>24,1</td>
<td>31,5</td>
<td>34,1</td>
<td>35,6</td>
<td>45,4</td>
<td>40,7</td>
</tr>
<tr>
<td><strong>MEXICO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>66,3</td>
<td>74,8</td>
<td>35,8</td>
<td>44,7</td>
<td>65,4</td>
<td>59,3</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>23,3</td>
<td>-24,2</td>
<td>23,2</td>
<td>28,8</td>
<td>37,4</td>
<td>42,4</td>
</tr>
<tr>
<td><strong>VENEZUELA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>21,6</td>
<td>25,6</td>
<td>26,4</td>
<td>28,2</td>
<td>32,3</td>
<td>32,2</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>13,4</td>
<td>16,0</td>
<td>17,1</td>
<td>18,5</td>
<td>19,4</td>
<td>25,0</td>
</tr>
<tr>
<td><strong>PERU</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service/exp.</td>
<td>40,3</td>
<td>29,5</td>
<td>39,5</td>
<td>58,2</td>
<td>49,8</td>
<td>66,2</td>
</tr>
<tr>
<td>interest/exp.</td>
<td>18,8</td>
<td>14,7</td>
<td>16,5</td>
<td>20,5</td>
<td>21,7</td>
<td>31,8</td>
</tr>
</tbody>
</table>

Source: Inter-American Development Bank

Although this ratio gives a crude indication of the debt burden, it does not reflect developments which may be critical to the long term manageability of the debt. Such developments include the level of import prices, the amount of official development assistance.
and foreign direct investment inflows and the rate of economic growth in the debtor country. Undoubtedly, by focussing an integral planning on shipping activities, those ratios could be lowered in the short run, further the other positive outcomes for the domestic area such as employment, services and so on. Obviously, once more we can affirm that it is a matter of maritime consciousness and managerial undertaking by the corresponding governments in mutual and regional cooperation. In other words, a change in attitudes. But we can also state in macroeconomic terms, that a delicate combination of domestic economic adjustments, fresh financing, and external economic growth is necessary, if the crisis is to be overcome; and certainly shipping might be of great help regarding the last of these three concepts, whenever looked upon as an integral industry capable of generating foreign exchange, technology and employment, and not as a mere service with political targets.

So far, the easiest part of the adjustment process has been completed - a turn-round in Latin America's balance of payments achieved almost entirely through a severe contraction in imports. In 1983 Latin America's imports dropped by 21% following a 22% contraction the previous year. But the most difficult part of the adjustment process, restoring economic growth through increased exports, is still to come. Despite some encouraging signs such as a 20% rise in Brazil's exports in the first half of 1985, it remains questionable how far this can be achieved. The critical factor will be the rate of economic growth in the industrial countries. Although the economy of the United States displayed a strong performance in 1984 and 1985, growing at 3% per annum, with a 5% real growth rate predicted for 1987, as long as the
European economies have been slow to respond. There are justifiable fears that the recovery will prove to be only weak and therefore such an outcome would clearly jeopardize Latin America's export prospects with the already known consequences on shipping. Finally, we might set out that in order to avoid such a step, economic policies in the industrial countries will have to be shifted away from the simple focus of inflation-fighting towards promoting steady and non-inflationary growth. Fiscal deficits in the developed countries, specially in the USA, should be reduced in order to lower interest rates, which of course is not going to be an easy task. But shipping growth does not necessarily depend on said policies as the only way out. Opposite to this, I might say without any doubt, that every event which came up in the international environment as a restrictive variable, can be overcome in very different clever ways whenever those affected by them, make the best use of their available resources within the framework of strategic administration and high degree of cohesiveness of the participating sectors and heads of the domestic economies.
2. LINER SHIPPING POLICY TRENDS

2.1 INTRODUCTION

If we pay attention to the different types of regular traffic in Latin America, and mainly in Argentina, we can notice several kinds of maritime traffic systems with different levels of protection on the part of the Freight Conferences and also with different degrees of intervention on the part of the National State through its legislation. Thus, within the limits of the same country we can see that, even though there is a governmental and therefore official institution to deal with maritime affairs and shipping topics, the shipping policy does not seem to be uniform or of the same magnitude for all the regular trades concerning the foreign sector of this South American country. Such a way or philosophy for defining and laying down the maritime policy of a country, which could readily depend upon its maritime resources to a great extent, would seem to be rather misleading and what is even worse, contradictory and incomprehensible.

This lack of legal criterion not only affects the normal development of the maritime sector but also has a negative impact on the day-to-day performance of the various freight conferences to which the country is committed.

In spite of the worsening of the commercial relationships of Argentina with the rest of the world, as a consequence of the world recession which has taken place in recent years, this country has kept alive a relatively old shipping tradition as regards freight conferences and pooling agreements with foreign governments and private lines. Among such deals and as I have mentioned before, several types of conferences
can be seen at the same time operating in the same country or maritime area. Then, what I intend to do is to analyse each class of freight conference and to carry out a quick but not shallow comparison of the advantages and drawbacks of the main trades. Thus, we presently have:

<table>
<thead>
<tr>
<th>CONFERENCES</th>
<th>SHARE ALLOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARGENTINA/ US GULF FC.</td>
<td>40-40-20</td>
</tr>
<tr>
<td>ARGENTINA/ US EAST COAST FC.</td>
<td>50-50</td>
</tr>
<tr>
<td>ARGENTINA/ US WEST COAST FC.</td>
<td>40-40-20</td>
</tr>
<tr>
<td>ARGENTINA/ EUROPE FC.</td>
<td>40-40-20</td>
</tr>
<tr>
<td>ARGENTINA/ MEDITERRANEAN FC.</td>
<td>40-40-20</td>
</tr>
<tr>
<td>ARGENTINA/ PERU FC.</td>
<td>50-50</td>
</tr>
<tr>
<td>ARGENTINA/ BRASIL FC.</td>
<td>50-50</td>
</tr>
<tr>
<td>ARGENTINA/ CHILE FC.</td>
<td>--</td>
</tr>
<tr>
<td>ARGENTINA/ FAR EAST FC.</td>
<td>40-40-20</td>
</tr>
</tbody>
</table>

Note: Most conferences have pooling agreements.

As can be noticed, these are just some of the Argentinean trades showing different criteria for sharing cargoes. But in fact, what is really important for creating and developing a given maritime trade are not only the shares but also the actual conditions of each market wherein each conference has been set up. This is to say that in the practical life of the market economy, it does not really matter whether the conference concerned is close or open, or whether the share allocation is higher or lower than it should be. Actually, what does matter is whether such a conference operates in an open market or in a close one. This is extremely important to point out, because regardless of whether we are considering a developed country or a LDC, the pricing mechanism...
operates to the benefit of the foreign trade of the
country involved, provided that it has been well
understood. But in Argentina, as well as in many other
Latin American countries, the opening degree and the
firmness of the entry barriers in the different liner
markets are due more to the traditional practices and
customs coming from the very beginning of shipping than
to oriented maritime policy, elaborated and laid down
in governmental spheres. Therefore we can set out that
every segment of the maritime market in this country,
has found its growth and development based on what I
would call the trade inertia or in other words, ecle-
phalous self-development. And of course, such a ship-
ing growth and development, framed into a great vari-
ety of commercial yardsticks (open market - close con-
ference / close market - close conference / close mar-
ket - open conference / open market - open conference),
ever joined the real needs of the country neither knew
how to get the advantages from many foreign shipping
markets during booming periods. But since this state-
ment has much to do with the political side of this
global analysis, I would prefer to go straight through
a brief comparison of the two typical prevailing regu-
lar systems in Argentina: Freight Conferences and Out-
sider Liners.

2.2 - THE ARGENTINEAN CASE

Regarding this subject there are many opinions or post-
ures on the part of the many exporters and importers
who make up the Argentinean foreign sector, as well as
on the part of national and foreign shipping companies:
1 - A certain current of opinion advocates that conferenc-
ed shipping lines, usually get involved in hard tariff
battles in order to be able to gradually get rid of out-
siders from the market, and thus to remain without any interference coming from outsiders.

2. Other people support the idea that, even if the competition exercised by outsiders represents an actual competition for a conference made up within a market economy or within a market of imperfect competence, it is to a great extent a complementary activity.

3. Finally, the last current of ideas sets out that outsider services are entirely complementary to those served by the conference, thus giving up the chance of considering certain rivalry relationship between both organizations.

Now, bearing in mind the opinions just mentioned and paying attention to the historical trend and behavior of the shipping market strengths, we could affirm that not only in this South American country but also in any other liner markets, there is always a relationship of complement between those organizations, and therefore there is also a certain level of participation for each of them in the liner trade concerned.

Nevertheless, I should point out that because of organizational and, obviously, commercial grounds, a freight conference is normally going to get the largest share in a given market, mainly due to a larger number of lines, a more periodical frequency, a more solid and reliable strategic planning, a better image given by its entrepreneurial organization and so forth.

It would be quite misleading to think that in a given segment of the sea trade, the same number or even more outsider lines could come up than the already existing lines operating under the control of the conference, since if it were so, the conference would drastically lose sense and its members, either ordinary or associated, would run away from the conference so as to become free and remain subject to the free game of
supply and demand. In such a case, as soon as the conference has been literally erased from the map, some fluctuations in the freight rates are likely to happen. Many theorists state that once such a market condition is reached, there are big chances of creating a sort of chaos owing to the irreversible competition among the existing lines and during the short run. In other words they alleged rate fluctuations would be so sharp that instead of having the normal share of risk any market has, the status of total uncertainty will take over the trade with all the dreadful derivations someone could think of.

However, in real life, rate movements are going to happen only in the short run due to the establishment of a new conference during the same period of time, and made up of old and new partners, this is to say by those who were already outsiders before the conference should break down into independent members, by those which were members of such a conference and remained operating in the market after the breakdown should occur and probably by newcomers who could intend to exploit the same critical market but with technical and management innovations.

Obviously, the composition of this new conference will differ from the previous as regards the members and consequently the shares, capacities, allotments, and so on. At the same time, outsiders will find changes in the market with new and old partners, although in fact, they are more competitors than partners. But anyhow, this is an aspect I would like to highlight later on when explaining, in more detail, its effects on a specific and traditional Argentinean liner market: East Coast and Gulf of the United States. I think it is worthwhile to stress that, despite the several drawbacks and advantages the running of a conference could cause the different sectors of the domestic
economy, it is highly beneficial on a macroeconomical basis or simply for the foreign sector of the economy concerned. From this statement we can pick up certain concepts in order to give an idea about the main strong points of a conference system in Argentina, which for the time being and in order to follow the methodology of this research, will not differ very much from the general model used all over the world:

-- it organizes and regulates the liner sea trade by means of its internal structure, share allocation, rights, duties and so on.
-- it avoids price wars and consequently any kind of shortage in the tonnage supply.
-- it guarantees a minimum revenue exploitation level not only for the member companies but also for the country wherein it operates, whenever we consider that these lines have to pay taxes based on general revenues, port dues and general services.
-- it splits up the freight according to the several flags and through the pooling agreement.
-- it constitutes an element of pressure in the different international negotiations.

The above mentioned, are just five advantages from the macroeconomic point of view, as long as at a microeconomic level there are a few others, which are already quite popular such as a more periodical frequency with more number of departures, regular service, loyalty agreements, reliability and so forth. Nevertheless, it would be quite misleading to think that the conference was founded for the exclusive benefit of exporters and importers and that its function lacks bureaucracy and overflows efficiency.

In a country like Argentina, where during recent periods
the rate of inflation reached one of the highest levels of the whole world, and with it, production costs and financing expenses permanently grew up to unexplainable levels, where also the national currency was exposed to monthly devaluations in order to let the main sectors of the economy breathe, where there were all sorts of rules and regulations to bother and restrict the foreign trade, a small degree of cooperation and understanding to be held by the conference system would have been of extreme utility. However, even though the conference was aware of the global crisis and of the high degree of elasticity of demand for shipping, it did not react accordingly to the present needs at that time and therefore, it had its negative output spread over many market segments. This was what happened in a close conference run in a close market, and consequently acting with monopolist power during a long period of time and depriving many commodities to be placed in foreign markets with all the advantages comprised for a balance of payments.

Specifically speaking, this was the case of the Argentina/US East Coast and Gulf traffic, to which I am going to refer later on in more detail. On the other hand, we have other types of traffic which in my opinion are fairly shared with regular and quite reliable outsiders, such as the Argentina/Europe traffic and the Argentina/Mediterranean traffic among others. In these open markets outsiders play the role of moderators between supply and demand, or what in other words may be called the price setting mechanism. So, let us make a brief analysis of the role outsiders play within the above mechanism. When there is an open market with a certain conference operating in it, whenever the traffic in terms of cargo tonnage is interesting, outsiders will come up by their own means to compete with the already established conference. If the traffic is not so attractive so as to
being shared with outsiders, the latter will come to
this traffic as soon as it gets interesting in tonnage.
Obviously, in such a case, the one who should be in
charged of promoting the cargo flow is the government
through its different departments, secretariats, bil-
aterial or multilateral chambers or whatever be the entity,
in order to foster its foreign trade and consequently its
movement of cargo by sea. But only when such a cargo
flow is large enough so as to encourage outsiders to come
and compete under open market rules, many shippers,
either exporters or importers, will feel tempted to give
up the conference in order to join a new outsider, thus
aving in some cases a substantial amount of freight,
which is quite significant in times of very elastic de-
mand for shipping services.

What I intend to do is just to leave clear the influence
of outsiders in the open market mechanism, but without
considering any kind of strategic planning policy for the
time being, with which I will deal at a later stage.
Hence, we could set out that the possible choice in the
hands of the shipper may be called outsider and may pro-
bably have the following advantages:

-- LOWER RATE LEVEL
-- NO LONGER IRREGULAR SERVICES
-- BETTER WILLINGNESS FOR NEGOTIATING
-- BETTER POSSIBILITIES OF REACHING AN AGREEMENT
-- SERVICE TO CONFERENCED AND NON-CONFERENCED PORTS
-- AVAILABILITY OF MEDIUM AND LONG TERM AGREEMENTS

Evidently, from the point of view of the outsider ship-
owner, we could say that the essential requisite for
success or for up-keep of its market share in the business,
it can be split into two orientations; one is more
technical oriented while the other one deals more with
the managerial side. Assuming that the owner involved in this example is a small or medium size operator, he should:

1) operate ships of smaller dead weight tonnage than those owned by the conference, whereby it could be possible to run ships with lower daily running costs and consequently with more competitive rates. At this point, some theorists could raise some objections and to affirm that the concept of economies of scale can never be overlooked; but to those people I would reply that such a concept in South American liner trades, is as far as the moon from the earth of being realized, since the possibilities of reaching economies of scale I would say is a privilege of those shipping companies engaged in huge trade volumes on one hand, and on the other one in very advanced degrees of capital intensive, which actually are not the representative variables of the market structure neither in Argentina, nor in South America as a whole.

2) draw an intensive and well planned strategy with regard to marketing and canvassing activities, thus giving to the import-export sector a quite finished knowledge of the advantages and marginal savings they could get with a service of such a nature.

But let us for the moment pay attention to the export-import sector and its relationship with conferences and outsiders: there are large firms which because of their huge volumes of cargo during periods of one year, either imports or exports, they are bound in one way to make use of conferenced ships since the turnover of such companies is so high in number that they must load a stated tonnage in a
given period of time, which could be every week and even more frequently. And as we know, the only one able of placing ships in a given port with a very high frequency and acceptable schedule performance, is the conference. Usually, the latter gets a higher number of ships, higher number of sailings and therefore is capable of providing better scheduling for huge cargo flow firms, than outsiders do. Also we can notice there are firms that in spite of having a very important cargo flow and need of space as frequently as those before mentioned, are bound to share their shipments with both conferences and outsiders.

This is the case of multinational companies or binational groups, wherein import and export operations are carried out almost everyday, and with it, the necessity of quick hold space availability becomes of extreme importance in order to avoid:

- STORAGE EXPENSES
- ADDITIONAL INSURANCE COSTS
- SLOW ALLOCATION OF OUTPUTS WITH OPERATIVE KNOTS OR BOTTLE NECKS IN STOREHOUSING OPERATIONS
- SLOW INPUT FEEDER SYSTEM AND SUBSEQUENT SUBUTILIZATION IN THE MANUFACTURING PROCESS
- WORSENING OF STOCKS BELOW THE MINIMUM OR SECURITY LEVEL

For this kind of firms, outsiders become a binding alternative and subsequently, a more expensive choice, which regardless of the freight rate level, they have to use to avoid some drawbacks such as those recently stated.

Normally, although not always, companies of this size and structure can be found in almost all liner markets representing therefore a sort of fixed income for out-
siders provided that the liner trade, which is framed into an open market, finds only one outsider competing with the conference, and a kind of variable income with very slight fluctuations during the year for those outsiders competing between themselves and with the conference in a given open market. Therefore, while the income for outsiders can be forecasted with relative accuracy in this case, and therefore decisions based on trade forecasting can be taken under conditions of risk, conference members can forecast and adopt decisions under safer terms, since priority for shipping will be given to them. Subsequently, knowing in advance what is going to be the income, the decision-making process is carried out far from conditions of risk and uncertainty. What we can see so far, is that even though there are many differences between these two entities, there still are certain segments of the market whose trends may be foreseen and their demands met accordingly.

In addition to this, I should point out that neither the structure nor the targets of any conference allow them to compete face to face with outsider freight rates on their own. However, this lets the conference have a few commercial tools of relative efficiency such as fidelity bonus to be credited to exporters and importers. As we already know, such a bonus in its several shapes, normally varies according to the class of commodity and kind of traffic, but in the Argentinean case we can take an average of 10% discount on the net rate to be paid out cash and six months after shipment. In my opinion, the fidelity bonus system, in real life, is partially and not totally efficient since its actual power of tying up importers and exporters to the conference to a great extent, depends on several topics deeply linked with the following items, to which I am
obliged to refer to later on:

1) OUTSIDER COMMERCIAL MANAGEMENT
2) OUTSIDER TECHNICAL MANAGEMENT
3) MARKET RESTRICTIONS AND POSSIBILITIES

The reason for which the effectiveness of such a commercial tool differs from country to country and therefore from conference to conference is that every market is unique in itself and cannot be generalized or gathered in the same group under the same critical eye. Besides this, the fidelity bonus system does not have equal outcomes in developed countries as in LDCs, and it gives different results according to the real strengths, uses and practices of the market in a given period of time, including the degree of elasticity of demand.

In one of the reports which was published by UNCTAD and based on opinions coming from both shippers and conferences about the loyalty arrangements, I consider it relevant to pay attention to what has been argued by one conference regarding the need for such a loyalty system:

.....as distinct from the tramp operator, the cargo-liner owner builds complex ships equipped to carry many types of cargo, operating them on regular services because this is what most exporters want; he keeps large shore staffs and installations to meet and coordinate exporter needs. He commits large capital sums months ahead on regular voyages, and indeed, years ahead by building to serve a particular trade's requirement. He is not like a tramp, taking cargoes where the best profit is available and laying up his ship if times are specially lean; he provides a service in
good and bad times without which much international trade could not continue. But what can he do if a tramp vessel, perhaps prepared to operate at a temporary loss while waiting for better employment, makes an isolated raid on his trade and removes a lot of his cargo? He tries to protect himself by saying to his customers that, if they confine their support to him and his conference colleagues, then he will give them special terms or deferred rebates on the rates.

What has been stated by this conference, although perhaps too dramatic, is what happens on the practical side of the business. However, what clearly comes out of this statement is the incompetence shown by such a conference in facing the aggressiveness of a trade under competence rules by granting a fidelity bonus, and what is even worse, by relying entirely on its effects. There is no doubt this bonus is just a tactic like many others and nothing else; in addition to this, it has the same very relative results in accordance with the existing opening degree of a given liner market. In the case of Latin America, bonuses always had a rather limited scope for producing positive figures since any action or strategy undertaken by the conference side, deserved its corresponding countermeasures laid down from the very top of the managerial teams of outsider operators. Besides this, an item an exporter or importer should carefully evaluate is the freight rate quoted by the conference for a special commodity, as well as to what extent such a rate influences its international price.

There are plenty of cases and examples where a long list of Argentinean products of the same FOB value as their similars from competitor countries, could not be exported due to the overvalue the freight rate got in compa-
rison with other exporter countries and its excessive value and subsequent negative implication in the final cost of the product. This is neither very encouraging nor very easy to swallow if we consider that the production cost of such goods are framed within international standards and even some of them enjoy the principle of comparative advantage.

In such a case, one might think that somewhere throughout the manufacturing process or within the cost structure of the manufacturing chain, there should be an adjusting variable so as to let the goods involved fit into a more suitable international price, but in fact the most common variable -and one of the easiest to identify in the cost analysis- usually comes out of the transport chain wherein shipping plays a fundamental role most of the times; this is to say that during times of economic stagnation and high elasticity of demand for shipping in the domestic market, the inflexible rates set up by conferences lead to compress even more the chances of exporting in fair domestic conditions in order to get access to a certain market. This is the typical case of those goods with a specific item or voice in the tariff which did not get a detailed or at least serious study as regards the setting up of the freight rate. The theory indicates that an acceptable rate of incidence ranges from 10 to 20% of the FOB value, although at the same time states that each product deserves a particular and updated treatment. Even though the incidence of the rates were commercially acceptable, still it would let the possibility of improving either the profit margin or of reducing the final cost by means of the utilization of an outsider, whereby a quite simple market appraisal on the part of the interested exporter is required.

Logically, all this depends on the existing commitment
degree between the exporting firm and the conference, as well as on the chances such a company has, to get rid of the conferenced mechanisms and to manage itself within a market economy scheme.

Regarding the importing sector there are some differences. On one hand there is a law of cargo reservation known as the law 18.250, whereby in general terms, it is laid down that all commodities destined to official entities, as well as those financed through official banks, are bound to be transported on Argentinean flag vessels; and on the other hand, the imports are presently mostly made up of raw materials for the industry as well as capital goods, with normally are required with a certain degree of urgency since, as everybody knows, they are not final consumption goods but of intermediate production stages, and therefore are shipped on the first available vessel regardless of the rate level. Even so, part of the importer sector is in conditions of negotiating and dealing with shipowners, thus reducing considerably its import costs.

In such a case, importers or southbound shippers should be clever enough not to get any kind of commitment with any conference, or to get it but with certain limits which obviously will differ greatly according to the bargaining power of the firm in particular.

Finally, I should point out that in the South American liner market, the cargoes picked up by regular outsiders, are bigger year after year and not only in tonnage terms but also in volume terms, thus producing more profitable freight tons provided that the relevant government allows the establishment and functioning of open markets. Nowadays, this trend clearly indicates that subject to the fulfilment of the minimum technical and commercial requirements demanded by shippers, on the part of the outsiders, conferencial systems are to
a great extent being obliged to share its old fashion dominating position with the growing hold capacity of outsiders, which as well as the conference structure, has its own limits, advantages and drawbacks.

As an example I could mention the flexibility found in many European liner markets and specifically in the trade between Germany and the Scandinavian countries. In such a trade there is neither conference nor outsider, but an intermediate position between both systems under the shape of the so called "Freight Arrangement" or "Gentlemen's Agreement". Actually, such a position looks like the conference as regards the structure, but is quite more flexible, if there is any flexible conference, and more business minded mixed up with a certain dosis of economic and market realities. But on the other hand it might be a big mistake to believe that such a system is all flexibility, comprehension and managerial tenderness. What really makes the difference between them is a better and faster reaction to any market eventuality arising out of a competitor's innovation, any kind of specialization, strategic administration or whatever other cause.

As I have just said, the GERMANY/SCANDINAVIA liner market, which is supposed to be a very advanced and technological one, is run under the above mentioned conditions and without an actual regular competition but with a non-regular and very spontaneous one.

Regarding this topic I should point out that in this market there is no need for setting up either a conference or a pooling agreement. Although difficult to believe, this is the pure reality and it works owing to the simple fact that all the shipowners operating therein have homogenous vessels, with similar out-fittings and with what I consider of extreme importance, the same average costs although with some existing
gaps with respect to handling costs, which obviously differ substantially according to the cargo specifications and volumes to be carried.

We could very well say that such a system is likely to be the most moderate within the range of different classes of market dominations, and that it is based on a conferential structure, partially at least, and on competition from non-regular outsiders who on the other hand, would like from time to time to become regulars in such traffic, what logically is not even possible in the medium run due to the fast rate adaptation strategy undertaken by the members of this almost informal understanding.

If we have a quick look at the Argentinean liner markets as well as at the South American liner trades as a whole, we can mainly notice two trends:

1) Whenever and wherever there are certain types of freight arrangements, member shipowners are of so different magnitude, distinct technology, speed and capacity, that those freight arrangements are very often broken by those members who are not able to get by in the trade by joining such an organization, and therefore can not successfully compete with their partners, who on the other hand operate with higher technology or perhaps even with the same degree of technology, but with more suitable ships in size, in operations and in technical characteristics, required by a particular liner traffic.

2) Whenever there is neither a freight arrangement nor any other kind of joint undertaking, but a few outsiders competing for the cargo, it is very likely to happen what was set out above on the previous item. This is to say that again every owner engaged in such traffic is likely to have his own and
particular technology, which actually is substantially different from the rest. In this case each owner will do his best and the ones in better competitive position will not even think about the chance of reaching a settlement by means of a rate agreement with other existing outsiders.

Obviously, the facts stated on these two points, simply represent the lack of capital for investing in new technology and equipment and the consequent disadvantage of having to deal with a market which in fact, is very heterogeneous on the part of the supply. But on the other hand one may wonder why a shipowner should invest in new technology if his market share is not going to grow up as it theoretically should. In this context it is normally said that through specialization an owner is likely to increase his share on either a certain segment of the market or on the whole market, but provided there is a market to increase and keeping a given relationship in reasonable proportions with the capital invested to acquire such technology. Normally, such a relationship is definitely not feasible in economic terms in the great majority of developing countries but excluding those which are oil exporters and consequently submerged into overwhelming import processes. Then I am personally convinced that in LDC’s, where the growth and development of liner trades is many times non-existent or directly negative, shipping investments are totally useless, unless reactivation indexes can be locally foreseen so as to allow certain projects to come up, with the purpose of being run in the long run.

However, in the markets where positive growth and expansion figures still can be found, investments in technology become necessary to keep at least a normal
capital-labour ratio. Of course, excessive cash flows oriented to the acquisition of ship technology in a market whose output does not keep a normal or lineal growth regarding cargoes development, means a wasted overflow of money unable of providing useful specialization due to the very simple fact that there is nothing to obtain from such a specialization. As we have seen in the previous chapter, economic growth and development in Latin America is crossing a not very stable stage on average as we have already demonstrated by means of different indexes such as GNP, foreign debt, import coefficients, debt service, exports and some other ratios. Then, if we look back and bear in mind these ratios just for a while, it appears very clear that no booming period is to come in the next few years to allow or encourage investments in the liner business or to speculate with an eventual reactivation in the long run.

Of course, exceptions to the rule can always be found since as I said before, each market is unique in itself and can not be put in a common basket; but still what remains perfectly clear is that economic growth is very unlikely to take place and with it, liner trade booming, thus producing a quite big technological gap between the present technology, which takes over the upkeep of the capital-labour ratio in its minimum expression, and the existing one in the industrial centers of the northern hemisphere.

What I want to clarify is that shipping investment and shipping trade can not be separated from the domestic economies of the member countries to the relevant traffic, since this is, and not any other reasons, the top reason for the present shipping crisis not only in LDC’s but also in the whole world, then leaving the problems of international overtonnaging and subsidiza-
tion in the category of consequences and not causes. The economies considered in terms of domestic ones, either regional or nationals, represent the actual knot of the problem and should be understood as what they really are: the source of the problem.

3.3 - TRAFFIC DISCRIMINATION

From the foreign trade firm point of view, it can be noticed, for instance, that when an Argentinean exporter carries out a simple traffic comparison, and pays attention to the different existing freight rate levels in the particular traffic systems, and when he spells out possibilities of negotiation or chances of getting certain commercial advantages, he suddenly realizes there are quite considerable gaps between one traffic and another.

These gaps are mainly given by heterogeneous freight levels, which at the same time are directly connected with general handling and port expenses, bunker costs, running cost of the operative units, capital costs, cargo flows and a long list of variables whose final numbers are generally figured out by the shipowners, as long as its outcomes are made public through the respective freight conferences as in any other country and under standard procedures previously set up for this purpose. But there are some other differences, which in my opinion are much less logical and acceptable than the previous one and that are related to the functioning itself of a certain traffic system compared with others.

This example is specifically given by the north bound seaborne trade to both coasts of the United States, where, and according to the resolution number 619 laid down by the relevant maritime authorities, the
participation of any outsider regarding both lines is forbidden, as long as trades of the same importance and even of greater influence on the domestic economy, enjoy the participation of not only one outsider for a given traffic, but also of several outsiders operating in the same line.

Once more I should stress the fact that there is no doubt about the importance of the role to be played by a conference system, such as the one existing between Argentina and the Gulf and East Coast of the United States. However, neither can be denied the role to be played by outsider liners as a complementary service to the conferences. Now, if we look for actual grounds for having laid down such a resolution we can find two main arguments advocated and defended by the maritime authority, which was inspired on two fundamental aspects according to what they considered "necessary and basic for the national interest":

1) The need of securing suitable frequency and efficiency of the maritime transport services, in such a way as to become a real auxiliary of the trade exchange.

2) The need of reaching a pooling agreement among the different shipowning companies belonging to the north bound traffic towards the USA.

Regarding the first point, I should clear up the fact that both efficiency and frequency, are terms that have nothing to do with a possible inclusion of an outsider, since the latter would operate in such a way that would be more complementary than actually competitive, as has been manifested historically in other shared trades in the Argentinean market. The only case where such a statement might be accepted, would come
up in the hypothesis that, suddenly and without human explanation, the same number or even more outsiders should appear than the conferenced ships willing to compete with, and willing to challenge all the existing laws of the market. In such a fantastic eventuality, the conference and its pooling agreement would run the risk of breaking down into many independents or new outsiders. But as I said before, even if such hypothesis should materialize, it would not run so much time before a new conferential organization should take place with old and new partners whenever allowed by the cargo flow level existing at that time. Obviously, this is not likely to happen owing to a simple cost restriction, since the Pacific line as well as the East Coast and Gulf line have a relative yield sharply lower than other trades, and its cargo flow is insufficient incentive so as to motivate the commercial exploitation on the part of the non-conferenced line.

Therefore, there are no grounds for the belief that a liner shipping market open towards the United States, means serious consequences for the conference or national exporters.

An excessive protectionism normally tends not only to hinder the achievement of a right liner market exploitation but also to hamper the export process in itself of a long list of national products, due to reasons we are going to observe afterwards.

Regarding the second item, the hazard that a pool agreement may not be reached at a given stage, arises out of rather internal policy matters of commercial orientation belonging to conferenced enterprises, and not of the possible competition of an outsider whose traffic, owing to development and growth limitations, could only have a minimum influence on
In order to demonstrate what I have just set out, I will only mention a practical example such as the normal management other pool agreements have: the one in the North Atlantic and the one in the Mediterranean traffic, counting in its structures with the pressure coming from the permanent and regulatory competition of one or several outsiders freely accessing to the cargo and competing with the conference and even between themselves. Thus, this is the way of granting the import-export sector an additional alternative without negatively influencing the freight market and without hampering the normal unfolding of the pooling agreement.

Therefore, I find myself in the academic obligation of saying that not only the spirit but also the basis of such a resolution, does not even have a minimum background or practical profile for being as presently it is.

On the other hand, I should recognize that the Inter-American Freight Conference counts with a very high relative efficiency within the River Plate market; but this does not mean that one has to guess that such an organization spells out, analyses and works out problems in a reasonable way, specially those related to project rates. I can highlight such inefficiency once more, by stating that once shippers send their applications for lowering rates, based on the fact that many times the rates have a too high impact on the FOB value of the product, are commonly rejected without even considering the elasticity of those products in the international markets. Thus, and without having another shipping way out, shippers are bound to over-quote in the foreign markets and consequently to loose competitive position in a very dynamic market such as
the international one. This situation brings about the fact that shippers prefer to underquote in the foreign markets and therefore to underearn instead of giving up their commercial networks. This obviously can be classified as a short term strategy to keep the clients tied up, but as all short term policies, they need to be adjusted and properly oriented through the following periods. This is to say that such a strategy is only feasible in the short run, and normally is done when there is no other way out and by those internationally integrated companies owning such a large structure and enough capital endowments so as to bear the burden of the capital costs involved in such a strategy.

Anyway, this is not the most representative case, since if it were so, this liner market would be condemned to fail and go bankrupt, thus leading to an acephalous trade, probably full of constraints and negative outcomes.

Exporters are, like most activities placed in private hands, profit oriented and just a few are willing to export without immediate earnings, which normally leads to uncertain conditions in the case a shipper decides to run the risk of doing it without a reliable trade forecast or freight negotiation prospects on the part of the conference.

Once more I insist on the fact that the make up and functioning of a conference as a commercial entity, is of top importance for the growth and development of a marine trade in harmony, or at least in what could be called a civilized manner. However, by jealously protecting such traffic and therefore transforming it in a very strong oligopoly, the only coming out of that is one side the negative pressure on the foreign sector of the economy followed up and
monitored by macroeconomic indexes, and other side, a permanent stop and go policy as regards the starting and continuation of export operations.

If the conferenced vessels are run at a certain daily running cost level, and at the same time require a wider profit margin to maintain the pool agreement, it is quite comprehensible that those owners tend to update or adjust their rates to their real needs. But to deny a good part of the Argentinean exporters the right of using the principle of the free choice of carrier in order to choose the more suitable available service, shows us the low quality and understanding of the maritime authority. In addition, it gives us a rather finished idea about the lack of confidence a conference can have in itself to overcome market innovations coming out of outsider strategies.

If the authorities at that time had evaluated in a proper and detailed way the cost structure of those trades, they would have reached the conclusion that, as a consequence of high cost and low average of an existing cargo flow, only the participation of one outsider operator would have been possible. In addition, such outsider, would have found itself bound to operate with smaller DWT vessels, lower operative costs and therefore with lesser cargo capacity, whereby its share in the trade would be insignificant. Then, we could affirm that the inclusion of one or more outsiders, by no means would sharply affect the conferencial structure, but on the contrary, it would tend to normalize or to balance the free game of supply and demand strengths, which for the time being are quite unaccustomed to suffer displacements and fluctuations as they should. In this special case, it would be desirable to put off such a regulation which in other words would lead to a greater freedom
in choosing the best shipping alternative by shippers, with the only aim of bringing down export costs and all the existing constraints therein comprised. This would lead as well, to a greater growth and development of the domestic side through a greater number of exports and consequently more production factor endowments coming up together with several other variables involved in such a process. Summing up, we could say that by granting a certain level of freedom to the north bound traffic under consideration, the liner shipping field as a whole and as a service, will probably become more efficient and flexible than it was before, and what is in my opinion much more important, export curves will tend to move upwards as a typical characteristic of the existing high market elasticity of such traffic. Of course, the way such a trade opening is going to occur will depend on the marine policy adopted by the government and subsequently on how much interest it has in having balance of payments earnings by means of the utilization of national flag ships, either outsiders or conformed, and through relevant national legislation encouraging trade exploitation by different means, to which I will refer to later on.
2.4 CONCLUSION

From what has been previously set out throughout this chapter, there is a certain number of key points which I would like to bear in mind so as to reach a partial conclusion. These key points are closely related each other and all of them lead to a final thought; the key points are:

--- COMPLEMENTARY CHARACTER
--- COMPETITION
--- RATIONALIZATION
--- TECHNOLOGY
--- FLEXIBILITY
--- MARKET GROWTH

According to what we have seen so far, these items are the six key points to be looked upon when developing a kind of opening with respect to the different liner markets. We might well say that a gradual liberalization of the different liner trades, would involve a sort of relationship of complement and competition among the conferences and the outsiders. The extent to what the competition degree exercised by the outsiders against the conferences is going to be kept under the actual level of complement between both organizations, will entirely depend upon the existing elasticity of demand by the time such an opening takes place, and upon the competitive attitude undertaken by both the conferences and the outsiders.

The more competitive and commercially aggressive a conference is, the more complementary the character of the outsider service will be, as regards the types of goods to be carried. The opposite reasoning is valid in order to understand the increase of the competitive
character of the outsiders.

In this case, the outsiders would fulfill the role of rates moderators provided that the Government does not intervene; which would fastly lead to improve the overall efficiency of the trade.

In addition to that, we have the concepts of rationalization and technology. The former leads to avoid a breakdown or inefficient functioning on any conference due to the existing incompatibility among the members, as long as the latter pretends to settle a kind of logical ratio between the actual demand or market growth and what should be the most suitable technological devices so as to serve efficiently the particular trade. Both concepts, besides being closely related each other, maintain a certain relationship with the complementary and competitive characters, since if any kind of unbalance between them should occur, it could certainly originate other unbalance between the complementary and competitive character with respect to conferences and outsiders.

In such a case, the market opening process would slope again towards one of the two characters just mentioned, thus becoming such a process void.

The concept of flexibility must be borne in mind throughout the whole opening process, and even regarding the planning of the process in itself. Not only the national shipping policy must be rather flexible but also the market opening process so as to make possible the reallocation of the strengths of the different markets and together with it, the adoption of the relevant adjustments.

Finally, we have the concept of the market growth, without which, any intent of opening the market would lead to even sharper disadjustments within the already existing rigidity of the market. Then, it goes with-
out saying that these six key points are closely connected each other and are of fundamental importance whenever a structural shift towards a gradual trade opening is sought.

Moreover, such an opening plan is very likely to succeed, provided that said key concepts are not overlooked or underestimated in importance.

Then, what I wanted to stress is that both the conferences and the outsiders are essential to foster and expand any liner trade in South America, and that such a development must be definitely carried out on the basis of free competition or at least, something similar to it. Otherwise, the liner shipping trades will never develop in harmony and as a consequence of that, the expansion process would be seriously threatened.
Generally speaking, many exporters have received during the last few years, in one way or another, offers for placing their products in non-traditional markets, as the required goods were of primary and also industrial origin. Normally, the pursuit of these export operations became frustrated mainly owing to the scarcity and more often to the non-existence of any kind of regular service to destinations such as the West and East Coast of Africa, Arabic countries and even Central America. This case is typical of countries such as Argentina, Chile, Peru, Brazil to some extent and others, but it specially applies to Argentina.

If we take the example of Argentina, I should point out the fact that all these destinations above mentioned together with all those destinations that are clearly defined as non-traditional trades, were and still are nowadays unprofitable traffic systems from the point of view of a private operator or owner. Even so, when there was the possibility of exporting large volumes of bulk cargoes, where regular lines were not needed but instead an available ship whenever should exist a charter party in between. The operation used to get complicated very quickly due to the fact that most of the ports applied as destinations were part of the long list of dirty ports or non-operative places. Obviously in this case, the fact of considering a dirty port as final destination of any export business, meant and still means for the shipowner concerned a certain number of delayed days, a greater daily running cost, and consequently
also a greater final technical cost, additional crew costs, scarce chances of picking up new cargoes at the port of destination as to avoid last trips, and several other points which are common in the daily running of a fleet under the commercial and economic pressures. Thus, the Argentinean products were and are still displaced by those foreign competitors, who despite of being quoting the same and sometimes higher international prices than the Argentineans did in FOB terms, are capable of reducing such equality or difference by improving the CIF cost and therefore by using the already existing liners in the trade, and consequently by bringing down the final cost through the adjusting variable in this case: the freight rate. Evidently such a gap is not possible to match unless this country decides once for all to foster the growth and development of liner shipping as we will see later on. This is a common characteristic which can be found in Latin American countries, specially if we bear in mind both coasts of Africa, as far as traffic systems are concerned.

I consider is important to point out the fact that if there are no linking services between national ports in Argentina and non-traditional ports, it is because the maritime transport is directly related to the exportable supply of Argentina, and its demand for imports, which together with exports find their respective destinations and origins spread in the industrial centers of the USA and the EEC mostly, and therefore without having developed a higher degree of commercial diversification, provided that we only look upon transport by sea and not others. This clearly means that no private shipowner is going to be interested in investing, cooperating or promoting the establishment of any regular line, as long as
does not exist a real and tangible foreign trade policy oriented towards these non-traditional trades, which only could be done with the relevant analysis and putting into practice of a service, either in the hands of the State or in the hands of private undertakers with the corresponding exceptions, or counting with direct/indirect state subsidies under degressive clauses laid down according to the growth and diversification degree of the components of each segment. It should not be forgotten that regular service does not mean to appoint just a vessel to a certain traffic to carry out its round trip after an estimated number of days, but that comprises the service starting with at least three vessels in direct connection with the time at sea and the time at port or port operations. This is to say that an acceptable cargo-flow cannot be expected if such a service means a vessel every 50 or 70 days, specially in the case of Argentina which is a country quite far away from the industrial centers as well as from its South American partners with the logical exception of its bordering countries, and where the implementation of any traffic means, because of the long distances, to always think in terms of at least three vessels for a promotional traffic without existing services of any sort. Nevertheless, a certain progressive development might be expected if a vessel were placed every 25 days approximately. From this statement it can be readily deduced that such a trial could be successfully carried out whenever the National State should adopt a coherent and aggressive expansion policy of exports to non-traditional markets, wherein the answer to the transportation problem, although crucial, is only part of it.

Regarding liner transport, the State counts with the right tool for covering or working out the promotional trades: Empresa de Lineas Maritimas Argentinas. This state-owned shipping company is the only one that in my
opinion, could take over those promotional zones and hence to carry out the implementation and exploitation at the first stage without profits but with losses coming out of the non-regular trades. It can be said as well, that this is the way the different traffic systems in the world got the solid structure of regular lines, and this happened after having been just non-regular trade lines as they are right now. Besides this, and basing my opinions on what is clearly stated in any book of Political Economy, I am strongly convinced that the main goal of a public services enterprise is not to maximize profits but to achieve such a service. In most of the developing countries I would say that in real life none of these ideas are carried out, thus giving place to a new entrepreneurial style: to maximize losses and without leaving any evidence of them. But coming back to the central body of the idea, we can set out that that is the way all traffic without regularity will continue getting shape, and simply because this is how it is demanded by the market economy strengths. In other words and to put it clearer, there is no other way out or feasible alternative.

3.2 PRESENT POLICY

Before such an uncertain environment, as far as state shipping policy is concerned, quite a large number of exporters whose commodities were subject to be containerized, looked for the chance of reaching those non-traditional destinations by means of transhipments made in ports such as Hamburg, Rotterdam, Marseille, Genoa, Singapore etc, so as to reach areas such as the Middle and Far East, West and East Coast of Africa and many others. But this procedure, in spite of being the unique viable alternative, sometimes presented the following constraints:
1) A very high impact of the rate on the FOB value of the product, whereby generally only those products with a greater endowment of added value other than the common average, were allowed to be exported owing to a better and greater capacity to bear such a burden.

2) The almost non-existent movement of containers in the port of destination, which means that every container had to be unstripped, unstuffed and therefore its cargo moved thereafter as if it were break-bulk, with all the risks and economic burdens involved in such an operation.

3) An excessive transit time and loss of control in the follow-up of the units.

4) Quantitative restrictions to the number of containers to be received in those ports, due to the very scarce likelihood leasing companies assign to these units of getting outbound cargo so as to take them back in the industrial centers without having to get worried about huge amounts of sleeping capital and operative headaches among other things.

Despite these drawbacks, which might perfectly be called traffic restrictions, some exporters had the privilege of exporting, although not necessarily with an optimum profit margin but with losses, that in the best case were only financial losses expressed in real terms. This was and still is the case of a certain cargo, to give just an example, which is usually shipped in Buenos Aires towards the city of Basrah, located in Iraq, and through two ports of transhipment: Marseille in France and Mersin in Turkey, to finally have to make a land transit from Mersin to the final destination. If we sum up the different on-carriages, handlings, movements, times, and the fact that such a service was done in a middle of a war (IRAN-IRAK), we
cannot allege that these exporters lacked courage and imagination regarding transport alternatives. But such an imagination is the one that nowadays is stagnated in the public sector, specially with respect to transport planning and infrastructure development. The proof of this is given by the fact that even today, combined services continue being the only alternative.

GRAPH 3.2.1
for liner goods, fundamentally thanks to the constitution and implementation of joint ventures between several shipowners and ship agencies around almost all the world.

3.3 EXPANSION STRATEGY

As we said before, vessels of a certain regular service would have a limited cargo capacity and also operative restrictions with respect to technical specifications of those commodities to be carried, which obviously would hinder meeting the transport demands for superior tonnages, such as dry bulk cargoes, liquid bulk cargoes, fruits, frozen meat and fish.

A regular liner service in the liner market of the River Plate is supposed to operate either with full container vessels or with a kind of multipurpose ships, thus combining several technical aptitudes based on what this market can eventually offer. It is very unlikely or almost impossible to believe that a private shipowner would invest in a traffic which is not based on traditional liner goods and during times of recession, as in the River Plate traffic, where the outbound cargo flow that is supposed to be regular but is not, is presently threatening the structure of old conferences and not so old gentlemen agreements of any kind.

This happens to inbound cargoes as well, and even with deeper fluctuations. But the situation gets even worse when we analyse the large volumes of cargo and their degree of attractiveness to potential investors. At present, this segment is strongly influenced by two topics quite independent from each other: seasonal peaks and political framework.

I wonder who would be willing of investing before such
an uncertain scheme. Anyway, for expansion aids, seasonal peaks are one of the main constraints since no shipowner is going to be willing to become that capitalist just for season. And no shipowner is going to be willing to work out different strategies under a kind of business that depends largely on governmental decisions of political identity.

Then, it is right here where the State should intervene once more through its foreign trade secretariats and organisms, with the aim of overcoming delays which occurred in ports of destination by means of bilateral meetings with those countries engaged in the relevant traffic. For instance we can set out some Mediterranean ports of North Africa such as Benghazi, Tripoli, Lattakia, Aqaba and so on, where ships usually suffer from delays ranging from 20 to 50 days and even more, due to the fact that these countries, as many others, grant berthing priorities and soon discharge to those vessels whose cargoes are internally required according to the demand and supply fluctuations in the domestic economy. Such discrimination is normally avoided when the commodity on board has an official organism or institution as consignee; in such a case the cargo is usually either discharged immediately after having berthed the vessel, or remain on board without being unloaded but with the corresponding payment of such a waste of working time. But of course, most cargoes do not fit into this category, and therefore it represents a high operative and also commercial barrier for shipping expansion in this promising market.

In other words, the only thing that can be done to avoid such a limitation, is to insist on negotiations undertaken by the State through its departments specialized in shipping and foreign trade, and without leaving aside the pattern of bilateralism.
Within this context, it might happen that from the said bilateral negotiations there will be no positive outcome because of the political restrictions or simply because they have to deal with a government holding a political system completely incompatible, thus leading to situations of very low productivity. But anyway, it becomes quite clear that if an action plan is undertaken in this regard, and even when the results of the corresponding negotiations are not of the same degree of reciprocity, considerable advantages would be obtained from several countries, specially with those far located from the industrial centers. At the same time, such a policy, although not totally liable, would help to achieve fleet expansion targets by dynamizing the export process to non-traditional markets, which nowadays is overborne and self directed by the heavy burden of the inefficiency and by what is even worse, the absence of planning and undertaking.

Before analysing the behavior of the promotional traffic systems, I should point out a statement whereby shipping is commonly accepted as a derived demand of the international trade. Although nothing is more true than this, it should admit a small shift regarding promotional trades, wherein at the very beginning or short run, the foreign trade becomes a derived demand of shipping, and then afterwards, once the development of the relevant trade gets the medium run or even the final stage of the short one, shipping becomes again a derived demand of the trade.

Between promotional traffic and a regular starting service there are a number of similarities as well as differences regarding the seafarade growth and fleet development. Before beginning to spell out each case, I should leave clearly differentiated the promotional traffic from that of the regular. The first traffic system is related
to those ports representing non-traditional destinations and therefore wherein the upkeep and expansion of such traffic depends to a great extent upon governmental support, since the above traffic is not profitable in itself so as to foster private exploitation, as long as the latter generally means a sufficient volume of existing cargo carried by any available flag in the market, wherein such a freedom is decided to be restricted and controlled by setting up regular traffic with cargo allocations and commercial exploitation purposes.

GRAPH 3.3.1

PROMOTIONAL TRAFFIC

ST : space tonnage
FT : foreign trade
A; B : different stages of fleet/trade expansion
On the graph 3.3.1, we can see represented one promotional traffic split into three periods of time of extreme importance in order to achieve expansion goals. Normally, during the short run of a traffic like this, the space tonnage is likely to increase much more than proportionally to the foreign trade available, until the level shipowners decide that it is worthwhile to invest (A), and thus to generate a certain impact or influence on such a foreign trade growth. From point A to point B, the whole medium run period is comprised, this is to say where shipowners are supposed to become at least such a trade relatively developed, unless they want to keep themselves on swimming into subsidies and without positive prospects. This is a key period of time, where shipowners and government will know whether the investment project helps the foreign trade to get gradually developed and whether it fosters the fleet expansion by itself. We can notice that these two last variables are not independent but rather interrelated, and furthermore despite the fact that they belong to a unique master project, each of them represents a project by itself, this is to say that by investing without stop-and-go cash flow policies during the short and medium run, shipping expansion and foreign trade growth is very likely to occur. From point B and provided that the cargo and fleet reactivation has taken place during the medium run, space tonnage and foreign trade are likely to grow up rather proportionally on average, although not exactly proportionally, since ship tonnage supply always suffers from a certain delay in answering the market requirements regardless of the traffic looked upon. We can also notice that in this special case, the foreign trade becomes undoubtedly a derived demand of the space tonnage during the first stage; and that is because it previously was a non-existing traffic without
the minimum possibility of getting its goods carried without considering on-carriages and risky triangulations under very high cost terms, which generally tends to drastically reduce the export cargo flow. But once the foreign trade gets gradually expanded, then shipping again becomes a derived demand of the international trade, which would be a very promising symptom in order to foresee a healthy fleet and trade expansion. However, such a strategy is condemned to fail whenever shipping, when becoming again the derived demand of the international trade so as to play the role of maritime transport and ally to the foreign trade, it does not get the support from the governmental spheres to achieve both targets, the fleet and trade expansion.

In such a case, the planned space tonnage overcapacity will have no sense, thus negatively affecting every period of the project, which obviously would lead as I said before, to a total and complete failure and additional stagnation of the sector of services and foreign trade to non-traditional markets.

Finally, I would like to add that, once this model has been worked out and its outcomes have proved to be eventually acceptable, the ideal situation would be to get a proportional growth or similar expansion rate of both variables as in the shadowed surface "Z" and "Z'", wherein both variables should preferably keep a certain correlation between them, although an equal rate would not be of extreme priority.

Anyway, this is how a starting traffic system is supposed to face scarcity and economic development matters in a geographical area where the prevailing features are given by tonnage overcapacity, decreasing rate of cargo flows in every segment, imports substitution, economic stagnation and consequent isolation, among several others. Now, if we have a look at the graph of the establishment of a
regular service, which before starting being regular was just a free market with interesting, although not huge, volumes of cargo and with clear signs of growth. Some similarities as well as fundamental differences with the promotional traffic can be noticed.

GRAPH 3.3.2

ST : space tonnage  ST1 : a given level of tonnage
FT : foreign trade
Y, Z, Z', Z'' : different trends in the long run

On this scheme we can also notice that even though there is already an existing volume of cargo which was carried before without any kind of traffic regulation and which is going to be carried within this regular regulation
system, there is also certain overcapacity that is represented by the initial investment carried out by shipowners during the first stage or short run, until such an overtonnage is matched by the increase of the cargo-flow. This increase is likely to take place after the short run is finished and when the cargo-flow is supposed to be driven by such a regulation. During the medium run, the cargo-flow normally suffers several fluctuations owing to the existing overtonnage and the bargaining power of shippers, thus causing different curve trends. In addition to this, fluctuations on the cargo-flow and hold space utilization are also generated by problems of adequacy of the market to the new regulation system. Such a system can take many shapes such as conferencial organizations with or without pooling agreements, gentlemen agreements, joint ventures with state participation and many other sorts of regulations operating under conditions of either open or close market. Undoubtedly, this could eventually determine the difference between an expansionist strategy of fleet and foreign trade, and a market shaking up due to an excessive regulation and protectionism arising from the State and oriented towards what is known as an infant industry.

Coming back to the third graph, we can notice that investment in shipping takes place during the short run and it gets a certain level of overtonnage ($X_1 - X_2$) throughout the same period with the only purpose of placing regular vessels, preferably of national flag, in those places where foreign flag and non-regular units were operating. By regulating traffic, such a current of money is expected to come up and consequently to generate a certain overcapacity at an initial stage, and with the aim and hope of goc-
ting it relatively matched throughout the second stage or medium run. Of course, such an overtonnage will be gradually offset by the increase of the foreign trade of this traffic, which is supposed to link industrial centers with developing areas under market economy terms.

But the development of the cargo-flow should not have opposite targets to the regulation system: this is to say that by controlling traffic with an international organism such as a Freight Conference, the governmental authorities or whoever might be in charged of such an organizational undertaking, should be aware of the fact that the overcapacity problem has solutions of a very different nature than that offered by the regulation scheme. Overtonnage might be reduced by increasing the cargo-flow, provided that such a regulating organism is flexible, cooperative, professionally integrated, and not so rigid in the decision making process, which in my opinion is extremely essential to respect and bear in mind throughout the first stage of any shipping market in its childhood. Unless the relevant Freight Conference understands and properly assumes its regulating role as it should, ship overtonnage will remain as it began and the cargo-flow, if not totally detained, will never find the way out in order to reach higher rates of growth and diversification so as to bring down dead freights.

Therefore, in this case we might say that by adopting a very strong regulation process, shipping could act as a negative variable and thus, giving place to what is called the law of diminishing returns. Then, in order to get rid of development barriers, regulation schemes and cargo-flow must be treated in such a way that even the most unsignificant resolution be laid down and adopted under the point of view of the market interdependencies, and its potential outcomes.
analysed and spelt out within the managerial concept of strategic planning of both the liner shipping field and the foreign trade.

As soon as the initial investment in tonnage has been made and the short run has finished, the curve tends normally to become almost stabilized for shipping, and continuously growing for cargo-flows (X2 - X3). This period is characterized by the fact that owing to structural problems of organization, entrepreneurial philosophy and pressure coming from quite recent grown trade segments, shipping tonnage and cargo-flows are directly and indirectly related to market fluctuations, thus producing a kind of lag in erasing the still existing gap between available tonnage and available goods. But anyway, fluctuations will not take place forever and its real impact on the functioning of the interdependency of these two segments is not very worrying.

We can state that fluctuations depend on to what extent the regulation scheme is aware of its influence on the other market variables; in other words, it depends on one hand, upon the existing degree of integration between the Freight Conference or whatever, and the foreign trade, and on the other one, on the sort of human resources they use to achieve control and regulation objectives. All this normally happens during the medium run of the project and when the cargo flow is expected to grow up in order to keep the project alive. After point X3 and at the beginning of the final stage, there are some possibilities to be taken into account: curves X, Y, Z, Z' and Z''.

Curve X, clearly shows a recovery if compared to X2-X3, due to the final driving obtained by the cargo-flow and by a logical relationship of growth, kept thereafter by the shipping tonnage and cargo expansion, which
usually leads to a small but necessary permanent over-tonnage so as to maximize the operational productivity of spaces, either at a 70% or as much as 80% of utilization. As a prolongation of curve X2-X3, we have curve Y, whereby the trend of sharp cargo growth would seem not to have a counterbalance of hold space capacity, leading consequently to an excess of demand of difficult satisfaction on the part of the shipowners, unless they should decide to charter-in some vessels. But normally, although not always, any regulating organism that is proud of itself and of its operational effectiveness would never accede to charter-in and therefore, an excess of demand would appear to be unavoidable. Such a situation used to occur in those organizations lacking statistics, planning and of overall, strategic planning. Anyway, such an excess, unless otherwise solved, leads to the disconformity between exporters and importers, thus encouraging even more the presence either of new outsiders or of old outsiders which at the time of the said excess were absent, but decided to come up again and to compete in a market where they still keep a worthy knowledge of its commercial possibilities.

Then, if we assume that what I have set out happens in an open market and involves an Open Conference, for instance, it is very likely that such an organization gets troubles regarding competitive strategies to be followed, as well as operational structure problems with respect to pooling shares, sailings, low and high value freight tons and others. That is why an open market, which is supposed to provide most of the necessary elements to reach positive expansion rates of cargo and tonnage, may become a negative tool to reach those rates if the control over such a decrease, exercised by the regulating organism, is excessively
interventionist. Such interventionism can even hinder the performance of the principle of free undertaking and hamper a quick decision making process, that is supposed to take actions at the right time and at the right celerity. Unfortunately, I would say that the concept of close control is one of the most common arguments raised by governmental authorities, whereby an open market is considered as if it were a dangerous and strange organizational cobweb set up by pressures coming from the transnational companies, but without really knowing that the actual danger is born from the very beginning the public sector plays an excessive role by establishing a sort of feed-back system that during the short run makes nothing else than controlling too much and adopting incoherent resolutions without receiving positive outcomes, thus getting overgrown much beyond what might be advisable.

Finally, there is an important point I want to raise, and it is given by the fact that by constantly expanding the cargo-flow without its corresponding counterbalance and by excessively trusting the overtonnage reached during the short run, the only outcome likely to come up, sooner or later, has the name of shortage joined by all its negative effects on the organizational structure of the regulating scheme, as well as on the commercial functioning in itself. Before going on, I would like to clarify that scarcity is a concept that many times, more than a barrier or a problem, is a helpful and fostering element of new actions, like those which might be framed into the concept of strategic administration, competition, development and expansion policies.

Following the other alternatives, we can see three curves left, which are nothing else than different trends of cargo/tonnage expansion, and are showing
different levels or volumes of foreign trade for the same level of liner tonnage. In other words, it shows three levels of missing traffic planning, whereby an excess of demand or a shortage of supply is much easier to reach than in the case of curve Y. The traffic recovery, once these curves are brought down, would necessarily have to deal with the structural restrictions before mentioned. In this case, where liner tonnage seems to come down, the answer to such a decrease could be found in the gradual and growing weakness of the regulation system owing to the increasing of non-regulated competition, which on the other hand is a kind of self-regulatory instrument between liberalism and protectionism in their corresponding extremes.

Finally what we can see is that in an already existing regular traffic system, shipping is a derived demand of the international trade whose growth or expansion is not subject to liner shipping planning during a first stage, as for promotional traffic, wherein shipping investment plays the major part of the role in the short run, to afterwards become with permanent character the traditional derived demand before set out.

As I mentioned before, an open market can become by itself a source of sharp problems for the corresponding country, when such a market gets either excessive participation and surveillance on the part of the State, or when such controlling function does not exist at all. Both extremes are harmful positions if what we look for is the upkeep of an open market. However, nowadays practically no government allows the existence of a market of those characteristics without any control over its operational aspects. Then, it would seem to be clear that what one should look for is a middle point between two extremes, since it has already been...
cleared up that neither the first extreme or position would be of some usefulness to reach cargo and tonnage positive expansion rates. Nevertheless, experience shows that the position of the public sector regarding the interventionism degree is expected to be quite nearer to the liberal extreme than to the other one. Obviously, it does not mean that such a market in its several segments, is almost totally free from the

GRAPH 3.3.3

CT : cargo/tonnage  CT1 : existing volume of cargo/tonnage
TD : traffic development
PSI : public sector interference
A ; B : excess of PSI at different levels
 — — — right PSI curve
TD : traffic development

PSI : public sector interference

GRAPH 3.3.4

GRAPH 3.3.5
state tentacles, but that a second middle point should be sought between the first equidistant point and the liberal thought. The only one who is lastly entitled to determine the right level of interference, is the sensibility shown by the traffic development curve once the said traffic is already operating. The graph 3.3.3 shows the self-defeating effect a wrong TD/PSI relationship could have, whereby, as soon as the traffic development increases owing to the fact that the market conditions for doing so are given, the public sector interference increases as well with the same tendency in the short run, but in order to reach higher scales in the coming period. Normally, a curve representing a public sector excessively jealous of its incumbencies, tends to compromise not only the whole area embraced by the trajectory of the traffic development curve, but also new possible expansions.

In addition to the fact that an interventionist policy with extremist features in it, runs opposite to the concept of expansion in an open market, traffic development is drastically stopped together with any sign of growth, producing thus a solid traffic stagnation characterized by diminished variables and increased bureaucratic measures, which in real terms and from a macroeconomic standpoint is a loss of quite difficult recovery, and with clear symptoms of negative impact on the foreign trade and balance of payments among other effects.

Generally, the PSI means a certain cost to be borne by the foreign sector of the domestic economy, and therefore such a cost usually plays against the traffic development curve in the long run and also probably before the final stage, wherein the TD curve might continue to be stable in the best case, although
the reality normally condemns such a trend to be even worse by gradually bringing it down until touching inadmissible levels of exploitation, whereby the relevant regulating organism would lose control and credibility on its members and means. In this case, the traffic and its regulating scheme are very likely to be broken down into many segments of different nature and without interconnection between them. This is the same as saying a black traffic future is coming unless the relevant authorities realize in time the vital need for a share of freedom in order to let any market grow up and get developed in accordance with the strength of the market and together with some public sector orientations as well as clear and precise guidelines. In other words, a promising and recently created maritime trade under open market rules can achieve positive rates of cargo and fleet expansion, whenever the State interference does not go beyond the admissible limits an economic opening strategy can propose. Otherwise, and as it has been seen before, cargo and tonnage growth and development will find its way simply blocked by barriers of legal and operative nature of very difficult avoidance. The main problem within this context is given by the fact that most of the governments belonging to LDC's, although aware of the overwhelming sizes of their administrations and of the existing sub-capacity to carry out their tasks regularly well, believe that national cargoes are picked up by foreign flag vessels and when an open market tends to go straight against the national policy interests, which is like this just because of the existing shortage of national legislation for protection of the local markets from the dark shadows of the external imperialism; when in fact, the actual and only source or knot of the
problem is born in an excess of State intervention by laying down tons and tons of rules, regulations, decrees, laws, and by creating committees and special departments to carry out tasks of rather doubtful usefulness and to achieve old fashion goals with outdated managerial style and understanding of the present reality.

As the reader can realize, I am not necessarily in love with the public sector but rather I feel a very limited respect for the public servants in LDC's, and at all levels of responsibility, since I am completely convinced that, if not all, most of the liability of stagnation and underdevelopment in most fields falls on their heads, owing to many reasons I am not going to set out right here, since it could perfectly be the subject of not only one, but of several theses.

Following the graph 3.3.4, we can see an interesting relationship between the functions TD and PSI. The first one is made up of cargo volumes and liner shipping tonnage as long as the other one represents the state intervention through its different means. As long as the public sector interference increases, the traffic development sees its expansion diminished, as it is shown on the graph by the decreasing positions of TD: TD1, TD2, TD3. Obviously, the opposite reasoning is valid as well. Once more, this graph would appear to demonstrate that a search of a right point of interaction is of top importance for the harmonious upkeep of both functions the TD and PSI, but always keeping in mind that to have expansion aims, it is always better to be closer to the market economy principles than to the regulating extreme.
The area wherein, in my opinion, public sector intervention should be located, thus leaving to the private sector enough maneuvering space so as to produce the expected expansion.

Lastly we have the graph 3.3.5 representing a sort of ideal tendency between such functions. Such a relationship presupposes a kind of low elasticity on the part of the state intervention regarding traffic changes, and reflected on its development.

As a general guideline we could say that the more the state interference is, the heavier are the burdens to be borne by the trade, as long as the wider the tasks of the public sector are, the smaller the cargo/tonnage expansion rate will be, due to the implied consequences in such a strategy of unjustified over-expansion that keeps it totally untied from the targets before mentioned.
As we can see, what would appear to remain clear is the fact that through interventionist measures adopted by the governments, the final results are very likely to be of low performance and of void projection. For example, if we look at the international liner markets and try to identify the liner markets whose growth and development let them to be classified as the most dynamic and promising trades in terms of cargo and technology, we are going to observe that those trades do not have to face any major official intervention coming from their local governments. Neither the EEC nor the USA deal with an excessive governmental interference, unless the traffic concerned falls into the category of "promotional trade" or it is guided by strategic reasons. On the other hand, we can see that both the liner markets and the liner fleets of centrally planned economy countries have never been so far classified as competitive and promising under international standards. In fact, the only fleet which is competing in the Western markets with relative success is the Soviet one; but nobody can deny that the Soviet penetration into the Western liner trades is mainly given by its preferential domestic bunker costs and low crew costs rather than by the success of the interventionist system in itself. We might well affirm that the full public intervention system worked out by the socialist countries, is definitely widening the existing gap between them and the Western liner trades. Moreover, I do not intend to set down that the success of the Western European liner trades is entirely due to the lack of official intervention, but to leave clear that such a low intervention draws a suitable framework into which, together with strategic management and free
competition, any undertaking can lead to the fostering of both the cargo levels and the liner tonnage.

Then, if we apply these concepts in a Latin American context, we should focus our attention on the two market structures which were previously set out: regular and promotional trades.

Regarding the first one, it is highly advisable to follow the principle of free competition together with a gradual decrease of the state participation in the decision making process until reaching timely levels at which the public intervention can be no longer considered as needless. In this regard, the opening process of the market is something that should not be overlooked, since thanks to it, the particular trade will slowly regain competitive character and get a profile of growth and expansion, provided that such an opening process is joined by a decreasing state participation.

Regarding the promotional trades, both the state intervention and the close character of the relevant markets are of fundamental importance to fulfill throughout the short run; but as soon as the short run is over and whenever the trade has grown enough so as to allow a slow opening of the market, the state participation must be prepared to leave the floor to newcomers and to reach a settlement with private owners as regards the future exploitation throughout the medium and long run. Otherwise, instead of having today a promotional trade expecting to develop and to be served by different technologies, we have an everlasting undertaking leading to the utilization of inadequate means and subsequently to the permanent decrease of the overall efficiency. In such a case, even if the promotional trade gets gradually developed during the medium run in such a
way that shipping becomes once more the derived
demand of the international trade, the potential
prospects of commercial diversification and develop­
ment will be considerably diminished mainly owing
to the lack of competition and to the utilization
of inadequate technology.
Therefore, we can say that despite the fact that
an excessive PSI tends to block the way towards the
liner business expansion, it is necessary to keep
a certain PSI level, although with different ex­
tents, in both a promotional trade and a regular
traffic.
We can start by saying that from a theoretical point of view liners carry the world's trade in manufactures and high-value units, and that their services meet trader's needs for regular scheduled services worldwide, for quantities large or small and at a known and specified tariff rates. It has been accepted for a hundred years that these characteristics require a degree of stability only produced by orderly trading at which end shipping conferences were evolved.

Personally, I guess that since the system has lasted a century, it will probably last another 20 years, although on bad days it may look as though it might not last that number of months. But anyway, we can affirm there are alternative ways of getting stability. One would be through an oligopoly structure—the few shipping lines selling to the many shippers, in conditions of short-run stability and long-run competition.

The economies of scale achievable by large container ships have changed the structure of the liner industry in ways that make an oligopoly set-up possible. The shipping companies are bigger than they used to be and a series of joint fleets, providing even larger organizations, has been formed. In the industrial west such a set-up might be tolerated without conferences, provided shippers and their councils could talk to the consortia.

However, in the Third World such a system does not seem to be acceptable politically. Alternatively, stability of a kind might be achieved through a system of state-owned fleets, highly regulated as to routes, rates and shares.

Most people would probably believe that such a system
would be inflexible and lead to diseconomies and high costs, to which I would reply they are totally right and that such diseconomies usually take place regardless of whether the management and staff personnel belong to an industrial country or a less developed one. The most likely long-term situation may be that the West, for its intra-Western bloc trade, will continue to use a Conference system, disapplying the cargo-sharing provisions of the UN Liner Code; second, that the West's trade with the Third World will apply the Code and be more protected as well as less efficient; and third, it remains an open question whether the USA will have to move to close conferences, despite there are no clear grounds today for saying it will.

Overcapacity will thus still condition economies in important areas, certainly through much of the 1990s. Anyway, we might well forecast an increase, but not a marked increase, in protection of one kind or another which could be the best interpretation of the future. Another pressure of the 1980s was and still is over-tonnaging, due partly to already known political pressures, in part the aftermath of the oil crisis of the mid-1970s, and in part the result of the rapid penetration of the liner market by container ships. All this could be expected to settle down somewhat towards the end of the 1990s, but if it were to continue as destructive competition, the further innovation would be prejudiced and protective forces would tend to increase as a form of counter-action.

Nevertheless, a degree of flag protection in Third World trades is likely to persist, with 40-40-20 arrangements under close conferences and market rules as well as with bilateral 50-50 arrangements. It is also relevant to look upon the degree to which trade will become further regionalized, because greater emphasis on trade within rather than between regional
blocs would reduce the distance goods have to be moved, and so reduce the demand for shipping services. The post-war period has seen the emergence of regional groups like the EEC, COMECOM, the ANDEAN PACT, CARICOM, ALADI (ex ALALC) and so forth. These groups have been successful enough to endure, and it is a tenable thesis to consider their future expansion to larger groupings, such as the Far East, incorporating Australasia and China; Europe, incorporating the Mediterranean and North Africa; Latin America as a whole; and the Middle East with the Indian sub-continent. Lower distribution costs would be the fundamental reason for the emergence of such groupings. It is perfectly known the fact that the existing blocs work far from perfectly and that many weak developing areas have not been able to build up an adequate industry behind a wall of regional protection as to avoid the need of exporting to other major international markets to bolster their economies. Many stronger developing countries (NIC's) have seized opportunities in the large markets of Europe and North America. Indeed, regionalization does not seem to be a major force in trade growth. Even if the countries of the EEC, the strongest new free trade area, have retained and developed strong third market connections all over the world. The most likely assumption over the long term is that balance of payments stranglings, particularly because of the existing imbalance, will force nations to seek markets for their exports wherever they can. This is not to say that the pattern of the trade will be static, merely that opportunism will require nations to continue to incur the cost of worldwide distribution. Therefore, regionalization is likely to have a stronger influence on shipping than it had before, transferring
then resources to other means of transportation such as road and railway devices, and diminishing the seaborne trade mainly owing to the present status of the different world shipping markets together with a very low index of economic opening from the industrial world towards the developing south.

The above is therefore perhaps a rather long digression to establish a neutral point for the future of liner shipping, but the implications of regionalization seem too important to ignore, specially when it might lead to deep changes in regional and inter-regional shipping evolution in the long run.

4.2 IMPORT SUBSTITUTION: IMPACT ON LINER SHIPPING

The objective of this analysis is not to carry out an isolated study of each component of the balance of payments, but spelling out the limitations and constraints of the foreign sector of the economy as a whole, according to how the shipping demand and supply will behave. Absolutely in all countries of the developing world, it highlights the existing contrast between the import and export tendencies. The sharing of these countries in the world exports has suffered a progressive reduction and it is even more noteworthy to point out that such a participation also decreases in the trade of primary products, justly wherein presumably they would enjoy comparative advantages. However, regarding imports, the coefficient of these countries seem to show a raising trend in the long run. Although such a gap between the components of the commercial balance is not so keen as in other areas, Latin America does not get rid of such a tendency.

This different evolution of the exports and imports are totally related to two kinds of structural phenomenons:
A) the existing incompatibility in the structure of the two variables of the foreign trade, which could technically be called UPS, or unbalanced productive structures.

B) the existing lag shown by these countries in the process of technological penetration and development.

If we should pay attention to both concepts just for a while, we might notice that during the present century, the international trade developed certain items more intensively than others, specially machinery and equipment. Then, it would seem to confirm the fact that in recent years the contrast between the trade growth rates became wider for different kind of goods. Now, if we look upon the trends of the international trade, we can appreciate that rates are high in products imported by Latin America, and relatively low in those exported by it.

As long as the higher rates are related to products of modern technology, the unequal allocation of the technical progress and specialization is clearly set out. Obviously, the situation created by such technical progress comes out in the imports of developing countries, so long as their exports join very weakly the technological participation in the manufacturing process. Therefore, the foreign trade structure of these countries leads to a desequilibrium of dynamic consequences: there is a primary sector of greater relative efficiency thanks to the existing comparative advantages comprised into it, but of a lesser relative dynamism if we compare it with the industrial sector, wherein the relative efficiency is of quite lesser dimension as long as its dynamism is greater than the primary sector. This leads to a problem of relative speed with respect to the input and output of foreign currency, owing to
the unbalanced structural conditions of both sectors. In other words, it leads to the export of products whose world trade grows slowly and import of products whose world trade grows quickly, and thus brings about an external disequilibrium given by the different existing productivities of the primary and industrial sectors together with a slump in unit prices and export volumes. Experience shows, that shipping has during the last two decades in Latin America been one of so many activities directly affected by such economic phenomenon. Obviously, the bigger the gap of productivity between both sectors is, the higher will the barriers to get an acceptable ratio of input/output of foreign currency be, with all the implied consequences it could have in order to boom the foreign trade of the area concerned. We can set out that as long as foreign loans received in hard currency are not allocated to those industries capable themselves of again generating foreign currency by exporting what was manufactured internally and physically as well as financially fed from abroad, the process of self-amortization will become void and with it, the industrialization chain will get a perfectly determined end inside of the domestic economy and not outside; thus limiting not only the economic viability of the whole economic region from the industrialization point of view, but also restricting the liner shipping utilization to excessively low levels as a secondary effect. One of the main reasons, if not the top one, whereby liner shipping in the industrialized world developed considerably in lesser time, is given by the fact that in these countries, even when there was a certain gap of productivity between said sectors, a strong degree of homogeneity was and still is kept between the two pillars of the economy as far as foreign currency cre-
In international economic spheres, it has been highlighted by CEPAL (Latin American Economic Commission) that the growth and development of Latin America as a whole can be split into two stages: towards the outside and towards the inside. The first one is related to the period wherein exports prevailed as the driving engine of economic growth and development, as long as in the second one the motive axis constituted the import substitution process, with quite large amounts of effects on liner shipping. I should clarify that these two situations were just partial outcomes coming out of deliberate strategies followed by the countries of origin, since they also to a great extent obeyed special circumstances leading to follow a determined behavior line in their economies. For
instance, during the stage of economic growth towards the inside, several programs of manufactured export promotions quickly became frustrated mainly owing to a combination of causes inherent to their own economies and to restrictive or depressive conditions of the international market, including the international liner shipping markets.

As I stated before, an important characteristic of the modality adopted by LDCs regarding the first growth scheme, is that the exports of these countries still keep on showing a decisive shortage of technological mix-up along their manufacturing processes, thus limiting more sharply yet their chances of being successfully exported, and widening even more the already existing productivity gap between the primary and industrial sectors.

Obviously, what might come out of this statement is that all this, inevitably leads to an external strangling of the economies of LDCs together with a negative collateral effect on liner space utilization, its tonnage, its tendency to achieve economies of scale through capitalization, its tendency towards high-tech acquisitions, its trend towards the functioning of liner markets under market economy rules, its capability of getting expanded and developed pushed by its own market and so forth.

As we can readily notice, the market is the bible for a liner company, so long as the domestic and foreign sectors of the national economy are the main pillars for national development and progress; but far from being isolated concepts or areas, they are rather connected between themselves in a sort of market inter-dependency, wherein any upward or downward movement of a variable may mean very different changes in those interrelated areas, and wherein, unfortunately, eco-
nomists seem not to realize that by treating what is
variable as something constant, they are bringing
about many and different sorts of mistakes of difficult
corrective adjustment, and creating the source of most
of the fallacies in political economy. In business
most of the fallacies have their cause in a sticking
to means and methods which does not have a lasting,
but a temporary virtue.
Summing up, we could state that by speeding up the GDP
growth rate of the region, imports would increase as
well and with it the commercial imbalance would rise
even more.
Such a disequilibrium could be brought down in the short
and medium run either by refraining or by substituting
imports in such a way that a structural change is possibly
achieved through a better reallocation of factor
endowments.
However, although the Latin American GDP growth rate
during the decade of the 70’s was in average 5.6%, im-
ports increased but at a lesser rate than the GDP. This
obviously leads to only one conclusion, and that is that
import substitution was carried out with relative success,
and with it, shipping and specially the liner market,
was once again strongly influenced by the economic policy
adopted by this region.
When analysing the substitution process, the import stop-
ping process as a disturbing element, also comes up,
which sometimes is closely related to such a substitution
scheme and others as a prevailing topic. An extreme case
of import stopping of the region was the sharp reduction
born by the import coefficients coming out of the 1930
crisis. From 1929 to 1932, such a coefficient was
brought down 50% in Argentina and Mexico, 65% in Brasil
and Colombia, and almost 80% in Chile. Such a stopping
trend was a fundamental factor in driving the substitutive
process, together with the lack of capacity for importing, high custom barriers and several kind of control devices were set up, leading to compress the supply and demand. Subsequently, the internal increase of prices together with the imports reduction brought about the necessary conditions for undertaking the manufacturing process of similar products in geographically internal terms.

After the 1930 crisis, the stopping policy was adopted more or less regularly by the economic programs of these countries, and that is the main reason whereby in fact it is quite difficult sometimes to identify its actual effects and to distinguish it from the substitution effects. Owing to changes in the price setting structure and other circumstances connected with the supply, demand trend for consumption and investment as well as the behavior of the productive system is modified, and consequently certain imported goods are much less utilized than what is the case in more open economies. Now, if we pay attention to the substitution process, we can well set out that such a process, which has deep implications on liner shipping, has a meaning much wider than simple shifts in the import coefficient. A better way of spelling out the imports structure in more detail would be by classifying three large groups by economic destination: consumption goods, intermediate goods and capital goods. Thus, a graphic drawing can be carried out to show the comparative advance degree of each country regarding the substitution process. This can be done by means of equilateral triangles wherein each side, with a longitude of 100%, represents the total in imports of consumption, capital and intermediate goods.
It can be noticed that, although with exceptions, imports of most of the countries are made up of a quite low ratio for consumption goods (less than 30%), a ratio for intermediate goods oscillating between 30% and 50%, and the same oscillation regarding capital goods. The same graph shows that Argentina, Brazil and Mexico have achieved a wide substitution of consumption goods, while Central America seems to represent the exception to the rule since consumption goods seem to comprise more than 40%, more than 20% of capital goods and more than 30% for the intermediate ones. When export fluctuations are likely to take place, normally there are two options to choose in order to ratch their effects: either to reduce intermediate imports or to restrict the income of capital goods.
If the first ones are reduced, the level of internal economic activity will be affected with immediate symptoms. On the other hand, if capital goods are limited or restricted, the capitalization process can be seriously wounded.

Obviously, such an effect will undoubtedly rebound, sooner or later, not only on the level of internal economic activity but also in the development of the economy. The consequences and difficulties of keeping on practicing the substitution model, can be appreciated at different levels:

--- imports as a whole.
--- its sectorial content.
--- the industrial development it might generate.
--- the development strategy it represents.

From the imports point of view and in international terms, its coefficient with respect to the product is already low enough in some Latin American countries and it keeps a tendency downwards. The forecast of some of these coefficients according to some recent studies, leads to extremely low indexes, equal or even lower than the minimum coefficient obtained by the largest and more developed nations of the world. However, the tendencies for the long run represent a more intensive substitution process than in recent years, whenever we shut out wars or armed conflict periods, for Argentina, Brasil and Mexico.

But on the contrary, such a process has been diminished in the countries with more reduced domestic markets. At the same time, by prolonging the internal extensive industrialization without having a correlative way out of such a transforming scheme, it would stress the worsening of the foreign sector of the relevant national economy further of generating a progressive receding from the international standards of efficiency. Once
the imports of consumption goods reach high levels of substitution as well as other import products whose manufacturing process requires relatively small-sized plants, substitution must operate areas where the production can be achieved in terms of considerable economies of scale; this is to say in areas such as those related to intermediate and capital goods.

If we sum up the main features of the substitution process we might notice that all of them lead to a much lesser foreign trade and consequently to much smaller liner markets. These characteristics are as follows:

A - STRONG INTERNAL EXTENSIVE INDUSTRIALIZATION
B - LACK OF EXTERNAL COUNTERBALANCE
C - HIGH DEGREE OF IMPORT SUBSTITUTION
D - STRONG TENDENCY TO DIVERSIFY THE SUBSTITUTION PROCESS

Item A, in terms of shipping, clearly states that by industrializing a country or region and by producing locally what before was imported, cargo tonnage to be carried by sea will decidedly decrease and with it, the relevant liner market is likely to be either broken down into several independent organizations or to keep the same structure as the one existing before but with a smaller magnitude. Although it is true that by achieving internal industrialization targets, new import requirements come up and therefore an upward movement of the demand for shipping is expected, while new demand requirements are quite lower in relative terms to what could have been imported without such a process. Therefore, even when there is a kind of compensation of cargo tonnage within the same segment and represented by new import devices, the trade volume is inevitably reduced and with it, south bound traffic deeply damaged. Such a damage is allowed to occur.
thanks to the second phenomenon I call lack of external counterbalance. As we have seen before, this is nothing else than a shortage of outputs which are supposed to keep a certain relationship with their inputs. However, this relationship of continuity can not be achieved due to several internal problems found during the manufacturing process and also owing to the fact that those inputs have never been oriented towards the joint participation of both the still imported materials and accessories, and the national factor endowments. In addition to that, I should clear up that the national policy was never to carry out substitution as a means of earning foreign currency by exporting product units containing a certain degree of manufacture but to deal with fluctuations of hard currency income due to the negative international market conditions given in the short run; which I personally consider a big mistake since it clearly represents a lack of planning and entrepreneurial undertaking.

Anyway, this second item together with the first one, leads to an even more depressed liner market in its different segments, and obviously becomes represented by a downward tendency on the part of the south bound traffic and a too sharp upward curve condemned to get stagnated in the short run.

Regarding items C and D, we might well affirm that by raising the substitution degree and by spreading or diversifying such a process, traffic recession is not going to give up its decreasing trends towards levels at which an hypothesis or likelihood of free market economy and gradual deregulation is quite unlikely to take place, but rather it will tend to shut out any private undertaking which could be encouraged by a more free, or less central regulation owing to the simple fact that the weaker, certain traffic is,
the more regulated it becomes with the consequent effects on liner innovation and market specialization. I believe it is important to point out that any advance in the substitution process makes it possible to achieve higher levels of development, but once such a process is achieved, new import requirements will have to be met in order to not only keep the same development degree but also to keep the economy growing at faster and higher rates than before. In such a case liner shipping would not be so negatively affected except by the fact that in real life, it is not the real case. New import needs generally do not come up as they theoretically should, and the liner market gets more and more compressed day after day. The reasons for such a phenomenon escape from the frame of this study, although I should say that it is caused by a kind of collateral substitution that takes place immediately after the first step of substitution of any segment of the industry. Of course, there are always new import needs and new voices are constantly going to be opened in the relevant traffic tariffs, but its actual volume is rather insignificant compared with the real volume it should have if it were done like a normal process with planned structures.

If we have a look at what happened in South East Asia with countries such as Thailand, Indonesia as well as South Korea a little further to the north, one may readily realize that those nations were and still are strongly involved in substitution processes and without having to deal with bottlenecks in their marine cargo traffic. Then, including myself, one might wonder why; I would say the answer is very simple, but the root of such a reply is not so simple: the import substitution processes of these countries were carefully outwardly oriented, bearing in mind that the master
target of such processes was not only to bring about the creation of local industry with all the multiplier effects comprised in it, but also to allocate between the productive factors the necessary conditions as if to make them into competitive elements in international terms, capable of generating worldwide exports with all the expected advantages included, such as foreign currency earnings, higher rates of employment, non-existence of liner traffic reduction and so forth.

Thereafter, the extent to which each nation develops its merchant marine is a topic that depends entirely on shipping policy, which I am not going to deal with right now. But the most important aspect to underline here, is that these countries, by carrying out such a process of macroeconomic nature, did not engage neither the financial standing of the liner shipping sector nor the cargo-flows of their relevant liner trades. Obviously such a process was partially achieved by Latin America as regards the local spreading of industrial resources but almost completely void with respect to export schemes and outbound cargoes by sea, with consequent reductions of the liner market as a whole, and thus creating different liner markets as far as the concept of interdependency is concerned, and regarding segment shapes and structures.

What I am trying to demonstrate here, is simply that liner shipping has much deeper roots than it is supposed to have or commonly accepted, and that is not, as people say, only a derived demand of the foreign trade. It is also the derived demand of other macroeconomic strategies adopted within the framework of the national and internal economy, which at first sight seems not to have any direct relationship with shipping, when in the daily practice each movement suffered from many macro-variables which can be monitored throughout a brief period of time in the management of a fleet or
undertaking of a project. I consider the behavior of the national economy variables as the actual parameters for measuring the feasibility of any liner market from all points of view, and not the behavior of the foreign trade of the country or region which in fact depends largely on what goes on internally. This concept was apparently understood by the nations before mentioned and moreover by their governments and non-marine authorities by adopting macro-policies oriented to achieve national economic targets but without getting the marine field damaged, but rather encouraging it at the same time. Foreign trade forecast is of extreme priority for a liner company; but unfortunately it can only be foreseen, and with certain limitations, throughout the short run but never beyond it in economies of LDCs.

However, the actual variables to be picked up and kept in mind as if to predict in reliable terms what is coming in the near future, are the ones belonging to the internal macroeconomic policy. Those are the only ones, in my personal opinion, that should be taken into account for monitoring, analysing and evaluating the liner market growth and development in the long run.

Foreign trade gives a rough picture in the short run and is unable of granting by itself, security of continuity. Furthermore, since liner investment and exploitation are based on long run expected earnings owing mainly to its highly capitalistic character comprised into permanent recessive cycles, it can not trust the short run performance of the foreign trade variables, but must go beyond them and rely, although not totally, on the long run prospects made up of internal variables coming out of both the primary and industrial sectors of the economy.

To fully understand this concept, it is enough to look
upon the Latin American macroeconomic policy throughout the past four decades, wherein all policies adopted were done regardless of any collateral effect it could possibly have on the shipping field. During these decades, liner shipping in particular, was oscillating according to many different policies and changing international environments, such as a ship without final destination and whose only objective is to keep herself afloat and wait for better weather conditions.

4.3 - REGIONAL IMPORT SUBSTITUTION AND ITS EFFECTS ON LINER SHIPPING

Like we have partially seen before, when the export sector lost its dynamic character as an income generator, Latin American countries chose an accelerated process of industrialization. Then, given such circumstances, it appeared unlikely to start directly by setting up basic and capital industries, as this was the reason whereby the process focused primarily on those industries which, from the technological point of view, appeared to be of relative easy undertaking. When such a process started showing a certain weakness due to the factors already explained, and the foreign sector of the economy began once more to strangle the economic development of the region, the internal logic of the process demanded to keep on substituting, thus affecting even more the several major liner markets with the consequent pricing transference inward the domestic economies. At that time, the expansion of industries such as steel and iron, chemical plants, oil refineries and some branches of mechanical industry could be noticed. In these new activities the endowments of capital and technology used to be greater than those of the traditional manufactures, and subsequently, problems of economies of scale and market size started coming up playing a
restrictive role even more sharply than before.

An important topic I want to point out at this stage is the market size by saying that such a concept keeps an unalterable relationship with liner market size and its possibilities to grow up or become stagnated.

If we assume that any liner market is capable of developing by its own means under open market conditions, we can set out that whatever the policy may be regarding industrialization, such liner markets are going to have considerable development gaps among them. If a process of import substitution is carried out in such a way that countries, members of a regional community are going to spread the necessary links to cooperate with each other and to go beyond the domestic markets to exploit neighbour markets as if to reach economies of scale, and at the same time to diversify their supply sources as a means of cutting out ties of dependency; then it seems easy to conclude that liner shipping prospects are not very encouraging. In this case, rail and road transport will play a fundamental role in the carriage of goods among most Latin American countries, although anyhow, there will be a few specific maritime trades that will get a kind of drive regarding cargo tonnage; and these countries are those far located from the geographical center of the region, beyond which, land transport operators will have to deal with the economies of scale principles whenever they want to get by. And it is at this point where liner shipping can still get a better chance of improving and getting rid of its overtonnage by filling the gap with cargo. But still, this trend would not be the master tendency for all the liner trades but it would be an isolated scheme and non-representative of the real effects of regional substitution and regionalization of industries. But in the case that throughout this import substitution process, which could possibly take place beyond the do-
mestic markets, some positive outcomes should occur as regards exports of manufactures which got through the internal industrialization process, then, liner markets would definitely be improved and strengthened owing to new cargo flows, either between the geographical extremes of the region or with the industrial centers. This would obviously lead to very different political implications than in the first case, but not for that less valid. A comparison between the USA and European countries reveals that the North American market size is four times larger than the one in France, Germany or UK. However, each of these countries has a smaller market size than Latin America, but in a small magnitude. When the comparison is done between said European countries and the three largest countries of the region - Argentina, Brasil and Mexico - it can be verified that its market size is again four times smaller than that of the Europeans.

Evidently, what can be seen here is that both, Europeans and North Americans have already passed the examination of imports substitution, industrialization, diversification and cooperation by making use not only of their domestic markets but also of their neighboring markets, with the clear purpose of reaching economies of scale and high productivity. As a matter of fact, liner shipping is dominated to a great extent by those nations as well, and this means nothing less that shipping, and mainly the liner branch, which has deep roots buried into the domestic economy, deserves a better understanding if it is expected to expand and to be utilized as a useful tool to earn foreign exchange.

A second kind of comparison refers only to one segment of the domestic field which is represented by the demand of mechanical products, which can be well regarded
as one of the crucial sectors within the industrialization process. If we compare the international demand of mechanical products in one of the before stated European countries with the total of Latin America, we can observe that the Latin American demand is smaller than the French one, the one from Germany or UK, and the ratio between the USA and the Latin American total is approximately of 16 to 1. Furthermore, if such a comparison is made individually among those European nations and Argentina, Brasil or Mexico, such a ratio comes close to 5 to 1.

These global figures clearly demonstrate that the Latin American market is not very important if measured in international terms and that moreover, industrialized countries own market sizes that actually surpass the internal ones due to the magnitude of their exports, which in fact, is the weakest and most limiting point in the expansion scheme of liner shipping of any LDC. Regardless of the country, either south or north bound, liner market exploitation is based to a great extent on the carriage of products with a given added value and not of primary goods as several authors have considered, which makes liner shipping a kind of head bridge in the process of placing national goods on overseas markets. We might say, at the risk of oversimplifying that any liner service that pretends to get by in a competitive environment such as the existing one nowadays, is bound to look for an acceptable mix of both primary goods and manufactured commodities; but what is definitely impossible to accept is the possibility of successfully competing in a market made up of a very low rate of industrial cargoes, which actually show the deadline of variable costs as well as running costs.

What comes out of all this, is that if Latin America wishes to continue its economic development process,
which seems to be full of constraints and drawbacks represented by the impossibility of increasing its incomes through exports and of carrying out successfully the substitution process together with the internal and outgoing industrialization, what it has to do, is to aim at becoming integrated from all points of view as the only feasible way of achieving positively the industrialization program and a suitable balance in the regional industrial structure with the incorporation of basic industries.

By integrating Latin American nations, liner shipping is not supposed to remain untouched but diminished in terms of cargo volumes throughout the short run. But thereafter, and provided that such an integration is effectively realized by gathering different factor endowments coming from several countries and from different segments of the industry, the liner sector is expected to grow up. This has the main purpose of reaching economies of scale and high productivity capable of transforming the internal manufacturing process in an export oriented economic organization, as in East Asia.

Within this context, liner shipping structures belonging to the heterogeneous market segments are likely to mix up technical knowledge and specialization together with different growth and expansion rates in the long run; in other words the liner business is likely to increase its space utilization rate and to finally settle down with the support coming from the internal industrialization outwards oriented as the main variable to negotiate shares, and to combine in a much better way the regional resources which are represented not only by a combination of primary and industrial commodities as far as liner transport is concerned, but also by marine technology exchange among the existing members.
out for Latin America as a whole, and also for liner shipping provided such an integration program achieves its external target of expanding its products and services much beyond its frontiers.

4.4 - OBJECTIVES OF A REGIONAL DEVELOPMENT POLICY: ITS EFFECTS ON LINER MARKETS

The problems of the foreign sector regarding the growth of developing countries are constantly discussed in UNCTAD, where there is always a common understanding of what policies should be adopted to overcome the growth barriers:

A) better treatment of traditional exports with respect to unit prices, quantities and continuity.
B) promotion of new exports, specially manufactures, from LDCs to industrial nations.
C) better conditions and more suitable currents of foreign capital from the industrial centers to the periphery.
D) realization of regional agreements on economic integration among LDCs.

These four aims are closely connected to each other and have complementary targets, and although all of them have a certain influence on liner shipping activities, I am going to focus the attention mainly on the integration phenomenon, since I consider it is a quite relevant topic in regional terms so as to expand and interregionalize the liner trades and their different segments in Latin America.

As we have already set out, economic development in this area has so far been based on substitution policies on one hand, but requiring on the other hand as well, an additional pillar made up by manufacture sales in
the international market. Then, economic integration would mainly lead to keep the import substitution process alive, with the purpose of linking it with the market enlargement as a result of such an integration. Such an enlargement of the market would definitely mean that the manufacturing process of some goods reaches acceptable efficiency levels more quickly, since the productive capacity of the new undertakings would be utilized in a more complete way and the adopted processes would incorporate economies of scale. Normally, the necessary investment per unit of new production, particularly the one requiring the use of scarce currency, would be reduced, thus enlarging the increment of the productive capacity that could be obtained with the limited resources available. Thus, integration would accelerate the import substitution process as well as it would make it more rational and effective.

It has already been explained that the upkeep of a rhythm of a suitable imports substitution is quite unlikely to be done, if it is only based on the national markets. Obviously, most of the goods whose productions should start, require large plants, quite considerable capital investments and a very complex technology, so that its production in small size markets might only be carried out by sacrificing efficiency. In return, economic integration would enable the creation of a substitution program of these goods at a regional scale.

Now the questions are: What could be the role to be played by liner shipping within this regional context? Are liner trades going to keep the same development trend as before the integration? If not, what are the changes going to be and what is the timing factor influence? Is the Latin American liner segment prepared to face such a challenge of sharp shifts and entrepreneurial innovations? To what extent would...
the liner shipping industry actually benefit from regional policies?
These are just a few questions arising out of the economic integration phenomenon, and to which I have clear answers, although not always of positive character. First of all, the existing targets of a regional import substitution program have two different faces as far as liner transport is involved:

1 - To place the substituted commodities not only in the domestic market but also into foreign markets, members of the regional integration. In such a case, the investment required for building some specific capital goods and intermediate commodities would find justification not only from the economies of scale point of view, but also from the social cost one. By having several markets with different specialization degrees, the scope for the demand gets opened as if it were a domestic market ten, twenty or thirty times larger in magnitude, and more promising regarding its possible potentiality. Therefore, efficiency and quality standards are likely to be achieved by opening the national borders towards limiting countries or any member nation to the regional integration scheme.

2 - This process, when limited or restricted by either partial lack of know-how or unsuitable manpower or any sort of technical constraint coming out of the binding complementary character of the process in itself, may choose the alternative of shutting out the possibility to carry out all the transformation process frontiers inwards, and to look for a sort of combination of economic factors together with a certain ratio of complement with regions located frontiers outwards, but of course members to the area. That is the way a project that is apparently unattainable
owing to scarce factor endowments or for instance to the
non-existence of one of them, may be perfectly accomplished
by means of gathering the right factors in the right en-
dowments from the regional context.

Regarding the first topic and as far as liner markets are
involved, we could state without running any risk of
getting into pure theoretical arguments, that by enlarg-
ing the national markets through the opening of frontiers
and legal-economic barriers, many projects are likely
to be undertaken and what I consider of top importance,
are going to reach international standards of efficiency.
Naturally, such an efficiency standard will not come up
neither suddenly nor in the short run but is going to
get gradually developed and to create positive outcomes,
very probably after the short run has finished. Then,
during the short run, and provided that the regional
import substitution is properly accomplished, having
in mind the concept of multiplied markets, south bound
cargo flows are going to get gradually reduced till
reaching a level at which the remaining import substi-
tution alternatives, being quite a few, indicate
what to expect or what not to expect in the coming
future regarding cargo tonnage alternatively available
in the liner markets, their potentialities and prospects,
their different segments of demand and so forth.
However, something we should not overlook is the fact
that this regional substitution never occurs for all
the relevant goods at the same time, but that, there
are normally several kinds of lags in undertaking such
a process, such as an implementation lag, analysis
lag, factors complementation lags and others; this
is to say that even though the south bound market is
going to be, although gradually, sharply compressed,
sooner or later but always within the short run, such
a market is going to receive a growing demand given by
the new import needs generated by the internal and regional program of industrialization, since the main target of substituting is to create industries, locally run and managed, and not to generate an import shutdown.

However, the new import needs in terms of tonnage and throughout the second half of the short run, are going to be of quite lesser magnitude than in previous periods, but will help liner shipping to overcome the short run without having to apply to the lay-up tonnage market, or to any sort of strategy such as flagging out and others.

**GRAPH 4.4.1**

**CV**

**A** : average of imports before the process

**B** : curve of new s/b cargo-flow during the process

**X** : inflection point (curve B)
On this graph is clearly shown an existing gap that will never be filled during at least the first half of the short run, owing to its own dynamic character of the process and to the second main target of the process, that is to decrease the import coefficient as a way of saving foreign currency and cutting out dependency ties from the industrial centers. Standard or normal cargo inflows are likely to be permanently reduced up to a level at which is supposed to be close to the ending point of the first half of the short run although it might also be somewhere close to the starting point of the second half. Herefrom, the trend of the south-bound cargo is going to suffer from a shift by raising its volume as far as tonnage is concerned, and by increasing its degree of diversification if we look upon the kind of commodities to be imported; but even though the trend changes towards more positive or less negative figures, there will always be a gap in the cargo volume between the new import needs and the former import level before the starting of the process, which actually is impossible to be matched if we talk about number of tons carried from the statistical point of view. But what very probably is not going to be so sharply affected is obviously the freight tons level that is what actually matters to any shipowner, since and as we said before, any import substitution process involves an advance in the goods to be brought in technological standards as well as certain increase in tonnage depending on the way and how far such a process is carried out. Then, such a gap will always be there in volume terms but probably not forever in value terms as far as freight rates are concerned. The Z area shows the difference between the still non-substituted goods and the new import needs, which in simple words means that the development trend of the new
imports curve in the final stage of the short run has begun. What could possibly happen during the following stages is something rather difficult to foresee although not impossible; but anyhow such an analysis will depend entirely on how the macro and micro variables behave together with the joint participation of both the public and private sectors of the economy. What could possibly happen with the new import needs curve throughout the medium and long run in different situations expressed in terms of cargo volumes can be appreciated on the graphs below.

GRAPH 4.4.2

GRAPH 4.4.3
A : new import needs
B : non-substituted products
--- imports average before the process

We can assume that on the first graph (4.4.2), once the short run is finished, the curve of new import needs (A) gets stagnated throughout the medium and long run owing to any kind of mismanagement arising out of any of the many program strategies that make up the master target of import substitution, so long as the curve of non-substituted products (B) will continue with variances during the medium run and, consequently, with a great likelihood of rising during the long run as a consequence of its own dynamic character, in the process which bears in mind the GNP growth as well as the population increase and similar items.

In this case, the reason whereby the process becomes rigid and unadjustable can be found in the misplanning of market enlargement as an attainable alternative within the context of import substitution and industrialization programs.

On the second graph we can assume that such an enlargement with all its economic features is accomplished and therefore, the new imports curve tends to go gradually
up from the very beginning of the second stage, as long as the other curve tends to keep the same trend during the medium run and to decrease slowly during the final stage as a consequence of new achievements and developments in the process as a whole. In this case and as we have just seen, the traditional imports will tend to be lower each year and the new import needs will tend to increase not in volume but in value terms, which simply means that although always existing, the cargo volume gap is likely to be partially offset by better and higher technological products paying better freights among other things.

On the third graph (4.4.4) we can assume a situation whereby the whole process is partially carried out and its performance is of rather doubtful accuracy. Then, what happens here is that everything is going to be developed anyway but with certain delays coming out of such partial misplanning. If we compare it with the second graph, we can notice that the same trend is followed by the third one but in later terms; this is to say that the upward movement of curve A takes place at a later stage during the medium run and suffers from certain interruptions during its growing trajectory, thus producing several lags throughout its development in the medium run. Such a tendency will continue during the long run with the typical effects of the stop and go policies.

Curve B tends to decrease but also at a later stage, within which such a lag can take much more time than the represented one on the graph. Then what comes out of these three examples, is the fact that despite an existing solid import substitution process, the gap between curve A and the average of imports before the process is going to be importantly reduced in quantity and strongly overcome in value during the long run.
Throughout the first and second stages, the gap is going to remain, although not totally, quite immobile; but at least the trends to be adopted will be very useful to foresee what is coming in the long run. Then, we can finally state that by involving the whole area in an imports substitution program, liner shipping and its markets will be bound to resist the same effects of an economic recession during at least the first years of the programme; but once such a process gets an acceptable speed-up and properly combines the available resources on a regional basis by means of the enlargement of industrial markets, liner trades will experiment rather drastic shifts in their structures and in their different segments, specially when the medium stage reaches its ending point.

Regarding the second point, we should start its analysis by accepting the fact that even when the process just mentioned, together with the market enlargement strategy is a feasible way out so that it reactivates the regional economy without jeopardizing the liner shipping structures too much during the first years. Such a process can perfectly find barriers of structural nature that in fact are quite difficult to overcome, thus producing stop and go effects on the basement of the process generally owing to the impossibility of reaching high import substitution coefficients on their own, or in other words due to the lack of complement regarding the factor endowments within a regional context. This is to say that the actual advantages of such a process can readily become real drawbacks whenever the factor endowments mix does not exist. But let us suppose for a while that in addition to the import substitution process, its internal industrialization and the market enlargement, there is also the complementary character of the factors among the regional nations. In this case, the whole,
process, made up of four clearly identified steps, with its internal and external economic trends, is going to have several and different effects on liner traffic in a region like Latin America.

In order to analyse the economic integration on a regional basis I consider it necessary to split the liner traffic into four fundamental areas:

1) REGIONAL LINER MARKETS - IMPORTS OR S/B TRAFFIC
2) OVERSEAS LINER MARKETS - IMPORTS OR S/B TRAFFIC
3) REGIONAL LINER MARKETS - EXPORTS OR N/B TRAFFIC
4) OVERSEAS LINER MARKETS - EXPORTS OR N/B TRAFFIC

Regarding the first area, we can start by saying that within a regional context, what can not be logically substituted can be done through the regional complement system and technical assistance among the countries of the integration zone. This is to say that any undertaking that runs out of any factor of production, can be regionally complemented by other participating countries as regards the scarce factor as a way of getting lower standard costs and greater penetration indexes. All this leads to larger regional markets in the liner business as far as south bound cargo tonnage is concerned due to the simple reason that by gathering regional resources instead of only national ones, the cargo tonnage to be moved within the context of the regional complement in terms of raw materials, capital goods, accessories and spare parts will be much greater than before the regional strategy. However, I should clear up the point that not all the cargo of complementary nature among the member countries of the regional agreement is going to be carried by sea, but by RAIL and ROAD, since the geographical features of the continent do not show neither archipelagoes of considerable extent nor inaccessible zones by land.
Then, traffic which will probably benefit from such a process is the traffic that nowadays is ruled under the concept of bilateral agreements, such as the system existing between Argentina and Brazil, wherein the distances between the industrial centers of both countries indicate that the best alternative to carry goods is represented by the setting-up of liner markets, without forgetting, of course, the relevant cost-benefit ratios associated to those distances. Then, although not totally, the new regional cargo will influence to a great extent the development and expansion of the regional liner segments from the very beginning such a complement cycle starts, or at a later stage if such a cycle was not adopted on the right time.

Regarding the second area and following the same deductive procedure, it seems quite easy to realize that the southbound cargoes coming from the industrial centers will have to bear a sharp reduction on its volume, due to the simple fact that the region is already engaged not only in an import substitution process locally run and planned but also in a regional import substitution program with characteristics of complement and balancing among the member nations. Then, the overseas segments of liner trades in Latin America are logically expected to decrease in tonnage, and consequently in segment terms as well, which at first sight and individually considered would seem to be very disappointing, although actually arises as something quite promising if considered as it really is, this is to say as only one segment in the whole market.

Continuing the analysis, if we spell out the third area we can set out at the risk of oversimplifying that like the first area, any regional import implicates a regional export, thus producing a kind of cargo reactivation based mainly on two pillars represented by the outflow of goods coming out of the complement strategy
and factors balancing between the member nations, and by the market enlargement within the regional frontiers of the zone in agreement as a whole, and not only in national scales.

Once again, as I said before regarding the first area, not everything that is going to be exported will be done by sea, but at least a substantial share of it will be sent through the liner markets.

Eventually, the four area left as the most important if we think in terms of liner fleet expansion and liner market enlargement and diversification comprised into the framework of regional economic integration.

We can state once more, that the immediate target of a substitution policy is to spread internal industrialization as a way of developing technology, of generating jobs, of gathering and utilizing more properly the economic factors and so on; but after such an objective, comes up as a must, the chance of placing substituted units abroad by means of what we already have seen: domestic import substitution and regional import substitution programs.

The domestic process brings about several strategies placed between itself and the regional substitution process with many different effects on liner shipping.

We can say that those strategies are quite interrelated between themselves as well as closely connected with the liner-shipping development, being all of them of positive outcome in average. But even though the average shows positive figures as far as liner growth is concerned, they are of very relative importance without the success of the fourth strategy or area, since what comes immediately after a regional substitution program is nothing less than the way out for those products locally produced and "known as production exceedings.

There is no regional economic integration in the world that has been set up by looking only inwards the regional
context and without considering the hard currency inflow it might get by looking outwards. In other words, such a process starts internally oriented, to finish externally spreaded by means of export strategies, wherein liner shipping plays a supporting role from the economic point of view, and a first line role regarding defense and policy matters.

Coming back to the main topic, it can be said that the nations members to the regional economic integration, by opening their economic borders and by gathering their land, capital, labour and technology endowments in complementary ratios in accordance with the real needs and possibilities of the regional industry, are in a much better position of reaching economies of scale with quite attractive chances of transforming their infant industries, in cost competitive activities working and operating under all sorts of efficiency standards. All this, which appears to be quite easy to achieve when on the paper, is actually very difficult and misleading to carry out in a recessive environment.

Furthermore, it highlights the importance of the fourth area and the dependency shipping growth and expansion keeps on it.

Anyway, this process, externally oriented, can be considered as the motive axis for liner shipping expansion on all its segments and on both sides, the supply and demand. Therefore, we can take the north bound overseas liner markets as the strongest beneficiary of the substitution program in regional terms.

Besides this I want to underline the fact that a complete and promising integration cycle, with its subsequent positive results related to liner trades, is by no means a guarantee that such a cycle is going to last forever. Such an integration process should bear in mind the four fundamental steps for achieving positive outcomes from an economic point of view, and for keeping the liner shipping
supply untouchable during the first periods, as well as for raising the space demand in a permanent manner:

1 - Domestic Import Substitution and Local Industrialization
2 - Market Enlargement in Regional Terms
3 - Regional Import Substitution and Complementary Character
4 - Overseas Exports Through Economies of Scale and Standards of Efficiency

Whenever those postulates be respected and coordinately accomplished, economic reactivation is very likely to take place, and together with it, liner shipping growth and development. Then, we can finally say that on average, and as is shown on the graph right below, liner shipping can definitely get benefits from this process, but always provided there are teams in charge of looking after what is going on in subjects or areas such as economic planning and foreign policy matters of the whole region.

LINER MARKET TRENDS IN THE LONG RUN

Imports - S/B  Exports - N/B
Regional Liner Markets  +  +
Overseas Liner Markets  -  +

However, if we go a little beyond the positive liner market trends arisen out of economic integration, and if we analyze country by country in Latin America, we can see that the integration strategy, as a dynamic process in itself, finds a very dark side to explore and to
tackle in many, although not all, Latin American nations.

Such a drawback is based upon the fact that before speaking of regional integration, a country should look upon whether it is already nationally integrated and consolidated or not, since it is rather unlikely to talk in terms of regional planning when not even the internal complementary character of factors is given in a minimum expression. This is the case of the areas relatively less developed within the same country; for this purpose we can take Peru, wherein there are at least three kinds of economies perfectly differentiated and with a very weak linkage between them:

A) the export economy, made up of products such as fish meal, copper and other products, which have shown throughout the last decades a rather high degree of dynamism and a higher technological level, in relative terms.

B) the coastal economy, which produces for the domestic market, some manufactures and services, can be considered as relatively less developed and technically advanced than the latter one. Furthermore, it does not get many benefits from the dynamism of the first one, since greater exports normally generate an income which is actually spent in a very low share on manufactured goods internally produced.

C) the economy of the mountain, which operates at subsistence levels and with extremely primitive techniques; so that the developments of the previous economies affect it on a very low scale, thus keeping it self-stagnated and isolated throughout the time.

What I want to highlight with such a brief explanation, is that if economies of scale are to be reached by the countries which are members to the regional agreement, and if mobilization of economic factors are to be planned and utilized, national integration seems to be the first and indispensable step whenever we think in terms of eco-
nomic improvement, wherein liner shipping is included. The areas of any domestic economy must be connected to each other in such a way to allow a good starting of the process as a whole as well as of liner shipping as a segment of it.
4.5 CONCLUSION

According to what has been stated so far, we can readily observe that there is no way to successfully develop and implement a liner shipping strategy within the Latin American context without first looking upon the economic development of the region. This is due to the simple fact that, on the one hand, the stagnation level is so wide and rigid that it does not allow to think of planning and undertaking strategies of any sort regarding the liner trades, as long as on the other hand, different monopolies as well as oligopolies have taken over the existing markets within a framework of even deeper recessive characteristics.

Such development must definitely be based upon the following basis:

A - Import substitution
B - Market enlargement
C - Regionalization
D - Exports

We can say that the imports substitution program (A) has already been accomplished on a national basis by almost every nation in Latin America, although more specifically in South America. As we saw earlier, such a process can no longer offer new alternatives of domestic production as a way of diminishing the outflow of foreign exchange and creating internal industrialization.

Therefore, it would seem easy to predict that the next step should be the market enlargement strategy (B) as a way of combining all the available factors of production with the purpose of reaching high economies of scale and international standards of
efficiency. Then, immediately after these stages, exports ($D$) are likely to come up as a result of the punctual accomplishment of the previous stages. All this, which has been so far briefly stated, is supposed to show the way upon which the economic variables can lead Latin America to reach a much better performance and together with it, to get the chance of expanding and professionalizing its liner fleet. Such development, as we said before, will not take place before the short run is over and provided that the four stages of economic expansion be respected and carried out accordingly.

The whole Latin American economy is submerged into growing stagnation cycles leading to diseconomies in every possible segment.

The international economy, specially that of developed nations, tends to restrict the international trade by means of the implementation of protectionist measures, growing subsidies and scarce opening degree of their economies towards LOCs, and even sometimes among themselves.

The international capital markets seem to offer rates of better financial performance than the IRR offered by many development projects all around the world. Foreign debt pressure constantly grows, and certainly hinders the expansion of many industrial segments, which turns every time the economic recovery into something more unlikely to achieve.

The above mentioned are just a few reasons whereby I personally think that the regionalization strategy in Latin America, is more than a simple coherent answer to the international situation. Furthermore, it clearly demonstrates that any liner shipping offensive undertaken by any Latin American government, can by no means succeed in expanding and becoming professional its liner merchant marine by underestimating the actual economic roots of the crisis and by relying entirely on
its own cargo-flow, which by no means again, is enough so as to develop and expand a liner fleet aiming at becoming efficient.

Nowadays, the Latin American liner trades are, if not totally, quite regulated and controlled by their governments. Such a control is obviously owing to the lack of growth in their liner markets and consequently domestic economies.

Then, the cause of the depression in the liner trades can be identified as the reigning economic stagnation with internal and external origins, as long as the consequence is represented by the governmental control through the setting up of bilateral agreements, pooling agreements, cargo reservation laws, etc., etc. Both the cause and the consequence lead to even sharper diseconomies from a liner shipping standpoint.

Therefore, at present, liner services can be reallocated but never expanded if it tries to develop by itself. Besides, Latin America cannot substantially share the liner trades in the industrial centers, since in order to receive cargo one must be prepared to give cargo; and actually there is nothing to grant in these liner trades.

I can finish by saying that liner shipping must develop together with the undertaking of regionalization policies. Otherwise, what is going to occur is just a reallocation of services and not a real expansionist trend.
According to what we have already seen and discussed throughout the previous chapters, we can readily realize that Latin America is going through an economic situation wherein the values of the main variables of economic growth and development are almost insignificant and sometimes negatives, and where consequently, shipping markets are compressed and limited, thus leading to an excess of supply over the demand.

Regardless of the market we look upon in Latin America, we can set out without any doubt that the liner shipping trades were run in a pretty different way twenty years ago than the way they are presently managed, simply because the then existing market magnitudes and segmentations, allowed at that time to keep an, although not perfectly balanced, acceptable break even point of what then were the liner markets and its several segments. But even though nowadays all kind of negative variables come up to clearly indicate that changes have to take place in a trade where, such a structure or relationship is no longer kept, liner shipping companies are run as if it were the same situation than before with the sole exception that the level of cargo got a downward trend during the last decade. And if I say that liner firms were run in a different way, is because the cargo level, this is to say the demand, was in a certain counterpart relationship with the supply of tonnage and consequently, the managerial style kept a certain relationship as well, regarding said level. On the contrary, the reality shows us that each economic situation deserves a specific managerial current with its own strategies and philosophy, so as to be capable
of successfully dealing with the market strength and its holders in a quite different market balance, as the existing one nowadays in this side of the world. Then, despite the fact that the present magnitudes of the liner market are substantially different than before, shipping companies are run with the same managerial criterion than those in the 1960s. Therefore, it is my purpose to draw a managerial style whereby a liner shipping company could get a certain degree of innovation and specialization within the framework of strategic administration in any market of Latin America, always bearing in mind the need of suffering from a structural shift, so that such a style fulfills the new requirements of the relationship supply-demand.

I should start by drawing a kind of comparative graph between the traditional managerial trends followed by liner companies throughout the last two decades, and what they should do in the immediate future so as to earn specialization and get access into a market which has always been led by conservative and traditional managerial currents.

Now, if we pay attention to the concepts included in table 5.1, we can start by splitting these ten items into ten different explanations within the theory of strategic administration; but before continuing this analysis, I should clarify what is the real meaning of strategic administration within the liner shipping context. Summarizing, I might gather the main six points which are going to draw the context into which the concepts set out in the table 5.1 are comprised. **FIRST**: the market with linear growth rate during long periods, will never come back again to Latin American markets; it results totally useless therefore, to figure out numbers regarding future expectations on
the basis of linear growth. Due to this fact, strategic administration has an important role to play in this game, as we are going to see on the following pages.

**SECOND**: The management which is only based on the experience coming from the executives and made up of organizational structures already worked out, is definitely bound to fail before a restless competition that adopts the new strategic attitude, that captures and uses the experience by adding it innovation and creativity.

**THIRD**: The concept of separate divisions or departments is no longer advisable in strategic administration. From now, everybody must be on everything.

**FOURTH**: The increase of the market share of any liner company must be carried out by reallocating the existing shares between the best operators. Marginal operators are likely to be excluded unless they adopt strategic management policies before being kicked out of the trade.

**FIFTH**: Liner shipping companies will have to change its attitudes toward shippers, in such a way that liner operators will have to contact shippers and to do their best to pick up what can be picked up. Liner firms can no longer wait for the business. It is bound to wake up to reality and move faster than the market strength.

**SIXTH**: The main topic of strategic administration as far as liner business is concerned, is to foresee the future through coordinated steps in this kind of management and within the context of short and long range planning.

Now, coming back to the table and according to the concepts included in it we can set out the following statements:

1 — So far, Latin American shipping companies were involved in ordinary planning, but in such a way that they used to focus attention only on short-range basis and without looking forward great shifts in the long-range
regarding the structure of the markets, cargo-sharing trends, demand pressures and so forth.

But nowadays, it is of fundamental importance that any liner company is involved in long term strategic planning as well, since the shipping environment, although in recession, is still changing permanently and challenging innovators. Long term planning may result almost impossible to carry out in an accurate manner, as regards cargo volume or space tonnage demand, since as it has been spelt out before, the behaviour of the international trade variables are very unlikely to follow a sort of pre-determined pattern, so as to let them being standardized in international terms.

<table>
<thead>
<tr>
<th>TILL NOW WAS MANAGED BY</th>
<th>IN THE FUTURE WILL BE BY</th>
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<tbody>
<tr>
<td>1- ordinary planning</td>
<td>formal strategic planning</td>
</tr>
<tr>
<td>2- staff functions</td>
<td>linear participation</td>
</tr>
<tr>
<td>3- internal environment</td>
<td>internal and external env.</td>
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<tr>
<td>4- fix rules</td>
<td>comparative advantage rules</td>
</tr>
<tr>
<td>5- economies of scale</td>
<td>flexibility to adaptation</td>
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<tr>
<td>6- the whole market</td>
<td>segmentation</td>
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<tr>
<td>7- routine</td>
<td>innovation</td>
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<tr>
<td>8- static tools</td>
<td>dynamic tools</td>
</tr>
<tr>
<td>9- short run</td>
<td>critical short run/long run</td>
</tr>
<tr>
<td>10- static management</td>
<td>mobile management : int-ext</td>
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</table>

But long-range strategic planning actually goes much beyond this topic to deal with concepts such as operating plans, canvassing strategies, management performance and capabilities, competition performance, corporate image, product acceptance and many others. Then, we can set out that the scope that comes out of formal strategic planning covers a much wider operational area,
which undoubtedly grants quite clearer targets and shows more clearly as well, the available means to achieve these targets.

Strategic planning premises in a liner shipping company are discussed at a later stage, as well as its advantages and drawbacks.

2—Generally staff managers used to decide and to play the major role in the decision making process. Such a role, either well played or not, used to fall into the category of invariable owing to the fact that even when staff people mismanaged any topic of commercial nature, the own goodness of the last two decades, tended to quickly match any gap that could possibly come up in such a situation of staff misjudgement. At that time everybody got his share and nobody was really worried about what the competitors could do to increase their shares. But the market became gradually worse and with it, the gaps originated by wrong staff decisions started being so wide that staff turnover ratio started being very high as well.

Obviously, the answer can be found in the participation enjoyed by lineal managers, since they are actually the gays who are at the battle front receiving the bullets and shooting back. As simple as that.

We can say that the greater the participation of the lineal managers in the decision making process are, the more the chances of pointing towards the right targets are, and with the suitable means, specially when the hold space oversupply represents the common factor of all liner company, and whose diminishing variables might perfectly be the intuition of lineal managers.

3—This item speaks by itself, although anyway I would like to mention that liner companies used to always look inwards, and never ever outwards.
Domestic markets are important so as to set the main basis for liner operations, but by no means can be considered as the only feature on which attention can be focused. Together, the international and political economic frames must be spelt out and its conclusions inter-related with all the other planning devices, whereby externalities can no longer have surprising effects on local traffic systems.

4 -- This item is closely related to the latter one, since it reflects the lack of innovation and managerial creativity by means of the so called fix rules.

If they were fixed, is because the market did not demand much more; but neither the managers used to undertake actions related to the increase of participation, specialization, leadership strategies and so on.

Nowadays, any liner shipping company wishing to get by from the existing fierce competition and discrimination, must without any doubt, exploit to any possible extent comparative advantages in all liner segments, including those of uncertain profitability, as a way of anticipating any segment transformation, and improving, anyway, the overall efficiency.

Comparative advantages in an open market with a confen­cieral system in it, can be reached by competing as an outsider, by getting differenciated from the others as regards canvassing means, by granting more extensive shore facilities, by financing freight and demurrage charges in better terms than competitors do, by capital­izing managerial professionalism and by many other means.

A static liner company is nowadays, a firm candidate to be swallowed up by the other liner sharks, as long as the one keeping moving its managerial teams and also alert, looking for strategies, is the one able of getting by and even probably without figures in red colour.
5-- In Latin American markets, economies of scale belong to the past, if ever existed. There is no longer enough hold space demand so as to think in operating liner businesses under such a concept, and not even as a future investment strategy. This is a concept, the North American flag owners seem not to properly understand, since from the very beginning, all North American flag vessels operating in South American trades were and still are swimming into subsidies owing to the inflexibility to adaptation that brought about huge amounts of dead freight, as well as operative problems of every nature. In other words, shipowners must be wise enough so as to include the concept of flexibility in any planning and managerial process.

Flexibility to adaptation may be reassembled by the right understanding of new needs of the market at the present situation, and by the right undertaking of actions oriented towards the fulfillment of the new requirements coming out of the markets framed into critical shortage cycles. Flexibility to adaptation must take place mainly in two areas: technical and commercial. The technical side should look for not necessarily investments in new-building units but in reconverting existing operative units into more suitable vessels, aiming at providing a better balanced cost-benefit relationship service, as long as the commercial side should look upon the canvassing force and the different ways of giving more flexibility to the demand in business terms without hindering the expansion of the present market share.

6-- Before, liner companies used to approach shippers in order to get their cargoes, or what was more common, shippers used to contact shipping companies to get their cargoes loaded. In such a procedure, the cargoes were
booked and consequently loaded as soon as they come up available to the canvassers, who usually were very happy in booking them, without having to hamper such a shipper with the possibility of rejecting his cargo, because it was a low-value one. Then, on average, most shipowners got the same net revenue trip after trip. But once the markets turned round 180 degrees and showed a totally different tendency, non-innovator liner firms began losing cargoes both in quantity and in value, thus fostering those innovators that instead of trusting the traditional market variables behaviour, decided to undertake segmentation strategies by studying hinterland constraints of every segment, by adequating its services to the hinterland requisites, by adopting a certain rate flexibility regarding some segments, by classifying cargoes in different degrees of priority, by spelling out rate complementation for substitute segments and so on. Then, we could set out, that segmentation is indispensable to carry out the right assessment of the present and future potentiality of each segment, as well as of grouped segments in similar FOB value.

7 — Innovation automatically leads to new management criterions as well as new commercial tactics to be used mainly by the sales force or canvassing people. Technological innovations will not go beyond the reconversion of existing units, since the degree of capital intensive, existing in new-buildings such as a full container or multi-purpose unit, does not allow Latin American liner operators to run them profitably, mainly due to the existing imbalance between the supply and demand strength. But even so, in my opinion, moderate reconversion tasks together with innovating commercial initiative, are likely to be the main pillars to win specialization and then, differenciation. To get differenciated in the
commercial field, only requires a bit of imagination and quite a lot of aggressiveness, as long as in the technical one demands certain capital endowments, whose principal is likely to be repaid in fact, quite faster than any other traditional investment made in high-tech ships by the same amount.

8 — Static tools such as administrative procedures or intuitive managerial decisions were the most common and still actually are the most popular methods to adopt policies, and draw short term strategies in many shipping companies. Nowadays, even when the demand has been drastically reduced by both the internal and external environment, computers are of great help in the decision making process within the decision context of any traffic. Departments or sections such as canvassing, sales, containers, shipping policy, conferences and others, definitely need to work with computers whenever they want to achieve acceptable decision-timing ratios.

It can be said that a proper use of computers grants the facility of gathering kilometers of commercial information, and gives a certain degree of differentiation as far as those departments or sections are concerned. The key areas within the commercial management context where computers can produce quick positive outcomes, are sales organization and canvassing task force, containers allocation and different operational features, such as follow-up of units and demurrage charges monitoring, commercial decision making based on opportunity and timing factors, traffic statistics organization oriented towards an easy interpretation and a nitid projection of the present and future threats and opportunities, as well as figures and trends of the past and current performance.
In my opinion, this is what Latin American liner companies primarily need as to match in certain way the existing gaps of managerial technics with the industrial centers.

As everybody knows, computers can be adapted to almost all the needs of shipping companies, but I think that any computer utilization which goes beyond the commercial or traffic management, is a waste of capital. Such a capital could comparatively be allocated to other areas, or simply saved. Technical utilization of these equipment may not be necessary throughout the short run, but perhaps at a later stage.

9 – This point deals entirely with managerial attitudes and leaves aside any technical consideration.

The crisis is there and can be touched, so that is real and perfectly tangible. Managers need to be one step ahead of what happens right now. Short run strategies must be looked upon not as a way of adjusting the master strategy, but as a way of seeking means in order to become specialized and differentiated at a moment that, it is dramatically basic and tactically demolishing.

Basing my comments on working experience in critical markets and not upon theoretical arguments, I feel totally positive in saying that the deeper the stagnation and recession are, the more appreciated the efforts of reaching differenciation and specialization are by shippers and public sector. Even I would say that since crisis makes the skills sharper, sometimes is better to deal with critical environments, with the only purpose of developing managerial minds and creativity, because I consider quite easy to reach high innovation degrees, when behind one there is an army of banks and financial institutions willing to lend money to carry out specialization projects, as north american companies usually do.
Managers have to have their minds oriented towards critical short run tactics and of course, framed into a master strategy leading to the long run, which in real life is nothing else than a long-range guideline.

10 — With this item I want to leave clearly understood that by organizing a kind of mobile management, either external or internal or even both of them, specialization is likely to come up and press very fastly in the liner circles. Line managers and canvassers are supposed to be dynamic and persistent in their tasks, running 24 hours a day in the street if necessary, and bothering as many executives as possible.

Static management can no longer survive in critical trades unless it is protected by discriminatory resolutions etc., whereby is not necessary to achieve innovation. Commercial diversification and sales spreading is unlikely to occur whenever managers keep on using old fashion managerial rules, as those comprised in static tactics.

The only one who, in my opinion, could adopt static management is the chairman of the company; all the others must behave like insects around the marmalade: restless and frantically disordered. The market demands it; as simple as that.

5.2 - ADMINISTRATION BY OBJECTIVES

I start by defining what is the meaning of administration by objectives (ABO), and to delimit its frame or area of utilization.

First of all I should highlight that the results coming out of the use of an ABO system may differ markedly from country to country, specially if we look upon developed and LDCs. As we are going to see at a later stage in this
The elasticity of demand and the opening degree of the liner market concerned, are the main factors that mark the difference between an industrial nation and a LDC regarding positive, neutral or negative outcomes. Then, administration by objectives can be simply defined as the managerial strategy whereby staff, lineal, and operational personnel commit themselves before higher management levels for achieving certain specific goals, throughout a limited period of time and by adopting their own procedures under personal liability.

This system, in fact, is very unlikely to produce positive outcomes in those markets where the traditional way of operating leaves aside concepts or philosophies such as free market economy or decentralization trends, and includes many and different means of restriction and control over the normal functioning of these trades. We can say that the efficiency of the ABO system will probably vary in a proportional way, to the opening degree in the relevant market.

From this statement we can readily notice that the closer or more familiar a given market is to its public sector, the lesser the likelihood will be to achieve positive outcomes out of the system.

A typical comparison can be done between an open market economy and a centrally planned economy, thus representing the two existing extremes within this subject.

Regarding the first case, an ABO system will certainly find a wide range of possibilities of being exercised in its different forms, while the latter represents the maximum degree of public sector interference, since everything as well as everybody, belongs to the state. Obviously, in a free market economy like the United States, the human creativity, pointing towards competition and subsequently towards specialization and innovation, is very likely to take over the market philosophy.
so as to make run the trade under such a pattern, as long as in a centrally planned economy, innovation and specialization through human creativity, if there is any, is entirely guided by the central authority, where at, simply left to say that the countries which hold out in the functioning of its markets under such conditions are certainly condemned to be not only one, but several steps behind those nations enjoying wider concepts of economic freedom.

We can also set out without any risk of being mistaken, that in times of international economic recession and specifically, during stagnation periods in LDCs, the human creativity through strategic administration procedures and technics in its different shapes, is nowadays considered as the key point from a global point of view, since with it, the existing oversupply gaps, protectionist trends, regulation measures and retaliation counteractions, freight market decreases and many other constraints, are looked upon to be overcome or at least offset in such a way that, those countries and liner companies that knew how to get advantage from it during recent periods of time, are going to enjoy high degrees of specialization and innovation leading to the attainment of positive rates of fleet expansion and acceptable market growth indexes, as primary and secondary effects respectively.

In other words, normally a well chosen managerial team using the right administrative and managerial tactics, is much more likely to attain better outcomes than those results coming from monetary investments in technological devices, which contain a rather scarce participation of management skills. But now, the point that we could raise right here is related to the category into which both, the Latin American liner trades and its shipping companies should be placed, and consequently the chances
of adopting an adequate AEO system without meaning to fall into resources overlapping or waste of time and resources.

First of all I should clarify that, although liner markets in Latin America are framed into the liberal side of the entrepreneurial philosophy, there still are different degrees of mixture between the currents of free enterprise and public interference; therefore it would not be accurate to look upon the whole Latin American market as a single traffic.

There are several countries in this area with different interventionism degrees among them, and even with different internal policy orientations regarding its own trades. This could perfectly be the case of Argentina, Brasil and Mexico among others; but let us take the example of Argentina, wherein the main four trades enjoy different structures or systems, and follow distinct regulations, which eventually leads to the need of implementing quite different management strategies within the framework of an AEO system.

Before going on with this analysis I consider it necessary to state the main advantages and characteristics the AEO system enjoys, so that to leave for a later stage the drawbacks and limitations such a scheme has to face in partially liberalized economies.

This scheme simply consists in asking questions at the relevant levels, such as:

--- What are your targets for the coming 90 days period?
--- What are your projects, prospects and expectations?
--- What steps are you going to follow in order to achieve these goals?
--- In achieving these goals, how many standard and/or extra working hours will you need?

The answers to these questions are supposed to be written on a suitable sheet of paper with several copies to be
sent to the immediate superior levels. In other words, this is a kind of written commitment, whereby the person involved is morally as well as professionally bound to attain those objectives on the right timing. His performance must be evaluated quarterly, and the degrees of achievements discussed face to face with the boss. This quarterly appraisal, has the only purpose of making people feel responsible at all levels, and of developing a kind of self-demanding behavior in their attitudes. Furthermore, such an evaluation is quite useful in the way that people involved in such a procedure, are obliged not to forget the main goals of the organization set out on the paper, as well as the means to achieve them.

This system of quarterly confrontation may seem to be very simple, but whenever the degree of managerial pressure is well administrated, it works without waste. I could say that it works acceptably well, mainly for the following reasons:

1 - it lets the person involved in such a system, to become his own boss and draw his own targets.
2 - it lets this person to be more efficient in what he does, and it induces him to motivate himself by means of his own initiative.
3 - it allows the original ideas to reach the higher levels of the company, without any kind of major interference.
4 - it helps to detect worthy people as well as to avoid anonymous managers.
5 - it obliges to keep a periodical conversation between the assessor and the subordinate, what leads to avoid unnecessary tensions and resentments. Without a periodical chat and discussion, is probable that a manager who does not perform as he is expected to in a specific matter, may develop or experiment resentments against his supervisor. Or even he might
think that his failure is due to the existing bad relationship between them.

Summing up, what a method of quarterly appraisal of means and objectives does, is to stop intermediate managers for a while, just to make them think of the development of the strategies adopted, how they behave, to set objectives and define ways in order to achieve them.

Another important point included in this system, is that it does not allow personnel rotation inside the company, since it considers that each function in each department must be carried on by the best people; and the best people are not the best in all functions. Therefore, the system prefers to fire a sub-standard manager instead of training him in other department or division when he was given the chance of choosing his area, within which he was supposed to be the best or at least outstanding.

On the other hand, a transference to another sector of the company would mean to run the risk of losing time in training and in getting him adapted to the new job, without the real certainty that he is going to be eventually, the best.

A shipping company, as any other company, can not be merciful in times of recession and neither can accept dealing with the wrong people whenever it wants to overcome such a recessive period.

Now, since we have the main advantages and characteristics briefly expressed, we can observe to what extent an ABO system can successfully be worked out in a given liner trade. To this purpose, let us come back to the four mainliner trades in Argentina:

1 - ARGENTINA/BRASIL FREIGHT CONFERENCE : ABFC
2 - EUROPE/ARGENTINA FREIGHT CONFERENCE : EAFC
3 - INTER-AMERICAN FREIGHT CONFERENCE : IAFC
4 - ARGENTINA/MEDITERRANEAN FREIGHT CONFERENCE : AMFC
1 - ABFC : open conference - close market
2 - EAFC : open conference - open market
3 - IAFC : open conference - close market
4 - AMFC : open conference - open market

1) The ABFC although is an open conference, it is run on close market basis and under a bilateral treaty; this is to say that the only ones allowed to join this conferential agreement under freight tariff rationalization terms, are either Brazilian or Argentinean owners exclusively.

Then, what we can notice here, is that since governmental interference is maximized through the signing of a bilateral agreement and the setting-up of equalized freight rates, just very little left to exercise human creativity within the frame of strategic administration. Both, the staff and lineal managers are bound to respect and follow certain pre-established standards of performance as well as to focus the attention on the own dynamic character of the bilateral process. Competition does not exist, since share allocation and state leadership take over the market philosophy, and therefore managerial attitudes find an extremely narrow path on which ideas should develop.

2) The EAFC, was and still is nowadays the strongest liner market, principally the lines joining ports between the River Plate and sections A, B, C, D (north of Spain and France, Germany, Holland, Belgium etc). In this context, we can observe that this market deserves to be classified as the most dynamic and changing in economic terms, since owing to its own characteristics of opening and freedom, an ABO scheme could perfectly be implemented into it. Competition does exist and therefore, both the staff and lineal managers can rely on results coming from the ABO stra-
The Conference is bound to frankly compete with the so-called freight rates moderator and to induce its managers to demand the people behind them, to accomplish their best under pressure conditions. The same will occur on the outsider’s side, where they will be obliged to compete not only with the conference as a single large company, but also among them. Then, either in conferenced firms or not, different performance appraisals will be carried out (bimonthly, quarterly), different managerial factors as regards timing will be considered, distinct degrees of pressure will be exercised in accordance with the real opportunities or entry barriers that this market could possibly have, diverse canvassing strategies are likely to be adopted and so forth.

An open market not only allows, but that demands the best to come up and take over the largest slice of the cake, which on the other hand, will never be so large so as to become in a beautiful monopoly by itself, since there will always be clever determined competitors totally decided to challenge the best and to increase its slice by all the available means; this is to say by operating either in a conference or as an outsider, or as a specialized owner in less costly triangulations or whatever other alternative.

An open conference run in an open market, where outsiders are supposed to come up and compete, leads to a sort of ideal experimental field regarding the implementation of strategic administration techniques, specially in markets going through recession and stagnation cycles and in those on their ways of getting rid of them. In this case, the difference between undertaking and not undertaking managerial strategies, might readily mean, success or collapse.

The experience shows that most developed liner markets
in the world are governed and ruled in high percentages by ABO schemes, and within a framework lacking of public sector interference and traffic discrimination. For instance, the liner markets in the FRG, are managed in the range of 80-90% under ABO rules; the same percentages for Belgium and Holland, about 80% in France and a little bit above 90% in Scandinavian countries. Of course, the USA and Canada as well, are highly competitive in this regard, as long as other nations not so industrialized, show anyhow a lofty figure: 60% in Italy and Spain. Then, summing up we might say that this managerial scheme can perfectly be applied in those markets enjoying both basic features: no state interference/no market opening limitations. The more liberalized the market is, the more capable the trade will be in contributing positive results coming from the ABO programs.

3) The IAFC has been made up in such a way that the n/b traffic is totally restricted to outsiders under the provisions of the relevant bilateral agreement, as long as the s/b traffic is open to the outsider competition, which is nothing else than a simple regulation without any practical value, since obviously no outsider would be willing to trade on a regular basis on only one leg of the traffic. Then, here we have again an open conference that in fact is not open to third flags, and operating in a close market. Then, as far as the management by objectives is concerned, its likelihood of being implemented aiming at getting positive outcomes, is practically void. Once again, the organizational structures of shipping companies are made up of interrelated commitments regarding cargo allotments, pooling rules and so on. Then, everything is controlled and governed by a central body
that makes impossible the development of managerial skills as well as the increase of the overall efficiency.

4) The AMFC has similar characteristics than those set out in the EAFC; this is to say that it works on open market basis and under an open conference structure. Here, once again, an ABO system can readily be adopted and thus managerial pressure can be fully exercised. Such a pressure, either oriented to staff or lineal personnel, must not be neither excessive nor too light, but it must point toward reachable targets in a critical short run.

Normally, the international success of this system is due, to a great extent, to the exigency degree that managers usually applicate on their operational people, but keeping a certain relationship with the real supply and demand. Such a pressure can go a little beyond of what the market can actually offer; but pressure in excess is a well known sort of mismanagement and does not lead to anything fruitful, but to internal tensions and resentments.

We have already set out the main characteristics and performance degrees an ABO system can have in different organization structures. Then, what comes immediately out of it, is that such a system might ideally be used in open markets with open conferences operating therein. But even though such a system should seem to fit into open market structures, its results may vary according to the organizational structure on which is applicated. For instance, in an open market, two fundamental structures can be found: CONFERENCIAL ORGANIZATION AND OUTSIDER ORGANIZATION.

As we know, every member to the conference is bound to fulfil certain technical requirements and to follow a
given criteria as regards share allocations and cargo
allotments, whereby, in spite of being operating in an
open market, the field to develop managerial innovation
and creativity is not actually very large, although is
larger of course than the existing one in a close market,
restricted market or bilateral agreement.
In other words, since such a kind of traffic is oligopo-
lized in one way by the conference that operates on
common freight rate tariff basis, managerial creativity
will only be groupal and focused to combat the existing
outsiders.
Competition among members of the conference can be oriented
toward services but not rates, which makes shippers
rather indifferent. Even so, some creativity and in-
novation which can be followed by investment decisions
or not, is likely to come up ashore regarding both the
technical and commercial side.
But obviously, with respect to outsider operators, ABO
yardsticks are of top importance, specially if we
consider that they do not belong to any cartel organi-
zation nor similar structures. They compete against
conferences and among themselves, thus leaving aside
concepts such as share allocation, pooling agreements,
etc, etc.
Outsiders are more capable of negotiating with shippers
not only freight rates, but also the extra time of
containers, routings, delays of any kind and all other
sub-services related to this business, specially those
of operative nature.
Outsiders have to be flexible to negotiate successfully,
and together with such a flexibility, strategic adminis-
tration procedures in its different shapes must be adopted;
therefore, we can affirm that the more capable in getting
managerial innovation outsiders are through strategic
administration, the deeper the penetration in the traffic
will be, and consequently the greater its abilities to
get positive outcomes from ABN strategies through flexible policies, the tougher the task for the conferences will be, leading to a much better performance and overall efficiency of the system. Then, an ABN system, which in fact should be called a sub-system, originates a kind of chain reaction, thus bringing about tactical changes in the managerial field and rate adjustment in the pricing forming process, or what in other words could be called changes in the master system.

So, what can be said right now, is that both the economic cartel and independent operators, can make good use of an ABN system, although to different extents and therefore with unlike results. But the one ignoring the potentiality and the threat such a system could mean, adopted and developed by any competitor, is very likely to become marginal in the medium run unless it adopts in time, managerial counter-measures throughout the critical short run.

We can conclude by saying that strategic administration provides the right tools for reaching certain managerial creativity, but not only in the local or domestic traffic but also in the international one, thus flushing the existing quality gap between the local traffic and the international one.

As we stated earlier, such a scheme is likely to strongly support the rates moderator role that any outsider is supposed to play, thus bringing about a positive chain reaction as far as rate setting and managerial attitudes are concerned; but of course, the same system becomes totally void when we talk about close markets, cargo sharing, cargo allotments, cargo reservations and pool agreements, like the ones existing in the IAFC or ABFC, as well as many other conferences in Argentina, and most of the trades between Latin America and the industrial centers.

The next point aims at clarifying the actual role trade
restrictive measures just mentioned are presently playing in Argentinean markets, from the overall efficiency point of view, and to what extent such a trend could be deviated toward a different market philosophy by using strategic administration plans and by adopting a higher opening degree in the maritime trades.

5.3 - LINER REGULATION

As I have just mentioned in the last point, there are several methods whereby liner shipping can be restricted or more closely controlled. These are: cargo sharing, cargo reservation, allotments and of course, different well known types of conferences.

In general terms we can say that, while freight conferences aim at limiting price competition, cargo sharing and allotment policies point to limiting service competition.

By their nature, these agreements restrict competition. The degree of cooperation required by these agreements can vary from a simple allocation of sailings, to revenue pools specifying the shares of particular commodities traded between particular ports to be allocated to each party to the agreement, to space charter agreements, joint service agreements, and, in the extreme, outright mergers between lines.

On the other hand, we have cargo reservation acts, whereby some specific cargoes are bound to be transported on national flag vessels, which obviously lead to direct intervention and market regulation on the part of the State concerned.

Now, the question is, to what extent, a strategic administration program would help in getting rid of regulatory and discriminatory interference exercised by the public sector. The answer would lead to the
theory that advocates a gradual complementation of market liberalization and strategic administration; this is to say that as soon as the regulation becomes gradually less strict, strategic administration must get quickly adapted to the new environment so as to let liner companies prepare themselves, and thus to compete in equal conditions than those foreign liners that are already trained and accustomed to make good use of such a system. Whenever regulation takes over the functioning of the traffic, either through a bilateral agreement or any kind of pooling agreement, the overall efficiency of such a market tends to get drastically diminished in the long run, while the critical short run finds both lineal and staff managers, unable of competing and developing their managerial skills. Everything is controlled, shared, regulated and monitored in such a way that the management quality gap, between developing countries and the industrial centers, tends to widen regardless of the volume of cargo available in such a market or what in other words could be called, regardless of what the trade demands. For example, recent studies of the impact of bilateral cargo sharing agreements concluded that the protection provided under these agreements resulted in the use of older and often more obsolete ships than would be employed in the trade if it were open to third-party competition. The conclusions reached were that containerization was not effectively employed and members of the conferences covered by the bilateral agreement generally used their older tonnage to serve the particular trade. The same study also found a significantly higher freight rate level, than should be expected in the service, if it were open to some degree of competition. The reasons behind it are the lack of effective competition, the essential protection provided, the high costs of the protected marginal operators, the
lack of rationalization of tonnage employed and schedule of services provided, as well as less than efficient use of port infrastructure and support services. Then, as we can notice, the quality and terms of service nearly always decline under non-competitive service conditions, imposed even by cargo reservation. Even on routes covered by closed conferences, there is always the potential for non-conference operators to offer services in competition with the conference. This ever meant any danger to the conferencial system, but on the contrary usually provides a measure of service and freight regulation which assures the offering of reasonably competitive terms.

Summing up and coming back to the question, strategic administration is by no means capable, by itself, of generating a new market philosophy toward higher opening degrees and progressive receding from regulatory parameters. But what it does, is to prepare managers and operational people to think and evaluate in strategic terms, since as I said in previous chapters, the opening degree of the regulated markets will come up by itself, as soon as the import substitution process together with its internal industrialization and subsequent internal and external diversification take place and bring about the gradual traffic expansion. In such a case, any market, regardless of its location and political flag will have to get gradually open; and that is exactly the right moment for managers to compete so as to obtain specialization in any field.

This is what presently happens in the EAFC, where conference and outsiders are accustomed to freely compete and to do their best to reach innovation scales under whatever method they consider useful; but all of them, of course, under pressure. Strategic administration can also lead to rationalization
of services and therefore, it would be able to improve the overall efficiency by minimizing costs.

Now, if we pay attention to one traffic in particular so as to reveal the actual causes and consequences of a bilateral agreement, the real gaps as far as the traffic effectiveness is concerned may be noticed. The traffic chosen is the IAFC, and particularly the existing line between Argentina and the United States. East Coast, where as we said before, the market policy follows the tendency drew by a bilateralism framed into a close market. Such an agreement provides 50% to each party, thus remaining forbidden by law the outsider competition.

In this particular trade, we can observe two different technologies, which were developed and oriented to compete in very different trades; however, they are competing each other and consequently, they are very far from rationalization standards. On the one hand we have North-American flag vessels, built with high technology standards aiming at reaching high economies of scale in a market where the concept of economies of scale, and as I mentioned before, is very far from what the market can actually offer. On the other hand, we have the Argentinean flag vessels, built with medium standards of technology aiming at participating in the trade and keeping its national interest up to 50%. Neither the first nor the second one, has properly planned such an agreement, since the United States lacks of flexibility to adaptation while Argentina suffers from an excess of state interference, that comes represented by its own state-owned line.

While the United States keeps running vessels extremely large and without the chance of reaching acceptable loading factors, Argentina's national shipping line finances its traffic liquid deficit by means of public funds.
This problem can be looked upon from two points of view according to my understanding: the economic side and the managerial aspect.

The Argentinean flag vessels, although more suitably designed for this traffic regarding sizes and capacities, are by far more costly to run than the North-American ships, and less efficient as regards round trip scheduling, port operations, container operations, follow-up of units, and further operative issues. North-American vessels, although too large in size, are less costly to run than the Argentinean ships in terms of cost/tonnage ratios and cost/ton/mile indexes.

As I said before, these ships are strong in what its competitors are not, this is to say in all the technical operations of a typical liner company such as scheduling, port operations, containers follow-up, timing factors and shore facilities to shippers. But of course, they were designed with another view, in fact totally different, of what the South American market should have been, and therefore, instead of reaching economies of scale in a market deeply involved in recessive cycles, they increase the amounts of dead freight year after year. Then, from an economic point of view, it is right here when the subsidies come up in order to match the increasing dead freight gap. In this context, the North-American shipping is the one receiving great amounts of subsidies, while on the Argentinean side, although in smaller amounts, subsidies are granted as well.

Following this brief analysis with the managerial issue, we can notice that North-American companies, in spite of being aware of the fact that they did not bring the most suitable units into the traffic, encouraged its managers to undertake innovative and aggressive tasks related to marketing, canvassing and cargo forecasts in overseas
markets, this is to say, in this case, particularly Argentina, since they consider that the managerial attitude of their personnel must be exactly the same than the one they would have to show in the own North-American market. On the contrary, Argentinean managers usually rely on cargo sharing provisions, thus leaving aside any managerial undertaking, since sooner or later, their ships are going to be filled in the same quantity trip after trip, but of course not in the same freight ton value.

So what we can see here is that even though we speak in terms of close conference and close markets, would seem that a place is always lefting to reach specialization and innovation accomplishments. But anyhow, it seems to be the right moment to raise a key point: what is the alternative way out to bring about improvements in the overall efficiency of this particular traffic, that may perfectly be the case of any other Latin American country dealing with the USA, or any other industrial nation under bilateral parameters. Well, everybody knows and accepts that a bilateral agreement tends to stop competition and to hinder the internal efficiency of the traffic. Also everybody knows that a bilateral agreement will necessary produce adverse effects on the countries members to the agreement, particularly in the long run. Everybody knows that such unefficiency in the long and medium run, is bound to be offset by either rising freight rates or by granting state subsidies. But anyone involved in liner business could reply that there is no market so as to encourage and support liner operators to bring back the overall efficiency that this trade ever had. But also I would say that not everything always depends on the market, and that is the reason whereby I am completely convinced that, in the case of a bilateral agreement such as this one, there are several complementary ways
of recovering the overall efficiency without breaking down such a treaty into an open market full of competitors, since not always the bilateral agreements mean unprofitable undertakings.

In my opinion there is one way whereby a bilateral treaty could be modified without breaking it down into an open market or a more liberal traffic. This method consists in granting a certain degree of opening to such agreement, but only in internal terms; this is to say that such an opening will take place within the context of the bilateral treaty, but with a wider scope with regard to liner companies.

Then, besides having a conference under the control of both parties, why not allow North American and/or Argentinean outsiders to compete against such a conference, thus acting as freight rates moderators among other topics. In this case, cargo sharing will continue being used between the two parties members of the agreement, but the rest of the market would be shared without any regulation among the several outsiders and regardless of whether they are Argentinean flag vessels or North American ones.

Logically, some provisions should be laid down in order to avoid an oversupply on the part of any of the two parties.

This could be one way of keeping most of the negotiated shares for the corresponding balance of payments, and of granting a certain dose of competition leading to the improvement of the overall efficiency of the trade for both parties, and for all the liner companies operating in such a trade. This improvement should come up throughout the medium run to be finally settled in the long run.

But as I have said before, this market, as well as many others in Latin America, is submerged into a recessive cycle, and then, any kind of market opening would immediately lead to an even sharper overtonnage coming
from those interested outsiders in exploiting the market during the critical short run. Then, it seems very easy to conclude that before a market opening takes place, an economic reactivation must be generated in accordance with what I mentioned in previous chapters.
5.4 - CONCLUSION

Before starting the conclusion, we should not forget that the cause of the closing degree of most Latin American liner markets as well as the emergence of high levels of public interference, is given by the existing recession and economic stagnation on this side of the world. And subsequently, the consequence can be regarded as a loss of relative efficiency in those particular trades compared with those trades which in spite of everything, could enjoyed a bit more of freedom.

Once more I feel secure in saying that, if Latin America is on the way of becoming integrated by means of the utilization of its own national and regional resources so as to obtain internal industrialization and external diversification, it should start thinking of developing not only the economic variables, which are totally essential, but also the managerial skills and systems.

We might well affirm that even though a real economic growth together with a gradual opening tendency in the liner trades should take place, the entire process would see its performance pretty diminished and holding even negative effects in those cases where some liner markets should run out of national operators due to the unskilfulness of the managers in facing both the regional and the international competition.

Such inability to deal with the new realities of the market, is supposed to be gradually offset and eventually erased at the same time the gradual opening process occurs; since as I just said, the opening process in the liner trades as well as the new management style, are going to begin at the same time and to develop at the same speed, this is to say gradually.
As long as a certain correlation is well kept and properly monitored between the opening process and the new managerial trend in the relevant linear trades, the negative outcomes are likely to be left out and the overall efficiency is likely as well, to improve. Then, management by objectives seems to be the most suitable system in order to meet step by step, the new requirements of the environment. In this case, both the managers and the system in itself, are bound to quickly change their attitudes since on the one hand, there is a growing pressure of demand coming from a planned regional economic growth, and on the other hand, there is a gradual market opening process. Both facts are closely interrelated, but the extent to which they can be developed may be drastically limited whenever there is no change in the managerial thought. Therefore, these three factors (regional economic growth - market opening - strategic administration) will definitely lead the whole process to a safe port, provided that first of all, its interrelation is well set up and punctually followed up, and secondly, that there is a tangible economic expansion.
I want to start this chapter by defining the context into which strategic planning is going to be developed and related to previous issues. The idea is to define a strategic planning methodology together with its advantages and drawbacks in order to, at the same time, relate them to two fundamental topics: the close and open market philosophies.

As we have seen before, the main features of these trades are, although not very different, of special consideration; specially when we know that these traffic systems bring about outcomes of very different nature and therefore, of very different impact as well. The traffic chosen will be once more, for practical ends, the River Plate liner market in Argentina, where liner shipping companies of several structures and sizes can be found, and where the economic indicators do not shut out the possibility of applying the coming comments on any Latin American liner trade.

What comes out of all this, is that a strategic planning method may have many different ways of being elaborated, implemented and fed back according to the region and market trend comprised in the analysis. And one of these differences is given by the degree of opening that a given market enjoys; therefore, within this context we are going to compare the weaknesses and strengths of the strategic planning methodology in an open and close market.

Then, I think this is the right time so as to raise the typical questions in this regard:
--- Is strategic planning a useful tool so as to increase the overall efficiency of the market?
--- Is it possible to implement such a methodology into constantly changing environments?
--- To what extent a strategic planning system is capable of granting positive outcomes in close markets?
--- Does it have the same productivity in open markets than in close trades?
--- Is it possible to plan in advance in those trades where the public sector interference tends to an everlasting growth?
--- Can a strategic planning system be successfully used by a Freight Conference?
--- Does it really foster human creativity and improve management standards?

These are just a few questions we are going to deal with throughout this chapter, with the idea of splitting this analysis into two main structures: open and close markets. Regarding the first one, we are going to include the different forms of operating that such a market may have, this is to say on the one hand the traditional freight conference, either open or not, and on the other hand the so called freight rates moderators or outsiders. In the case of the close markets, the analysis will range from a very simple bilateral agreement to a very complex regional undertaking.

6.2 COMPARATIVE STRATEGIC PLANNING

I want to define strategic planning by saying that it is the systematic and more or less formalized effort of a company to establish basic company purposes, objectives, policies and strategies and to develop detailed plans to implement policies and strategies to achieve objectives and basic company purposes.

Strategic planning is not an attempt to make future
decisions. Strategic planning is not forecasting product sales and then determining what should be done to assure the fulfillment of the forecasts with respect to such things as material purchases, facilities, manpower and so on. Strategic planning goes beyond present forecasts of current services and markets and asks much more fundamental questions: Are we in the right business? What are our basic objectives? When will our present services become obsolete?

Now, let us have a look at the exhibit 6.2.1 and to analyze it in accordance with the different trade needs. We can start this analysis by spelling out the content of each box and by comparing its performances according to the different environment within which they are going to be looked upon. The substantive planning premises are shown in the four stacked boxes. As usual, at the top of the stacked boxes we can notice the expectations of major outside interests.

For larger corporations it is important, in strategic planning, to have an understanding of what interests major constituents of the enterprise have and how they are expected to change. For a very small corporation the focus can be almost wholly on stockholder interests but for a large corporation other interests must be recognized. Anyway, outside interests do not vary very much if we talk about liner companies which operate within close or open markets. The only difference that could be found is that in open markets, stockholders are accustomed to be more flexible before a changing environment, and furthermore, both the suppliers and the customers are very much business-minded as far as negotiations are concerned. In a close market, liner shipping firm stockholders behave according to much more rigid patterns, as long as customers and suppliers usually follow pre-determined business standards that
EXHIBIT 6.2.1: Strategic Planning Model

Strategic Planning

- Expectations of major outside interests
- Expectations of major inside interests
- The data base
  - Past performance
  - Current situation
  - Forecasts
- What's up evaluation

Master Strategies
- Mission
- Purposes
- Objectives
- Policies
- Program strategies

Information Flows

Tactical Planning

Medium-range programming

Short-range planning

Implement, & review

Decision & evaluation
were previously set up by the members of the close market, in order to fulfill the requirements of rigidity and stability regardless of the actual situation. In other words, the fundamental contrast is given by the existing mobility of the strengths of supply and demand under open market rules, and the unreal inflexibility of the same strengths under close market rules.

Managers and employees of organizations have interests that also must be appraised and addressed in the planning process. Especially important are those of top executives that derive from their value systems. They are fundamental premises in any strategic planning system.

Expectations of major inside interests normally vary substantially from open to close markets, mainly due to the fact that open market means competition, and such a competition may take infinite shapes and adopt innumerable strategies, based all upon managerial behavior and performance.

As we have seen in the previous chapter, open market managers are bound to think and act in terms of competitive standards so as to reach what I consider the three pillars of managerial criterion in liner companies:

--- INNOVATION
--- SPECIALIZATION
--- RATIONALIZATION

If we look upon freight conferences, these three concepts are fully necessary and perfectly adaptable to the actual needs of an open market, while in the case of the outsiders, the concept of rationalization only refers to the internal structures of each company.

It has previously set out that whenever competition
does not exist, which might be the case of a close market, management skill and overall productivity tend to diminish fastly, thus leading to inefficiency cycles that usually contain heavy burdens to be borne not by the member liner firms but by its respective domestic economies. In real life, suggestions and expectations coming from management teams in close markets, are very unlikely to produce a significant change of direction as regards the policy-making process. If we take the example of a bilateral agreement such as the one between Brazil and Argentina or the USA and Argentina, where several national flag vessels from both sides carry out their pre-determined tasks, we can see that the scope to improve and raise targets is, in fact, extremely narrow. On the other hand we have the yardstick of an open market made up of freight conferences and outsiders which, for obvious reasons already explained, find a much more suitable field to develop internal expectations oriented towards the achievement of the three main managerial pillars.

Included in the data base is information about past performance, the current situation and the future. This information is essential in helping those doing the planning to identify alternative courses of action and to evaluate them properly. Illustrative of types of past information collected are the following: sales, profits, return on investment, market share, employee productivity, public relations, and service development capability. Information about the current situation, in addition, would include such matters as management capabilities, employee skills, competition, corporate image, social demands on the company, interests of major customers, and service acceptance. Data about the future would, of course, include forecasts of markets, sales, selected economic trends, competition,
technology, and other trends of particular concern to the organization (e.g., international turbulence, government regulation).

If we bear in mind once more that we are dealing with both open and close market structures, the results coming out of the data base are destined to be again very different for one type of market than for the other; but what certainly will be the same is the necessity of having such an information flow at the right timing, so as to deal better outfitted with the critical short run and the growing uncertainty of the long run.

Regarding past information, it can be gathered all regardless of the market philosophy except when we look upon the concept of service development capability. Within this context and in the specific example of the liner firms under close market rules, such development will entirely depend on the rate at which the trade grows, which at the same time will depend upon the economic strategies undertaken on a national or regional basis. In other words, the shipping service development capability, by no means can achieve positive rates of expansion by relying totally on the close market rules; this is to say that if there is any tonnage expansion in such a market, will be more due to subsidies and governmental procedures than to an actual trade booming, which simply leads to the obtainment of uncertain information. On the other hand, liner owners under open trade rules, are likely to reflect what actually happened through many indicators of very easy individualization. Service development capability will depend on the strategies previously adopted and aimed at achieving any of the three managerial pillars before commented.

The information of the current situation comprises a lot of aspects related to management behavior and performance. Therefore, such an information will be rather static for
close market operators, as long as it will result considerably more realistic for open market liners. Regarding the future, service acceptance is readily identifiable as non-existent in regulated trades owing to its own interventionist features. The regulation is there and there is no other choice for the user. Service acceptance can be regarded as a reliable indicator for open market operators.

The last box is sometimes called the WOTSW analysis, an acronym for weaknesses, opportunities, threats and strengths underlying planning. Since a cardinal purpose of strategic planning is to discover future opportunities and threats so as to make plans to exploit or avoid them, as the case may be, this is a critical step in the planning process. There is an enormous payoff to the skilled probing of opportunities and threats in a company's future and relating them in an unbiased study of the company's strengths and weaknesses.

This is the area where the most significant differences can be found, owing to the fact that not only the environment is looked upon but also the own company. All this, obviously leads to different ways according to the sort of liner firm and the traffic it operates. Practical experience shows that the liner operators that are engaged in bilateral agreements or any other kind of regulating scheme, normally consider competition as a potential threat, capable of hindering the settlement of a pool agreement and of negatively affecting the normal performance of the particular conference. On the contrary, and regardless of the degree of competition, an open market operator will probably keep his eyes on the next steps the local government is going to adopt regarding the existing maritime policy of the market; whether the state is going to take over a larger share of the trade or not; whether the outsider operations are going to be restricted or not; whether cargo
reservation measures are going to be laid down, increased, diminished or not; whether subsidies are likely to be granted or not, etc., etc.

What we can see so far is that the threats can be of very different nature in open markets, and practically of one type in close markets. However, since the environment is made up of an everlasting figure of variables, would not be strange that a totally different sort of threats should come up in both open and close markets.

The opportunities are usually given by an increase of the shares, larger participation, quicker returns and so on. But in order to accomplish such opportunities, the liner companies will have to deal with at least one of the three concepts before mentioned: INNOVATION - SPECIALIZATION - RATIONALIZATION. Therefore, the way these concepts are utilized, will define the penetration profile of the particular liner company or bilateral member.

It goes without saying that in a bilateral agreement, the opportunities are rather monopolized, while in an open trade, they are spread among the existing competitors; which brings about very different managerial techniques between these two market structures, as well as distinct standpoints as regards the way of interpreting all the available information and act accordingly.

Regarding the strengths and weaknesses, we could well say that they differ from company to company according to their own characteristics and to what is required by the environment in itself.

The strengths in open market liner firms may be given by the existing managerial skills and human resources at very different levels, as long as in close markets, liner strengths may be represented by a close conference structure or a bilateral agreement whereby the compet-
The weaknesses can be directly related to the environment and linked to the organizational structure of the participating firms in both market structures. Weaknesses have the same shape for most liner companies regardless of the market structure, but with the only difference that such weaknesses are usually not recognized and not even partially accepted by the members of a close structure, thus bringing about the implementation and granting of various kinds of subsidies.

Then, what can be seen so far, is that whatever the strategic planning method is, the close market liners are bound to deal with a great constraint given by the limitation self-imposed by themselves of shutting out all kind of competition and human creativity on both the technical and commercial management. In addition to that, these organizations do not join properly, but at a later stage, the economic development that a certain domestic economy could work out, and as a consequence of this, they are not what we might call useful entities, for the improvement of the already existing traffic systems and the establishment of promotional lines to non-traditional markets.

On the other hand, the open liners would seem to find the most important constraint in the fact of having to face the daily matters comprised into the economic development of the relevant markets according to which, they are expected to measure and appraise their own strengths and weaknesses.

Therefore, the information coming from the boxes of this strategic planning model, is likely to cast datas of very different nature and related to both types of markets. Obviously, such an information flow can by no means be underestimated.

As shown in Exhibit 6.2.1 the master strategies are
defined as basic missions, purposes, objectives and policies.

Program strategies concern the acquisition, use and disposition of resources for specific projects, such as new technology for the exploitation of a promotional trade, and things like that. In this part of planning we are concerned with the most fundamental and important ends sought by a company and the major approaches to achieving them. This subject matter includes any type of significant activity of concern to an enterprise — profits, capital expenditure, market share, organization, pricing, marketing, technological capabilities, service improvement, research and development, and so on.

Now, if we compare the master strategies of certain liner companies operating in both open and regulated markets, we can readily notice that they are quite similar and even in some cases they are exactly the same, for one structure than for the other. But what is actually different is the way the operational strategies are carried out to achieve those master strategies. Normally, any kind of liner company and regardless of the economic frame into which it operates, holds the same master strategies than the rest of its competitors:

--- to obtain a larger share of the market.
--- to foster innovation and specialization.
--- to invest in technological devices so as to get the service differentiated.
--- to hold a leading position in a Freight Conference.
--- to start running a promotional traffic.
--- to train and develop ship-shore managers.

Even though many of these master strategies cannot really be achieved in close markets owing to the rigidity of its structural mechanisms, they are usually expressed as if they were actually attainable, which clearly shows an implied weakness in the system, as far as targets
accomplishment are concerned.

We can define medium-range programming as the process whereby specific functional plans are prepared and interrelated to display the details of how strategies are to be carried out to achieve long-range objectives, company missions, and purposes.

Once operating plans are developed, they should, of course, be implemented. The implementation process is supposed to cover the entire range of managerial activities, including such matters as motivation, compensation, management appraisal, and control processes. After this, the plans should be reviewed and evaluated.

In this context, not only shipping companies but any kind of firm, usually goes through an annual cycle of planning in which plans are reviewed and revised. In turbulent markets such as the South American liner trades, the evaluation and review process must be carried out throughout shorter periods, in order to give a better performance to the feed-back system.

Then, what we have seen so far, are the main characteristics that a traditional strategic planning model has in the two trades here considered. Now, let us suppose that we should design a strategic planning yardstick according to the requisites of each market. Then, we might have one model which could meet the needs of an open market, and other model into which a close market could probably fit.

One emphasizes management by strategy (exhibit 6.2.2), and the other management by objectives (exhibit 5.2.3). One focuses on what is feasible and the other focuses on what is desired.

Obviously, the Exhibit 6.2.2 represents the sort of planning carried out in liner firms under close market rules, as well as a gap clearly revealing the limited extent held by the relevant strategies of the program.
EXHIBIT 6.2.2: Strategic Planning model based on GAP analysis
EXHIBIT 6.2.3 : Strategic Planning Model based on market strength and attractiveness.
A close liner market, either bilateral or not, is always likely to face gap problems owing to its own rigidity and lack of structure flexibility before a changing environment or turbulent trade.

The Exhibit 6.2.3 has been designed to be used by liner companies under open market rules. If a company can achieve a certain dose of strength in attractive markets, it would register a superior performance; but such a performance can be positively carried out by means of the utilization of dynamic elements lacking of control. In this case, the coming up of a gap will be probably interpreted as a failure in the achievement of the goals of the organization, and not as a common and daily matter as it is considered in a close organization.

We can set out that Exhibit 6.2.2 is based upon static elements while the second exhibit deals with dynamic tools. Conclusions come up by themselves.

6.3 WORKING FIELD

One special characteristic that not only the Argentinean liner markets have, but also the South American liner trades is that normally, small and medium size liner firms can be found operating in these trades, specially those of small size, as long as the large companies are just a few in number and most of them state-owned. This means on the one hand, that most of the liner trades in this region are exploited by a substantial number of small-sized firms, and on the other hand that also these trades are shared in different percentages by the state-owned large-sized companies.

Despite the fact that both the small and the large firms are operating and competing each other, they count upon different organizational structures and ways of operating in the particular markets, mainly owing to their sizes.
and consequently the lack of rationalization.

As we have seen before, a strategic planning system may differ quite a lot from an open to a close market; and such an oscillation can be readily found among large and small organizations as well, particularly when we look upon the South American environment which is presently facing a growing cycle of economic stagnation together with what is known as market turbulences. So in order to stress even more the concept of oscillation just mentioned, we can have a quick look at the main existing differences among large and small firms regarding their organization structures, in order to bring about additional positive reasons for implementing globally the strategic planning standards.

According to what can be noticed in the Exhibit 5.3.1 on the next page, we can set out that the common characteristics of a small company suggest much more looseness, flexibility, and informality than typify a large company. Also, the role in planning of the chief executive obviously is considerably different between the two. Important differences in planning between the large and small firms can also be found in the way goals are established and communicated, how the environment is appraised and used in planning and decision making, how subordinate managers and staff relate to top management, and how operational plans are linked to strategic plans.

In small firms the planning system may be much simpler solely because few people are involved and operations are less complex than in large organizations. Chief executives of small firms also may and often are so hard pressed to deal with current problems that little time is left to engage in strategic thinking. In larger companies the availability of staff makes it possible for chief executives to spend more time and thought on strategic questions.
<table>
<thead>
<tr>
<th>SMALL COMPANY</th>
<th>LARGE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Chief executive is basically an entrepreneur.</td>
<td>1) Chief executive is a team leader and skilled at conflict resolution.</td>
</tr>
<tr>
<td>2) Most important decisions made at top.</td>
<td>2) Many important decisions made at lower levels.</td>
</tr>
<tr>
<td>3) Workers and top managers in frequent and close contact.</td>
<td>3) Middle managers no often bypassed by workers and lower level managers.</td>
</tr>
<tr>
<td>4) Lines of authority and responsibility loosely defined. Titles mean little.</td>
<td>4) Generally, authority flows from title, not personality.</td>
</tr>
<tr>
<td>5) Communications largely face to face, oral and unspecified.</td>
<td>5) Standard procedures are followed.</td>
</tr>
<tr>
<td>6) Staff functions are weak and poorly defined.</td>
<td>6) Staff function expanded and expertise respected.</td>
</tr>
<tr>
<td>7) Top managers personally check employee performance. Few statistical control.</td>
<td>7) Formal and impersonal statistical controls established and used.</td>
</tr>
<tr>
<td>8) Operations not too complex.</td>
<td>8) Very complex operations.</td>
</tr>
</tbody>
</table>

EXHIBIT 6.3.1: structural characteristics of small and large companies
The ways in which large companies are organized will influence planning systems. A company that is centrally organized and deals with a single business, such as an insurance company or a public utility, will have a comparatively simpler system than a company with decentralized profit centers dealing in multiple, unrelated businesses.

We can also say that complexity of environment importantly influences systems design. Companies faced with a comparatively stable environment in which competition is weak will tend to do little planning and if they do it will tend to be formal and ritualistic. On the other hand, an organization faced with a turbulent environment in which competition is severe will tend to have strategic planning but will design it to be flexible and more informal.

Then, we might readily affirm, that since the Argentinean trades are exploited by a considerable number of small liner firms which are already dealing with the typical characteristics of the turbulent markets, there is no reason to believe that a strategic planning system would not be a helpful element to improve the functioning of both the macro and the micro-variables of these trades. The implementation of such a system, properly combined with a gradual opening of the particular markets, would definitely lead to reach a better managerial performance, to improve the technological devices, to foster the gradual growth and development of the ex-close trades, to settle a new positive trend as regards the interdependency of markets, to promote managerial innovation and to improve the overall efficiency of the trades concerned.

A planning method by no means can achieve all these goals unless it is joined by a gradual opening toward the national, regional and international competition. Most companies are in a favorable position so as to develop a planning method: they are small in size and fast in the
decision making process. Such a structural shift would oblige the large state-owned companies to revise their procedures and policies in order to face the new competitive environment without having to ask for more subsidies, and with the only purpose to compete in equal terms with smaller firms.

Anyway, we may well set out that, since a turbulent market demands a quick planning and decision process, the small firms are far better outfitted to deal with turbulent environments than the large firms; therefore, a strategic planning system could be of great help in achieving market goals in small firms, although not that much in large liner companies.

Most companies, as we stated earlier, are small in size while just a few are large organizations. Therefore, since a planning system could be readily adaptable to a small firm not only because its organizational structure requires it but also because the market demands it, such a system could perfectly drive the growth and development of liner shipping trades whenever there is a certain tendency toward the economic opening of the present close and regulated marine trades. Such an opening trend together with a planning method, and provided that a certain economic reactivation has taken place under the scope of the imports substitution program and the strategic administration, is very likely to lead steadily to both the improvement of the overall efficiency of the liner trades and the reestablishment of the competition at international standards.

Now, from the managerial standpoint there are a number of points whereby we could reach the conclusion that any kind of strategic planning, undertaken and adapted to the real circumstances of the markets, would benefit the whole process: starting with the economic issues set out throughout the first chapters, and ending with the managerial
To end this chapter I would like to state the main concepts whereby I consider this sort of planning of top importance:

1) Strategic planning is indispensable to top management's effectively discharging its responsibilities.

2) Planning can simulate the future on paper, a practice that not only is comparatively inexpensive but also permits a company to make better decisions about what to do now about future opportunities and threats than waiting until events just happen. Planning itself clarifies the opportunities and threats that lie ahead for a company.

3) Strategic planning is an effective way to look at a business as a system and thereby prevent suboptimization of the parts of the system at the expense of the whole organization.

4) Planning stimulates the development of appropriate company aims, which in turn are powerful motivators of people.

5) Planning provides a basis for measuring the performance of the entire company and its major parts.

6) Planning helps train managers as managers. It also helps build a managerial and staff capability that facilitate quick and proper response to new events.

7) Strategic planning systems provide an opportunity for people in organizations to contribute their talents to the decision-making process, thereby giving employees a sense of participation and satisfaction not otherwise easily achieved.

These are just a few reasons whereby, from the managerial standpoint, innovation and specialization goals are likely to be achieved, provided that, as I said before, a change
of attitude occurs regarding not only the freedom of the liner trades but also the imports substitution and internal diversification programs. Such a change is not supposed to reflect a shift in one of the sub-systems of the entire program, but a change combined with its corresponding counterbalances on the part of the other sub-systems.
We can state that strategic planning is the final necessary element to be added to the system in order to reach positive expansion rates of cargo-flow and liner trades.

Such an expansion is likely to be accomplished provided that as I said in the previous chapter, a certain correlation is maintained among all the variables of the process. One of this variables is the strategic planning policy, which added to the other elements in a proper way, is very likely to give the last necessary strike so as to ensure a gradual turn toward levels of greater freedom and stronger competition.

Not only in Argentina but also in most Latin American trades, the liner markets are operated by small liner firms under close market rules. Then, as soon as a gradual opening of the market takes place together with a regional economic reactivation, a strategic planning methodology must show up and start working jointly with said concepts and without overlooking its relationship with the strategic administration basis.

The gradual opening of the liner markets will oblige shipping companies, regardless of the size, to undertake any sort of planning so as to foresee in one way or another what such an opening will bring about; and to this purpose there is no doubt that the smaller firms are better outfitted to deal with it, at least throughout the critical short run.

Such a process must be joined fundamentally by a new managerial current and by a general change of attitudes, from the very low levels until the heads of the relevant organizations.

If the strategic planning is not carried out according to the behavior of the other variables and respecting the
timing factors, the whole process will go on but with the difference that those which are firm candidates to become marginals are most of the Latin American operators, either nationals or regionals, and not a good combination of both regionals and foreigners. In this case, one of the targets could be accomplished (expansion of the liner trades), but in fact, the liquid benefits of such an expansion will fly from the regional context to finish on the hands of the foreign operators.

Even though this case should materialize, thus meaning anyway a hard improvement as regards the overall efficiency, the whole process would be partially and not totally achieved, since the national and regional tonnage do not participate on that expansion. Hence we can say that, strategic planning is definitely a strategic mean, and those owners whose strategies do not look forward the utilization of this system by the time the market opening takes place, are very likely to become marginals and to be left out of the market before reaching the long run. That is why the opening and the adaptation must be gradual and not sudden.
We can start the final conclusions by stating that a liner shipping development in Latin America, by no means can be successfully carried out whenever it tries to become expanded by relying only on its potentiality and multiplier effects, as if it were a normal or standard domestic industry.

Such a strategy must be based upon the economic reactivation of the particular production units; but in such a way that such reactivation should gather all the available variables or factors of production on a regional basis, and not only on a national basis.

We can affirm that before thinking of expanding the liner trades, what Latin America has to do is to make such an expansion physically attainable and economically feasible by suitably combining the regional resources, so as to manufacture with high economies of scale and achieve growing export levels. This must be done regionally and should be regarded as a useful future element as far as international shipping negotiations are concerned, since the more liberal and larger a liner market is, the more will the chances of dealing successfully with other liner trades be, in order to participate and share other markets far located from the regional context.

It should not be forgotten that as we said earlier, international shipping is a derived demand of the international trade. But such international trade, in the case of Latin America, must be looked upon as a regional trade which sooner or later, will enable regional liner owners to feel the symptoms of pressure of demand, provided that a well planned economic program seeking reactivation and regional expansion has been undertaken.

Then, by no means a Latin American country can be singled out as capable of developing and becoming expanded, including its liner cargoes and fleet, by
trust only its economic potential and without holding the essential support of a regional economic program coming from a Latin American regional joint venture. It is clear as well, that in order to get the liner markets expanded, a gradual opening must come up so as to let the regional owners to compete each other throughout a first stage, and to compete with foreign owners at a later period.

This means on the other hand, that as long as foreign owners are allowed to come to the regional markets and compete on equal conditions, also the regional owners will be allowed to compete in foreign trades, thus changing the present organizational structures of the liner systems in Latin America. In other words, in order to share something abroad, Latin America must be prepared to share something at home. But evidently nothing can be shared at home if there is no economic growth and development. Therefore, in order to generate the necessary cargo flows, a regionalization program seems to be the most suitable mean; and in order to reach an uninterrupted regional liner market growth through the utilization of cargo flows, a new entrepreneurial philosophy must take over the prevailing situation so as to leave the floor to concepts such as market opening and interdependency, regional and foreign competition, managerial flexibility, strategic administration, strategic planning and others.

Once the economic reactivation takes place within a regional context, and together with it the cargo flows start rising both in volume and value, the opening process of the relevant markets must begin gradually so as to allow the regional liner operators to get used and prepare themselves to face the new market realities, which from the very beginning of the critical short run
are expected to lead to the attainment of an improved overall efficiency.

To let the opening process grow without major constraints, the public sector interference must diminish proportionally to the increase of the opening degree until a level at which such a participation can no longer be considered as an interference but as helpful element to set up the new framework.

It should not be overlooked that the entire process could be counterworked by pretty negative effects if the managerial postulates are not properly understood and implemented. As long as the opening process advances, not only the regional but also the foreign competition will show up, thus turning the whole market into a gradual but safe competition scheme.

During this process the regional liner operators must adopt new managerial techniques such as strategic planning and administration, and start thinking of acquiring better technology to compete better outfitted and avoid becoming marginals, mainly owing to the presence of foreign competitors.

Competition will bring about a fall in rates and the liner firms will become gradually capitalized and much better prepared from a managerial standpoint.

But all this is possible just because an economic reactivation occurred together with an economic opening trend, and because changes in management attitudes were timely adopted and strategically oriented.

I will end by saying that the two fundamental pillars in order to make liner shipping take off in Latin America are :

--- a regional economic reactivation
--- a new economic and managerial trend towards liberalization and competition.

I personally cannot imagine other way.
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