

The impact of regional integration on the competitiveness of small firms. A case study in Uruguay

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Abstract

In spite of the efforts and negotiations of the World Trade Organization (WTO), countries continue to establish new preferential trading agreements. As a small economy, one of the Uruguayan government's objectives has been to increase its levels of exports. Following regional integration trends, four countries of South America – Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asuncion which called for the creation of the Common Market of South America (MERCOSUR). The small size of the Uruguayan economy makes MERCOSUR a particularly significant market for Uruguayan firms. The creation of MERCOSUR has profoundly impacted Uruguayan small firms.

This paper focuses on the analysis and assessment of regional integration on the competitiveness of Uruguayan broiler firms within MERCOSUR union. Uruguayan broiler firms are very small when comparing with their counterparts from Brazil and Argentina. This is an important sector for the Uruguayan economy which gives employment to the 26.2% of all labour force that works in the Uruguayan agro industry. Agriculture is a relevant sector for the Uruguayan economy representing 75% of Uruguayan exports and accounting for 38.1% of the economy measured by Gross Domestic Product (Uruguay XXI, 2007).

Qualitative data suggests that MERCOSUR represents a potential threat for Uruguayan broiler companies notably when the members of this trade block will be able to access the Uruguayan market. This paper elaborates policy recommendations derived from the primary and secondary collected data that would help Uruguayan broiler firms to be prepared to compete with international poultry firms from Brazil and Argentina in a regional economic block without barriers.

Keywords: regional integration, small firms, competitiveness, Uruguay.

Introduction

This is a time of great change in Uruguay. The reality of MERCOSUR union working as an economic trade block comes closer. Until now within MERCOSUR, the agreement has not been fully implemented. Some industries have requested the adoption of

an 'adaptation regime'. This adaptation regime has allowed these industries to benefit from various measures of protection, such as tariff and non-tariff barriers that have given them the possibility of competing in isolated environments. As the process of integration continues, the barriers, which have protected some industries such as broiler or wine in Uruguay, will disappear. This will create a new competitive environment for the companies that exist in those sectors.

Several uncompetitive Uruguayan companies belonging to industries such as sugar, plastics, and orange juice have collapsed during the integration process. However, MERCOSUR has also been beneficial for some Uruguayan companies and for the Uruguayan economy as a whole. In fact, Uruguay has clearly increased its exports within the MERCOSUR market. To get full benefit from their integration within the MERCOSUR trade block, Uruguayan companies in different sectors and sub-sectors have to be prepared and adapted in order to compete successfully with international Brazilian and Argentinian companies (the 'big players' of MERCOSUR).

Recently, multinational supermarkets have started trading in the Uruguayan market. Evidence from other countries reveals that these companies show a clear desire to purchase products from the cheapest source, irrespective of where they are in the world (Rebella, 2000; Errea & Llundain, 2007). Therefore, Uruguayan food companies cannot take for granted that their products will automatically find a place on such highly competitive sales counters.

This paper is concerned with an analysis of Uruguayan broiler competitiveness in this new scenario, where MERCOSUR would operate free of any barriers. Until now, a 'sanitation barrier' has isolated and protected the Uruguayan broiler industry from neighbouring markets. This measure has affected other countries by making it impossible to export fresh chicken products to Uruguay. This protection has permitted technological investment and an improvement in the efficiency of some of the links in the chicken food chain but within the comfort of a protected envi-

ronment. If Uruguayan broiler companies do not improve their competitiveness, they may be displaced by Argentinian or Brazilian broiler firms. The elimination of trade barriers would affect not only the broiler industry, but also other agribusiness industries that would have to compete with Brazilian and Argentinian firms.

Trading Agreements and MERCOSUR Economic Integration

Currently, most of WTO members belong to one regional agreement. At present, one third of total world trade takes place under the umbrella of some kind of regional agreement (Gonzalez Rozada, Pires de Souza, Barros de Castro, Lorenzo, Noya, Daude, Osimani & Laens, 2000). The failure of the Fifth WTO Ministerial Conference in Cancun, Mexico, September 2003 stressed the importance of bilateral and regional agreements as an alternative option for trade negotiations (Kamal & Imai, 2003).

The literature on regional integration states that these new regional economic blocs are the result of increasing competition in world markets (Manzetti, 1994). The need to enter into the world economy has led countries to one political approach. As a result of that approach, many international agreements have arisen. Some agreements are between economies of similar size while others are between small and large countries (Konishi, Kowalczyk & Sjostrom, 2003). Economic integrations obtain advantages to all member countries such as an expansion of markets, an increase in resistance to discriminatory practices of protectionism, an increase in comparative advantages, a higher degree of diversification and a reduction of costs through improved economies of scale (Roett, 1999).

There are different theories about the pros and cons of customs unions. The study conducted by Viner (1950) showed that a customs union might reduce economical welfare if it induces members to import from high-cost rather than from low-cost resources. However, Gehrels (1956) and Lipsey (1957) pointed out that even in this case it would be possible for a customs union to raise economic welfare when there is sufficient substitution in consumption or in production. Roughly twenty years later, Ohyama (1972) and Kemp and Henry (1976) demonstrated that it is possible to form customs unions setting a common external tariff which does not affect non-member countries and which redistributes income between members in order that no member countries lose and some member countries gain from joining the customs union.

According to some scholars the integration of Latin American countries is vital for the sustainable

development of the region. Globalization and economic liberation are the dominant concepts of the new world economy. In that context countries are forced to work in a more integrated way (Roy, 1999; Banco de Desenvolvimento Interamericano, 2000). MERCOSUR can be defined as a 'customs union in formation' because it still needs to meet a number of essential requirements to entirely become a customs union. For instance, it should eliminate all tariff and non-tariff barriers among member countries and adopt a common external tariff for trade with non-member countries. One peculiarity of this block is that it does not fit with the main theories of regional integration. The major theories, which were drawn from the EU experience, are liberal intergovernmentalism and supranational governance. Both theories consider society as the starting point for integration. In contrast, MERCOSUR is the outcome of the political will of national governments. Once it was created, then the public demanded further integration (Malamud, 2003).

Liberal intergovernmentalism argues economic interdependence as an important pre-condition for integration. The increase of export dependence and intra-industry trade creates the basis for integration. Supporters of this theory see regional institutions as mechanisms to enforce agreements rather than as autonomous actors. MERCOSUR does not fit with the ideas underpinning liberal intergovernmentalism, because it did not arise as a result of economic interdependence or social demands. Moreover, it lacks a significant institutional structure. Supranational governance theory highlights the importance of the following players in the achievement of European integration: national states, transnational transactors, the European Commission, and the European Court of Justice. As described above, MERCOSUR lacks supranational institutions with real power, therefore leaving national states as supreme actors. Empirically, the management of crisis and the coordination of problems have been carried out by the presidents of the union (Danese, 1999).

Empirical data from MERCOSUR countries has supported some of the arguments put forward by economic theories. For instance, after the creation of the MERCOSUR, exports from the region increased very rapidly. However, economic theories, in general, do not look in detail at the impact of free trade and integration on social conditions. The reality shows a contrast between some economic parameters and social ones. Even though MERCOSUR has brought economic growth to the members of the union, this economic development has coexisted with increasing unemployment and an increasing proportion of population living below the poverty.

MERCOSUR has implied a restructuring of the market, which in turn brought about a decline of living conditions for many segments of the society. In

the new market many workers lacked the skills to meet new job demands (te Velde, 2003; Bucheli, 2005). Another effect of the growth model has been a drop in real wages and a disproportionate growth of the unregistered sector of the economy as the state reduced its regulatory role (PNUD, 2001; Organization of American States, 2004).

According to some researchers the neoliberal economic model underpinning MERCOSUR and supported by The World Bank and The International Monetary Fund (IMF) has increased poverty as a result of the reduced long-term commitments to social provision (Gwynne & Kay, 2000; Cammack, 2001). In the same way Robbins (1996) and Robertson (2000) argue that trade liberalization, globalization and foreign direct investment have not brought the benefits to the poor that were predicted. On the other hand, some critics state that what has failed is not the model but its institutions, which are either corrupt or inefficient (Institute for the Integration of Latin America and the Caribbean, 2001).

Integration is a process that must take into account solidarity, cooperation, and democratic governance. Also, one of the aims of the union should be to combat poverty and exclusion (Organization of American States, 2004). Moreover, in the light of the current economic crisis principles of free trade should be exercised cautiously.

Uruguay is the smallest country of the union and therefore it would be tempting to think that its economy would benefit from integration into the much larger market of MERCOSUR. However, in reality during the process of integration many Uruguayan companies went bankrupt and the future of others is still in doubt due to a lack of competitiveness. The main problem for some Uruguayan industries has been that they were not able to compete effectively in a regional market without tariff barriers (Ruiz, Arenare, Moretti, Saavedra & Grasso, 2003). The economy of Uruguay is strongly affected by any measures taken by its partners within MERCOSUR, but especially by those taken by Brazil and Argentina, which are the main importers from the Uruguayan markets. Even though there have been some problems, the union has been an important tool for the Uruguayan economy in that since its establishment it has helped to increase exports within the MERCOSUR market (Comisec, 2004).

This study looked at the risks posed by MERCOSUR to an industry that still enjoys the benefits of a protection barrier but will soon face competition from much larger firms. The Uruguayan broiler industry represents an important source of employment not only for the people that work in the industry, but

also to many associated businesses.

In summary, the review of the literature shows that the benefits of regional agreements are very well researched. However, not much consideration has been given to firms having to enter regional markets with much larger competitors. The author's view is that when these relatively small companies represent an important component of the country's economy, government intervention is required to help these domestic companies to adjust to the new conditions of the market. Therefore, Uruguayan government policies should help broiler firms prepare to face the competition from its counterparts from Brazil and Argentina. Policy recommendations are suggested below.

Research Methodology

This research aimed to understand the motivations and actions that have led key decision makers from the Uruguayan broiler industry to certain patterns of behaviour. It was also relevant to unveil how the people involved in the industry understand competitiveness and strategy within the context of a more integrated MERCOSUR. Because ideas are subjective and very individually based, this study opted for a realism approach because of its explanatory power and adequacy to reveal the underlying causes of competitiveness within the targeted industry.

Within a deductive approach, this research opted for an industry-level case study research strategy because it appears to be the best option to collect the required data for elaborating policy recommendations for the Uruguayan broiler industry. The purpose of using this research strategy was to examine in detail those factors that are responsible for competitiveness as well as understanding the rationale behind the process of competitiveness in individual firms within the Uruguayan broiler industry. The case study approach is recommended to analyse contemporary events. This particularity makes the case study the perfect research strategy as one of the aims of the research is to analyse the competitiveness of the Uruguayan broiler industry within the scenario of a MERCOSUR operating without trade barriers.

This research opted for a qualitative approach. Among the main sources of qualitative data collection, interviews seem to be the best option for this study as they would allow unveiling reasons of competitiveness, interacting with key actors, and accessing the required data to fulfil the objectives of the research. In this study the semi structured interview was the major data collection instrument. This method was selected because of its suitability to provide insights into and an understanding of the subject

under study. Face to face interviews were considered the most appropriate method, as they allowed understanding of individual key actor's activities, opinions, attitudes, aspirations and strategies.

The structure of the interview plan is firmly rooted in the research objectives and there are two main components which explore these. The first component dealt with general issues related to the Uruguayan broiler sector while the second component dealt with issues related to competitiveness. The questionnaire starts with general questions and gradually moves to more specific questions. Following the broad questions of the beginning of the interview session, interviewees were asked more specific questions to unveil reasons of competitiveness and firms' weaknesses. Porter's diamond (1990) was selected as the best framework to develop key questions to assess the competitiveness of the industry under study. Porter's framework was selected because of its ability to explain the success of industries from specific nations when competing locally and internationally.

A series of direct semi-structured questions were administered by personal interview with ten key-decision makers (owners-managers) and ten professionals (technicians and middle and junior managers) of each participating firm. In the six examined firms, all of the professionals were either agronomists or veterinarians who perform production, pathology, health, nutrition, and in some cases managerial activities. These interviews were supplemented with another eight interviews conducted with government employees to improve the validity content of qualitative data. The same questions were asked to government respondents to confront their answers with the views of owners and managers from Uruguayan broiler companies. Although government interviewees disagreed with few assertions of owners-directors and managers of broiler companies, the two groups disclosed more similarities than differences in their responses. All interviewees had experience within the poultry industry and they have been working in the same area for at least five years.

Interviews with managers, professionals or chief executives of the companies and government employees were conducted in February/March 2008. All interviews were recorded on a digital tape recorder in order to ensure that all responses were accurately reported. In general, interviews lasted between one hour and one hour and a half and involved travelling to various locations within the city of Montevideo and the province of Canelones to meet the key actors to be questioned.

In order to get the most useful results from the study, the researcher interviewed six out of seven legal companies within the broiler industry. This per-

mitted collecting accurate data which represents the target population. One of the firms refused to be interviewed on the basis of company policy rules.

The analysis of collected data followed a process of three steps involving:

1. Interpretation of the data. The first stage implied an interpretation of respondent's answers/comments. At the outset of the analysis the researcher listened several times to tape recordings to become immersed in all aspects of the material. Listening to interviews the researcher was able to pick up things like tone, energy levels, and so on that otherwise would not have been detected by reading a full transcript. For instance, silence may have different interpretations. It could be that the respondent is avoiding the question, or trying to change the subject, or he/she is not able to talk about it.
2. Analysis. After the interpretation stage, data was sorted and ordered. Here different parts of the material were grouped under topics, categories or concepts. During this stage an 'analysis headings' approach was adopted. In this approach interviews answers and researcher observations were classified and arranged on separate sheets of paper as 'notes under headings'. These notes were taken from transcripts and listening to interviews. The researcher preferred this approach over the full matrix approach because the full matrix approach entails the risk of losing the essence of qualitative enquiry due to the rigidity of the pre-set boxes. Moreover, the 'analysis headings' approach is more likely to be used for smaller samples like in this study, and allows room for flexibility of thinking throughout the analysis (Ereaut, 2002; Neuman, 2006). The objective was to make the data manageable. In this stage the researcher selected for further attention aspects of the data that were considered relevant or interesting for the study.
3. Interpretation (level 2). During this stage, common patterns, differences and anomalies were identified. Then the researcher interpreted the meaning of all the data and the implications for the Uruguayan broiler industry.

Research Results

The results have shown that there are three categories of broiler firms in terms of size (large, medium, and small) and different degrees of emphasis put on the firm's strategies (price or/and quality).

One common factor to all Uruguayan poultry firms is that they were established as family-owned broiler breeding farms businesses and still remain under family control. Owners of all the firms indicated

that because poultry is an activity with many stages, which generates low rates of return per link, all of them decided to vertically integrate their businesses in order to harvest the economic benefits of each stage. Respondents emphasized that all broiler firms have their own feedlots, incubation plants, slaughterhouses, contracts with breeding farms, and distributors.

The owners-directors of the majority of firms indicated that they were fully engaged in decisions concerned with operational management and strategic management. They emphasized the fact that they make most of the decisions from the selection of suppliers to sales strategy. While this aspect of the business is common across all firms, the results have shown that there is, however, a difference in the educational background of the owners-directors. The owners of Calpryca and Pollos Tenent belong to a middle class and received better education than the owners of the rest of the firms, who were broiler farmers with poor academic education, but a lot of experience in the poultry sector. Respondents from Calpryca and Pollos Tenent indicated that businesses were run by the second generation of owners who hold university degrees in a variety of subjects. Qualitative data indicated that the rest of the companies which were established a few years later were still run by the original founders. Technicians of Calpryca and Pollos Tenent stated that to a certain extent their opinion was taken into consideration by the owners-directors before taking those decisions which may have a big impact on the company's businesses. However, technicians from the rest of the targeted firms claimed that their opinion was rarely considered by the owners-directors of the firms. They expressed the view that their opinion was only considered when it was related to a specific technical aspect of the business such as poultry health management.

Respondents agreed that the main changes in the firms' businesses over the past ten years have been a reduction of costs of production, a reduction of manufacturing costs, and a steady but slow increase in production output. When owners were asked about the main factors that have constrained a major development of company's businesses there were two different answers. Respondents from Pollos Tenent, Calpryca, Avicola del Oeste, and Avesur pointed at tax evading firms as the major limitation for the development of their businesses. Interviewees from Avicola San Bautista, and Avicola del Remanso claimed that the lack of support from either the government or private companies has been the main determinant preventing a major development of the sector. Yet, Avicola del Oeste and Avesur interviewees mentioned that the government had, some years ago and for a very short period, an export incentive policy.

Interviewed technicians argued that different factors have limited a major development of their company's businesses. For them, the lack of owner's management capability (Calpryca and Pollos Tenent being the exception) is the main constraint for the development of incumbent firms. Respondents also pointed out that secondary factors that had limited the development of the firms were: very limited access to credit, the necessity to upgrade the capacities of the poultry factory, and the fact that for a few companies the main business was to avoid taxes rather than raising chickens.

Many interviewed owners and technicians agreed that there is no strategic plan to face the inevitable competition from other members of MERCOSUR. Respondents indicated that the whole sector has been lobbying the government to keep the sanitary barrier in place. Several interviewed owners-directors believe that the fact that Uruguay is free of Newcastle disease will help the Uruguayan poultry industry to maintain the current barrier for a long time. In fact they stated that a loan from the Ministry of Agriculture will be used to sample the Uruguayan poultry industry in order to prove "the free of Newcastle disease status" of the country. On the other hand, interviewed technicians believe that the owners of the firms have a short-term mentality that might put the entire industry at risk. According to them, barriers could fall at any moment leaving the industry in a very precarious situation.

Competitiveness in the Uruguayan broiler industry

The qualitative methodology brought to light the main factors responsible for the success of the Uruguayan broiler industry in the domestic market. The analysis of the collected data revealed that those 'factor conditions' that played a critical role for the success of Uruguayan broiler firms were: infrastructure resources including water, electricity, and transportation network, and the availability of local human resources (technicians) during the start-up phase of the business. The analysis revealed that the port structure of Montevideo's port is limiting a further development of the industry. It also identified that the lack of employees with the required qualifications to work in the broiler industry may also compromise the development of the industry in the near future.

Being close to contract growers and the largest markets of consumption were also identified as determinants of success in all interviewed firms. Because of the fierce competition within the sector and the dynamism of a market with prices changing overnight, those broiler companies that tried to locate their businesses relatively far from the main centres of con-

sumption went bankrupt after few months.

The main 'demand conditions' associated with the success of the firms targeted in this study were: demanding customers looking for cheaper and leaner sources of protein, and building long relationships with key customers. Price is the main driver for consumers' choice. It is relevant to keep in mind the characteristics of the Uruguayan market which is small, underdeveloped, and mainly integrated by low-income consumers.

In this industry some demand condition aspects that Porter considers relevant for achieving competitiveness were not evident. For instance, there is no association between success and consumers who anticipate buyer needs in other markets. Another aspect not supported by this industry-case study was Porter's hypothesis that firms with a large number of independent local customers are more likely to be successful.

From the analysis of in-depth interviews, 'firm strategy, structure, and rivalry' were very much a contributing factor to success in this industry. The key elements associated with success in the interviewed firms were: owners' and professionals' ability to adapt foreign technological packages and machinery to the conditions and particularities of the national environment; the motivations of owners-directors; key decision-makers with clear goals; price competition; national prestige; highly qualified technicians at the start-up phase of the business; and strong and fierce competition.

The component of 'related and supporting industries' in Porter's 'diamond' was partially supported by the findings of this study. The key 'related and supporting industries' themes that were to some extent associated with the progress of Uruguayan broiler firms were: close working relations and ongoing coordination with home-based suppliers, concentration of domestic rivals, and to be physically close to their customers. On the other hand, the presence of international competitive supplier industries, and local clustering of domestic suppliers were factors not associated with the development of the industry under study.

The analysis of the data suggests that there is a weak association between the success of the Uruguayan broiler industry and the themes termed by Porter in its 'government policy' component. Porter argues that the government should create the appropriate environment for companies to succeed concentrating on the areas such as education, research, infrastructure development, and trade policy. The Uruguayan government has not been involved in any of the areas mentioned by Porter. In fact the Uruguayan government was involved in the creation of a protec-

tion barrier which according to Porter is an unsuccessful measure to foster competitiveness. However, the lack of competitiveness of Uruguayan broiler firms against international or regional poultry firms seems to support Porter's claim that a protection barrier is an unsuccessful measure in trying to create competitive industries. Even though Uruguayan broiler firms are successful in the local market, their presence in international markets is insignificant.

From qualitative analysis, the 'chance events' component of Porter's framework was an important contributing factor to success in this industry. The three 'chance events' determinants for the success of the interviewed firms were: the impacts of military conflicts on international beef price; the declaration of Uruguay as a country free of foot and mouth disease in 1995; and bird-flu. All these factors helped the Uruguayan broiler industry to become more competitive against its meat rivals.

MERCOSUR's Implications on the Competitiveness of Uruguayan broiler firms

MERCOSUR integration process has profoundly affected the Uruguayan economy which has sharply increased trade with Argentina and Brazil. During the process of integration many Uruguayan companies went bankrupt because of their lack of competitiveness against Argentinian and Brazilian firms. It is very difficult for a small country such as Uruguay to compete from an industrialized point of view, but it can compete from the point of view of quality in manufacturing and in services.

In this scenario, the Uruguayan poultry sector is one of the very few industries that still enjoy the benefits of exceptions to the common external tariff. However, these exceptions are likely to be ended in the short term. In comparison to those in Argentina, Uruguayan broiler firms are less competitive due to the Argentinian poultry mills handling larger scale grain purchases and because of the current Argentinian policy of exchange that makes some inputs cheaper than in Uruguay. The Argentinian government has implemented policies to keep the price of raw materials down in an attempt to keep inflation under control. Moreover, agriculture producers have benefited from subsidized fuel. This fact, jointly with an exchange policy favouring the export sector, is boosting the competitiveness of Argentinian agriculture firms against Uruguayan agriculture firms in general. Argentina has also a competitive advantage that arises from the fact that it has the best soils of the MERCOSUR area, allowing Argentinian farmers to achieve larger and more stable harvests than Uruguayan farmers. Prices of maize (broiler food input) position Argentina as

the most competitive producer of MERCOSUR followed by Brazil and Uruguay respectively. Another advantage of Argentinian broiler firms is that they have developed the know-how and skills to compete in a free market. Even though the government has supported Argentinian companies during the process of opening the economy to regional competition, Argentinian broiler companies would have not survived without making the required adjustments to remain competitive against very efficient broiler companies from Brazil.

Uruguayan broiler firms are also less competitive than Brazilian poultry firms. The competitiveness of Brazilian poultry firms relies on the following reasons: market promotion efforts coming from the Brazilian government and the poultry industry; indirect and concealed subsidies such as subsidies to grow maize; a favourable climate for growing grain; cheap and dedicated labour; the ability to tailor products to customers locally and in foreign markets; and entrepreneurs that build plants like cathedrals that have always been updated. Moreover, Brazil is the world leader producer of soya. Soya and maize are the core ingredients for broiler food (Hewson, 1995; Smith, 2005).

From the above discussion it is clear that if the barriers that protect the Uruguayan broiler industry fall, it will be very difficult for Uruguayan broiler firms to remain competitive against Argentinian or Brazilian poultry firms. Argentinian and Brazilian poultry firms have the economies of scale, world trade channels of commercialization, capital requirements, and know-how to penetrate the Uruguayan market. Even though the small Uruguayan market does not seem to be particularly appealing for the big players of MERCOSUR, its strategic position between Argentina and Brazil may attract some poultry firms. Moreover, Brazilian and Argentinian firms may think to target the Uruguayan market to exploit the excellent health status of the country and from there to conquer those markets looking for quality chicken.

The question is: how is the Uruguayan broiler industry likely to respond to this threat? Qualitative analysis indicates that apart from a very few companies trying to improve the quality of the product, there is no strategic plan to face the eventual competition from MERCOSUR broiler companies. All owners-directors rely on their ability to lobby the government in order to keep the sanitary barrier in place. Most of them are in their late fifties and they developed their businesses during the era of the import substitution policies where the core of the government strategy was to give support to a local industry orientated to the domestic market. Qualitative analysis of

the collected data indicates that it is very unlikely that Uruguayan broiler firms will react in time. Moreover, the qualitative analysis suggests that Uruguayan broiler firms do not have leaders (owners-directors) with sufficient understanding of management to be able to run the companies in a new competitive environment without protection barriers. At the moment, the industry has well-trained technicians but the key decision-makers, who are also the owners of the companies, lack the necessary up-to-date management and strategy knowledge. This could prove to be one of the chicken industry's greatest weaknesses and it could put its own feasibility in danger.

In a fully operating MERCOSUR block Argentinian and Brazilian poultry firms may displace Uruguayan broiler firms. An outsider could claim that the disappearing of Uruguayan broiler companies against Argentinian and Brazilian more efficient producers should be seen as a natural progression of internationalization. It could be also argued that it was the fault of Uruguayan broiler owners-directors as they did not adjust their businesses strategy in time to face competition. The government, through the application of a sanitary barrier, has bought precious time to allow broiler companies to attack those key areas that needed to be improved. It could be also argued that Uruguayan broiler companies are not responding to market forces. There is a lot of truth in these asseverations, but if everything remains unchanged there is a major risk that the Uruguayan broiler industry will disappear once the sanitary barrier is lifted. Supporters of the free market economy would probably claim that the disappearance of the Uruguayan broiler industry is the best option for the market. In the light of current events, the free market approach should be exercised cautiously. It has to be understood that in a developing country such as Uruguay with a high rate of unemployment the disappearance of the Uruguayan poultry sector may cause negative impacts.

In this scenario government intervention is required to make key decision makers of the industry aware of the upcoming threat that may put their businesses at risk. However, qualitative data indicates that broiler owners-directors refuse to see the possibility that the barrier protecting the industry may disappear. Government intervention has been exercised by Uruguayan big MERCOSUR neighbours. Even though Brazil and Argentina have eliminated barriers of protection, both countries have adopted different packages of subsidies to protect the interest of different industries such as poultry. The Uruguayan government may take an active role in settling the right environment to allow Uruguayan broiler companies to improve their competitiveness.

Policy Recommendations

Policies that are recommended to prepare Uruguayan broiler firms to compete efficiently in the new environment are discussed below.

Local human resources were identified as one of the factors constraining a major development of the interviewed firms. The qualitative analysis indicated that the domestic market has difficulties in supplying poultry firms with qualified employees to work either in poultry farm production jobs or managerial positions. This is a relative new phenomenon faced by poultry firms, because in the past the domestic market was capable of supplying the poultry sector with well trained technicians and qualified employees. However, changes in the universities' academic programmes coupled with unavailability of poultry technical courses have resulted in a local market unable to provide employees with the required skills to work in the dynamic broiler sector.

In order to ameliorate the above situation, the first recommended policy would be to directly involve the government in the creation of specialized human resources. Public university programmes need to be carefully reviewed and the government must ensure that graduates have the skills to enter the broiler job market. Moreover, The University of Work of Uruguay (UTU) should perhaps start to run poultry technical courses again. In a country with more than 12% unemployment, it does not seem sensible to stop running poultry courses when the poultry industry is one of the few industries creating job opportunities. As already discussed, the poultry industry gives employment to the 26.2% of all the labour force that works in the Uruguayan agro industry and therefore, the government should play a role enhancing the quality of human resources. The creation of human resources takes time and effort. However, since the barrier that protects the poultry industry is not likely to be lifted until the end of 2012, there is still time to deliver short courses at UTU in order to prepare people for the upcoming challenging environment. Even though there is not enough time to prepare veterinarians and agronomists, the professionals currently working in the industry have the skills to work in the poultry sector and they will not reach the age of retirement for at least another five years. This would give the time to the university of the republic to supply the market with qualified technicians.

None of the interviewed firms have been involved in research with private or public institutes. For Uruguayan firms to remain competitive in the new environment, the government should not leave research and development completely in the hands of broiler firms. In fact, the Uruguayan government has vario-

us agricultural research centres to research on soil management technologies (INIA La Estanzuela), farming technologies (INIA Las Brujas), fruit production (INIA Salto Grande), crops and cattle production (INIA Tacuarembó), and sheep, rice, and improved sown grasses (INIA Treinta y Tres) (Ministerio de Ganadería Agricultura y Pesca, 2003). Surprisingly, none of the research centres have the capacity to research on poultry themes. Therefore, the second recommended policy would be the allocation of resources to conduct broiler research in one of the agriculture centres that belong to the government. These resources should be carefully allocated in those areas that are identified as priorities for the competitiveness of the industry. Private firms must be included in the decision-making process.

Not only there is no government research conducted on poultry, but also there are no government bodies running programmes to disseminate cutting edge broiler related technologies or other relevant information related to broiler themes. There is no organization to which firms can address enquiries when needed. Therefore, the third policy would be the creation of a committee within the Ministry of Agriculture of Uruguay with the tasks to disseminate all information that may help broiler firms to enhance their productivity and to act as a consultant body. This committee will provide practical help and guidance in strategic management, collaborative research, business planning, financial assistance, marketing and quality. According to collected data these are the areas where broiler firms need assistance and training to be prepared to face competition from larger broiler companies from Brazil and Argentina.

A good policy must ensure that domestic competitive firms have access to low cost available capital. The lack of access to the nation's capital forced all targeted firms to develop their businesses with their own resources. This situation contrasts with what happens in Argentina and Brazil, where broiler firms not only get access to low cost capital, but they also enjoy different types of incentives such as subsidised credits, concessions of land, concealed subsidies, and tax and tariff exemptions. The fourth policy recommendation would be to allocate low cost capital to broiler firms. This can be accomplished through The Republic Bank of Uruguay (BROU) that handles more than 50% of the operations in the domestic market.

In order to achieve high productivity and to remain competitive when operating in a regional economic block, Uruguayan firms in general must have access to infrastructure. The government can play a role ensuring that infrastructure constraints are not limiting the progress of domestic firms. The qualitative

analysis indicated that further development of broiler firms could be limited by the Uruguayan port structure. Therefore, this paper would propose as the fifth policy the creation of a commission to study the feasibility of improving the mill capacity of Montevideo port and to assess options for deepening Montevideo harbour in order to accommodate larger cargo ships. To address the constraints imposed by grain milling capacity seems to be much easier. However, deepening of Montevideo port would bring benefits not only for broiler firms, but also to all Uruguayan agriculture firms that are the cornerstone of the country's economy.

Trade policy is another area where a government can play a role that may help national broiler firms to achieve competitiveness. So far, the Uruguayan government has done very little to promote the excellent health status of the Uruguayan chicken industry in foreign markets. Even though Uruguayan broiler firms are not competitive in price, the government should support domestic firms in conquering niche markets willing to pay more for high quality sources of chicken meat. In fact one of the interviewed firms (Pollos Tenent) is already taking advantage of the Uruguayan bird-flu free status and exporting to a niche market. The sixth proposed policy would be to allocate some funds to the Ministry of Commerce to promote Uruguayan chicken meat abroad and to help broiler firms to identify potential customers and target them accordingly. In addition, the Ministry of Commerce should provide information about foreign markets to assist those Uruguayan broiler firms willing to export. This would be nothing novel as the Uruguayan government has successfully opened new markets for the beef industry. The idea is to make use of the existing office of government commerce to foster broiler trade. If the health status of broiler firms is to be used to promote the industry abroad, the government must ensure through its legislation that the necessary controls are in place to maintain and protect the excellent health status of the sector.

Qualitative data indicated that firms do not invest in employee development and training. For low income employees the situation is critical, because most owners-directors consider them just an asset to make money. In fact, many of them are not provided with minimum working conditions. Government through its policy can ensure that all employees are provided with acceptable working conditions. The seventh policy would be to enact legislation to ensure that employees are working under acceptable conditions and to encourage permanent employment. If long term relations are created between the firms and their employees, it is likely that owners-directors would invest in the training of employees, which, in turn, would increase firms' competitiveness.

Government has a chance to influence the rate of capital investment. Firms that continuously reinvest part of their overall revenues are more likely to create competitive advantage than those firms that do not reinvest. The eighth proposed policy would be to enact policies that encourage high rates of capital investment in firms. For the interviewed firms, tax policies were identified as an issue of major concern. The government has started to take measures to abolish tax evaders. After this promising start the government should concentrate on tax policies aiming to increase capital investment. For instance, tax benefits may be extended to those companies that reinvest. The government could also reduce taxes to make the competition between Uruguayan firms and regional firms which are granted tax exemptions fairer. However, tax reductions need to be carefully considered as the government requires a certain level of taxes to meet its social responsibilities and investments in the community.

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F. G. Topolansky Barbe

Regioninės integracijos įtaka mažų firmų konkurencumui. Atvejo analizė Urugvajuje

Santrauka

Pripažįstama, kad internacionalizacija vaidina pagrindinį vaidmenį prisidedant prie mažų ekonomikų sėkmės. Internacionalizacija ypač svarbi Urugvajuje, kuriame dėl mažo vietinės rinkos dydžio eksportas yra labai svarbi ekonomikos plėtros strategija. Šiame kontekste atrodo, kad regioniniai susitarimai yra gera alternatyva didinti eksportą. Konkurencija regioninių prekybos susitarimų plotmėje plačiai nagrinėta daugelyje pasaulio šalių. Tokiai konkurencijai daug dėmesio skyrė tiek verslininkai, tiek mokslininkai. Tačiau mažai tyrinėta, kaip konkurencija gali paveikti pramonės šakas, priklausančias prekybos susitarimams muitų sąjungoje, kurioje visi dalyviai yra besivystančios šalys (tokia yra MERCOSUR sąjunga). Visų pirma nedaug tyrinėtą vyriausybės įsikišimas, kuriuo siekiama padėti mažoms įmonėms, priklausančioms prekybos susitarimui, kurio visi nariai yra besivystančios šalys, būti pasirošusioms išlikti konkurencingesnėje aplinkoje, lygiai.

Iki šiol MERCOSUR viduje susitarimas nėra iki galo įgyvendintas. Kai kurios pramonės šakos paprašė taikyti „adaptacijos režimą“. Šis adaptacijos režimas leido šioms pramonės šakoms turėti naudą iš įvairių apsaugos priemonių, pavyzdžiui, muitų ir ne muitų barjerų, suteikusių joms galimybę konkuruoti izoliuotose aplinkose. Integracijos procesui tęsiantis, barjerai, Urugvajuje saugoję kai kurias pramonės šakas, pavyzdžiui, broilerių arba vyno, išnyks. Siekiant patenkinti poreikį išnagrinėti įtaką, kurią MERCOSUR sąjunga gali turėti šių apsaugotų Urugvajaus bendrovių konkurencumui, šiame straipsnyje Urugvajaus broilerių pramonė naudojama kaip priemonė analizuoti įtaką, kurią MERCOSUR sąjunga darys šiai pramonės šakai. Broilerių pramonė pasirinkta dėl šios pramonės šakos, kaip šalies darbo šaltinio, svarbos. Paskutiniojo surašymo duomenys rodo, kad paukštienos pramonė suteikia darbą 26,2 proc. visos Urugvajaus žemės ūkyje dirbančios darbo jėgos.

Tyrimui pasirinkta pramonės lygmens atvejo analizės tyrimo strategija, realizuota per išsamius asmeninius interviu su šešių iš septynių galimų Urugvajaus organizacijų savininkais-direktoriais ir vadovais. Tai papildoma tolesnis duomenų rinkimas (papildomi interviu) per šaltinius valdžioje ir su rinka tiesiogiai susijusias institucijas, siekiant gauti informacijos apie nacionalinį kontekstą. Pasirinktas tyrimo metodas pademonstravo savo naudingumą silpnosioms ir stipriosioms Urugvajaus broilerių pramonės pusėms tirti. Šie duomenys buvo panaudoti tyrimo tikslui pasiekti, iš kurių buvo parengtos pirminės ir antrinės politinės rekomendacijos, kaip padėti Urugvajaus broilerių bendrovėms konkuruoti su tarptautinėmis broilerių bendrovėmis regioniniame ekonomikos bloke (MERCOSUR) bei barjerų.

Straipsnyje teigiama, kad MERCOSUR reiškia potencialią grėsmę Urugvajaus broilerių bendrovėms, ypač kai šio prekybos bloko nariai galės patekti į Urugvajaus rinką. Kyla klausimas: kokia yra tikėtina Urugvajaus broilerių pramonės reakcija į šią grėsmę? Kokybinė analizė rodo, kad be vos kelių bendrovių, siekiančių pagerinti produkto kokybę, nėra strateginio plano, kaip pasitikti galimą MERCOSUR broilerių bendrovių konkurenciją. Visi savininkai-direktoriai pasikliauja savo gebėjimu lobistiniu keliu paveikti vyriausybę, kad sanitarijos barjeras nebūtų pašalintas. Dauguma jų jau yra bebaigia šeštąją dešimtį, jie išplėtojo savo verslą importo pakeitimo politikos laikotarpiu, kuomet vyriausybės strategijos pagrindas buvo remti vietinę pramonę, orientuotą į valstybės vidaus rinką. Kokybinė surinktų duomenų analizė rodo, kad labai mažai tikėti-

na, kad Urugvajaus broilerių firmos reaguos laiku. Bet to, kokybinė analizė atskleidžia, kad Urugvajaus broilerių firmos neturi lyderių (savininkų-direktorių), pakankamai išmanančių apie vadybą, todėl galinčių valdyti bendroves naujoje konkurencinėje aplinkoje be apsauginių barjerų.

Tyrimas rodo, kad be vyriausybės įsikišimo Urugvajaus broilerių bendrovėms nėra daug galimybių atvirojoje rinkoje konkuruoti su tokiais Brazilijos ir Argentinos bendrovėmis. Urugvajaus broilerių firmoms paruošti veiksmingam konkuravimui naujoje aplinkoje rekomenduojama politika ir veiksmai:

- Vyriausybei peržiūrėti universitetų programas.
- Skirti išteklių paukštinkystės tyrimams žemės ūkio tyrimų centruose.
- Įsteigti komitetą (konsultacinę įstaigą) prie Urugvajaus žemės ūkio ministerijos.
- Asignuoti pigų kapitalą paukštinkystės pramonei.
- Padidinti Montevidėjo uosto pajėgumus. Gilinti Montevidėjo uostą.
- Skirti dotacijas Prekybos ministerijai urugvajietiška paukštienai remti ir padėti vietinei pramonei atverti naujas rinkas.
- Priimti tarptautinius sertifikavimo standartus. Kontroliuoti nelegalų importą.
- Įstatymais užtikrinti priimtinas darbo sąlygas ir skatinti nuolatinį darbo turėjimą.
- Mažinti mokesčius ir vykdyti bendrovių reinvestavimo skatinimo politiką.

Pagrindiniai žodžiai: regioninė integracija, mažos firmos, konkurencingumas, Urugvajus.