

III. INTRODUCTION TO EXPORT PROMOTION

A. Introduction

The objectives of this session are to introduce the concept of export promotion and export development and to explain how responsibilities are distributed among various organizations and agencies to formulate, approve and implement policies that promote and develop exports. This session will also describe and list the components of foreign trade and trade promotion policies and other factors affecting foreign trade. The various levels of export promotion strategies for example; the enterprise, industrial, and national levels will be introduced together with explanations of the SWOT approach to export strategies.

Newly emerging developing countries have been unable to significantly increase their export volume on their own. There are many reasons related to the level of national economic development to explain this. One main reason is the lack of knowledge about the many complex challenges involved in marketing abroad. International marketing is a much more complicated process than marketing and selling in the domestic economy.

To encourage growth of exports, governments can step in and provide business communities with needed support in various ways. Governments have many different policies, programmes and activities to help develop competitive products and increase export sales.

B. Justification for export promotion activities

Governments can assist businesses in the private sector with a wide range of services, from simply providing information about current opportunities in the world market to giving specialized assistance to design and implement marketing programmes and sales campaigns abroad. These activities may be described by the words "export promotion" or "export development." The activities are usually carried out by a trade promotion organization (TPO).

In most countries, TPOs concentrate most of their efforts on export promotion; that is, a set of actions aimed at promoting export of the country's existing production. The basic objective of

Export Promotion

export promotion activities is to encourage increased sales of products that are currently available for export. All promotional efforts are based on existing production and aim at increasing the value of foreign sales by a given target.

In recent years, some governments have focused on programmes of export development. Governments were responding to greater liberalization of foreign trade regulations and increased competition from abroad. Export development is different from export promotion, because export development aims at producing new export products and/or penetrating new markets that were not accessible before. The aim of export development activities is to identify existing opportunities and encourage new industries or production facilities to be set up in order to meet newly identified demands in the international market.

To a great extent, export development can concentrate on product adaptation; that is, use of existing production capacity to manufacture new products when better markets are found for those products than for traditional products.

The export development approach clearly requires more effort, resources, and persistence than the simple traditional export promotion approach. One consequence is that export development cannot always be fully adopted, given limits that might exist in many countries.

In this manual, the two different definitions will be kept for export promotion and export development, but they will not always be kept separate as distinct activities.

Most developing countries make export promotion and development a priority in order to achieve economic development goals. Governments expect that sustained export promotion and development efforts will help earn additional foreign exchange needed to cover the cost of imports, solve balance of payments problems, help reduce the burden of increased foreign indebtedness and create additional employment for people.

Export development is not only desirable, but also absolutely necessary in some countries in order to widen a narrow export base. Foreign exchange earnings from a very limited number of export products often cannot generate enough additional foreign exchange, especially when there has been a

decline in the international prices for some traditional export products of developing countries.

In many developing countries, the business community of private exporters may need assistance to make appropriate contacts, after they have done market research and gathered information. This actually involves a number of complicated actions and considerations that should be examined in greater detail.

Exporters who have not consolidated their presence in foreign markets do not usually have the resources to carry out export promotion and development activities, which are generally expensive. Gaps between resources needed and resources available are common in many developing countries. As a result, governments must fill these gaps, especially the financial gap. There are many general actions that need to be taken. Such basic export development activities must be provided as a public service, at least until individual exporters can cover the costs themselves.

The export promotion and development strategy of a developing country will set the stage for determining the level and type of trade linkages with the international market. An example is Taiwan, Province of China. Refer to Figure 1.

C. Policy formulation and implementation of export promotion measures

The keys to successful national export promotion and development programmes are government policy decisions that affect export trade. A country's export development policy established in terms of appropriate economic instruments and export promotion measures is critical to national foreign trade performance. Two sets of policies affect foreign trade management in general, and export promotion and development in particular:

- (a) foreign trade policies and other policies with direct influence on foreign trade,
- (b) Policies that regulate other economic activities, but at the same time influence the general performance of foreign trade.

Figure 1. Economic development of Taiwan, Province of China

In the late 1940s, Taiwan, Province of China had been a predominately agrarian economy based on rice and sugar production. Agricultural output soared following land reforms set up by the government. The agricultural surplus, as well as the aid from the United States of America in the early 1950s, helped to concentrate attention on developing the industrial base. These efforts were successful for industrial output, which rose by 240 per cent from 1952 to 1960.

In the 1960s, transnational corporations (TNCs), especially those from the United States of America became established in Taiwan Province of China. However, the government of Taiwan, Province of China controlled foreign investment and only attracted TNCs that could provide a high rate of technology transfer.

When the small size of the domestic market and the end to United States of America foreign aid threatened this early success, a programme was launched that aimed at promoting export-oriented industries, and sparked spectacular growth for Taiwan, Province of China in the 1960s and 1970s.

However, by the 1980s, rising wages meant that mass-production of low-value consumer goods was becoming too expensive to compete in world markets. This led Taiwan, Province of China to encourage development of capital- and technology-intensive industries like electronics and chemicals.

One major feature of economic growth was the presence of well-developed and enterprising SMEs, many of which were in the export business. The government believed that larger firms could exploit economies of scale, and therefore, set up support structures to help SMEs form strategic alliances with foreign firms.

At present, lower value manufacturing in Taiwan, Province of China has shifted overseas to lower-cost locations. This has reduced the share of manufacturing in GDP. Growth in the services sector increased its share to 60 per cent of GDP in 1996. The pattern of exports has also been changing, as exports to traditional developed markets like the United States of America has declined, while exports to developing economies have increased.

1. Basic concepts and definitions

The “foreign trade policy” of a country refers to policies and practices that affect and regulate import and export operations. Foreign trade policy includes many laws, decrees, regulations and procedures that are often adopted for different purposes. Such policies will affect foreign exchange, imports, exports, foreign investment, and international relations. A foreign trade policy should include trade promotion policy and lead to the design and implementation of successful trade promotion and development programmes.

The “trade promotion policy” of a country is comprised of programmes and measures that promote and develop trade with other countries. It includes all regulations and practices that will increase exports. Trade promotion policies are part of the overall foreign trade policy, and cannot be considered alone. The country's foreign trade policy must make it possible to achieve trade promotion policy objectives.

Other policies will have a significant affect on foreign trade performance, even though they were not intended to directly regulate the country's foreign trade. These policies are part of the framework in which foreign trade policy must be designed and executed. These other policies generally cover the national development plan, monetary policy, fiscal policy and practices, production and price controls and investment policies:

- (a) National development plans include planning practices and the scope of state intervention, mechanisms for making the plan cohesive, coordinating the components of the plan, ranking plan priorities and setting overall allocation of resources.
- (b) Monetary policy covers policies and management of credit and money and addresses issues of inflation and regulation of foreign borrowing as related to monetary management and control.
- (c) Fiscal policy covers all aspects of taxing and spending by the government, the overall fiscal regime, temporary tax holidays and tax exemptions that help achieve other policy objectives.

Export Promotion

- (d) Production and price controls cover all policies, which regulate or generate production for local use and export, as well as the conditions for carrying out production in all sectors of the economy.
- (e) Private investment regimes cover policies, programmes and regulations that affect investment opportunities and decisions, such as incentive schemes, promoting and encouraging selected sectors or industries and lending practices of development banks.
- (f) Foreign exchange policy covers policies and regulations designed to manage the exchange rate in line with the national economic policy, for example, making exports more competitive or controlling inflation.

The foreign trade policy in combination with the policies listed above, form the nation's overall economic strategy. Foreign trade policy will focus on trade promotion, trade development infrastructure and international trade relations. Refer to Figure 2.

Trade promotion consists of programmes and measures to promote and develop trade with other countries. The focus is on issues related to exports and imports. Trade development infrastructure concentrates on developing and upgrading the nation's trading ability to develop trade. Areas covered include trade facilitation and administration, trade finance support and development of trading enterprises.

International trade relations involve developing strong trade diplomacy with other countries in order to safeguard a country's commercial interests and ensure market access for its exports. It also involves participating in international and regional trade forums to promote and ensure a fair, more open international trading environment.

2. Promotional measures and their implementation

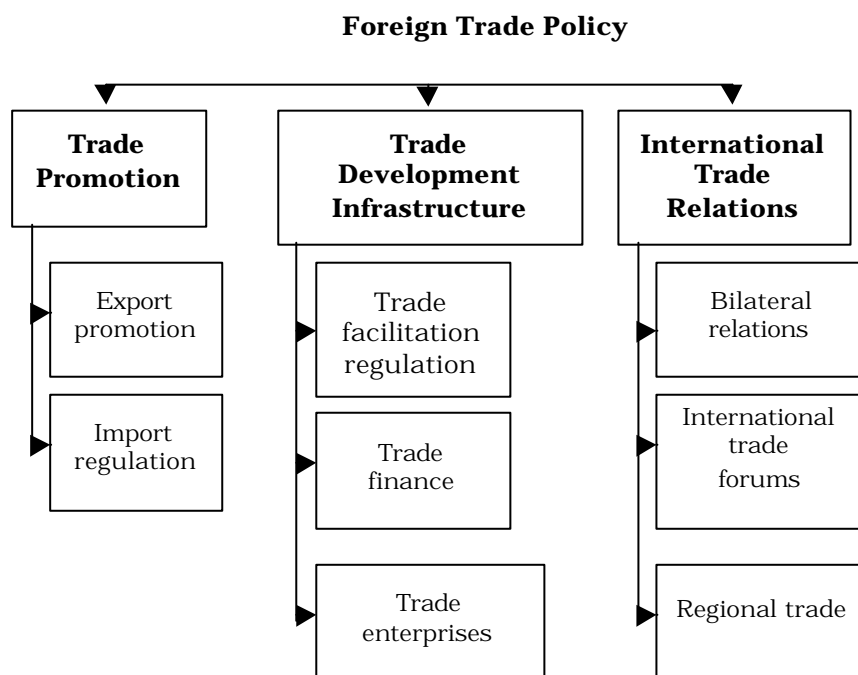
The range and intensity of a country's export promotion activities will depend on a number of factors:

- (a) human and financial resources,
- (b) the nature of products that can be exported,

- (c) the characteristics of foreign markets,
- (d) the experience of organizations responsible for implementing these activities.

A variety of organizations or entities can implement activities, and the main entities will be the government's TPOs. Other entities may carry out related, complementary activities. However, certain activities require specialization in export promotion and development, and should be undertaken by the TPOs. Such activities are fundamental and should not be assigned to any other entity or organization, unless the activities can be implemented with the same professionalism as a TPO.

Figure 2. Aspects of foreign trade policy



The activities of TPOs must start by creating the conditions required for a successful, dynamic export promotion programme. Generally, these activities aim to: identify and develop products and markets; locate new investment possibilities; provide trade

Export Promotion

information and specialized support services such as assistance with export procedures, product quality issues, export financing and transportation; and carry out promotional activities abroad through trade fairs and missions.

A number of other promotional activities are best implemented by other entities, not the TPOs. These activities will depend on the specialized knowledge and experience of other specific entities. Whenever these other entities have some absolute advantage, then the TPO should not carry them out on its own. However, TPOs and other specialized entities should have links with each other and try to co-ordinate, since all activities have some direct or indirect influence on overall export promotion and development and on the responsibilities of the TPOs. In addition, TPOs should give full support to such specialized activities.

There could be difficulties with co-ordination and collaboration when different entities have insufficient understanding or appreciation of their responsibilities in export promotion and development. As a consequence, they may leave the responsibility for all promotional activities to the TPO. It is important to make every effort so that other entities gradually accept and assume their responsibilities.

It is important to avoid assigning trade control functions to organizations responsible for trade promotion and development, because trade control tasks counteract promotional and development efforts. If TPOs are made responsible for trade control, this will have a bad effect on the good relationships with the business sector. Most TPOs would find that trade control tasks distort their image and working practices.

Although the TPO should avoid trade control functions, TPO representatives must be able to give their viewpoints when the government makes decisions on trade control activities. Mechanisms for considering TPO viewpoints will help avoid adoption or implementation of decisions and regulations that oppose export development.

3. Export promotion strategies

Export promotion strategies are part of trade promotion and should focus on enterprise, industry, and national levels.

(a) Enterprise level

Some parts of the business community in developing countries have been unable to significantly increase export volumes on their own for the following reasons:

- (i) A limited number of commodities are available for export, so export sectors depend on international developments affecting the world market. An example is the falling price of cotton and base metals that are a major part of export earnings for Central Asia.
- (ii) Industrial production of goods is limited by the lack of downstream activities, which does not allow enterprises to produce differentiated products for export or provide some form of export diversification.
- (iii) There is dependence on one or two key export markets and supply sources, and this does not give enterprises an opportunity to develop products according to the standards of more developed markets. This also results in lack of knowledge about marketing abroad.
- (iv) Enterprises lack export readiness, which might be due to unwillingness to venture overseas because the domestic market offers comfort and security. However, the transition to a market economy may force enterprises to look beyond the domestic market in order to earn much-needed foreign exchange and generate employment. International marketing is a much more complicated process than marketing and selling in a domestic economy.

Transitional economies need a lead agency to drive the effort towards becoming exporters.

Industry level. Two kinds of export dimensions to consider are (a) increasing the export of existing products and (b) developing new exportable products.

Export Promotion

Increasing the exports of existing products means looking at what industries currently produce for export to the world market. For many transitional and emerging economies, exports are mainly commodity and primary products. Therefore an initial export strategy should focus on enhancing and consolidating the volume of export into existing markets as well as diversifying to other exports markets.

The second dimension involves making an assessment of what new products could be developed for export markets. These new products often originate from spin-offs or downstream activities from existing core industries. For example, the oil industry supports petrochemical industries and oil equipment manufacturing. Therefore, governments could help develop an industry to become ready overall for exporting through industrial cluster planning.

Industry councils or associations can play a major role by advising and working with the government or its designated trade body to develop export strategies. These strategies should be based on comprehensive study of the export potential for select products. This will involve:

- (i) Clear identification of what is produced, planned production in the near future and the most suitable markets for such products;
- (ii) Concurrent study of what is being purchased in foreign markets in order to suggest what could be produced in the country to satisfy the needs and opportunities of foreign markets;
- (iii) Clear indication of constraints or problems for exports in terms of production or market conditions, which should lead to recommendations about how to solve problems or counteract any constraints.

(b) National level

The government sets the overall economic direction and trade development strategy. Establishing the export dimension of this strategy in terms of appropriate economic instruments and export promotion measures is critical to national export performance. Therefore, the design of relevant trade policies is the key to a successful national export promotion programme.

D. SWOT analysis

The strength, weakness, opportunities, and threats (SWOT) analysis approach can be used to outline national export strategy. SWOT analysis reveals a country's competitive advantage as well as its prospects for successful exporting. It combines analysis of the country's critical success factors, shortcomings and potential markets and international and regional trade trends.

1. Assessing strengths and weaknesses

A TPO will be able to assess a country's strengths and weaknesses from the information it has obtained during the product identification stage. It will be able to evaluate and review the country's production capabilities and the readiness of its exporters. The TPO can assess the country's ability to penetrate a market based on a possible list of critical success factors. Refer to figure 3.

Figure 3. Strength/weakness analysis

Factor	Strength	Neutral	Weakness
<i>Technical competitiveness</i> <ul style="list-style-type: none"> • Technology level • Productivity level • Capital intensity • Quality management 			
<i>Export strength</i> <ul style="list-style-type: none"> • Knowledge of market • Trade contacts • Reputation of products • Competitiveness 			
<i>Human resources</i> <ul style="list-style-type: none"> • Level of technical skills • Training support 			
<i>Natural resources</i> <ul style="list-style-type: none"> • Factor endowment • Quality level 			

2. Identifying opportunities and threats

A TPO must be able to understand the external environment when identifying opportunities and threats. It must be aware of current international, regional and bilateral market developments. As mentioned above, as the Asian regional crisis subsides, imports of cotton from South-East Asian countries may increase, so there is an opportunity to expand the markets for cotton. The TPO will have to assess which opportunities can be pursued successfully based on current strengths.

Threats are possible events or occurrences that will have severe implications on a country's trade. Countries have to assess key threats with the highest probability of occurrence and develop contingency plans to cope.

SWOT analysis determines likely external opportunities and threats, and what impact they would have on the country, given its strengths and weaknesses. A SWOT matrix is used to map out strategic options as seen in figure 4.

The SWOT matrix in figure 4 highlights some, but not all, likely occurrences. The opportunities column identifies two likely events. It predicts that there will be more demand from Asia for commodities like grain and cotton. Based on the TPO's assessment, the country should be able to meet this demand. This is a region where the TPO may want to explore further for similar business opportunities. The other opportunity is more global demand for food products. Although endowed with grains and foodstuffs, the weakness is the lack of efficient downstream industries. This is one area that may need addressing.

The threat column highlights the economic stagnation of Russia and the rest of the region. This will mean a fall in demand and declining exports to these markets. Another serious threat is the competition posed by African countries. The first threat may be relieved, as exports can be diverted to other markets. The TPO should therefore, focus on looking for other markets.

The second threat, the lack of price competitiveness compared to competitors, will require an investigation of the industry's efficiency. The TPO's strategy will require relying on non-price competitive tools like quality and reliable delivery services.

Figure 4. SWOT MATRIX

	Opportunities	Threats
Strengths	<p>Opportunity Asia crisis decreasing, with resulting demand for commodities</p> <p>Strength Ability to meet market demand</p>	<p>Threat Russian and regional economy stagnating</p> <p>Strength Ability to diversify to other export markets</p>
Weaknesses	<p>Opportunity Global liberalization resulting in more open markets for processed food products</p> <p>Weakness Lack of downstream expertise</p>	<p>Threat Competition from African suppliers offering lower prices</p> <p>Weakness Commodities are not price competitive compared to African competitors</p>

In summary, an export strategy can be formed based on a SWOT analysis. Using the example in figure 2-3, the TPO's export strategy should focus on the following elements:

- (a) developing export promotion programmes aimed at expanding exports to the Asian region;
- (b) with other agencies, upgrading the local food processing industry to meet international demand;
- (c) promoting the quality of local products;

Export Promotion

- (d) exploring niche markets for high-value organic food products.

E. Importance of export promotion and development strategies

An important component of a country's foreign trade policy is its national export strategy. The national export strategy focuses on promoting and developing those products and markets that offer the best opportunities for a country. Given the lack of available human and financial resources, it is almost impossible for a country to have a strategy covering all products simultaneously. The national export strategy should be considered as part of foreign trade policies. Formulation and implementation of a national export strategy requires:

- (a) A mechanism to co-ordinate policy formulation,
- (b) Active participation and a sense of responsibility by the various bodies, institutions and officials involved,
- (c) Persistent application of regulations, since frequent changes in regulations can be the one factor that is most detrimental to the success of export promotion and development programmes.

1. Basis of national export strategy

A national export strategy should be based on a comprehensive study of the country's export potential. This will involve:

- (a) Clear identification of what is produced, planned production in the near future and the most suitable markets for such products;
- (b) Concurrent study of what is being purchased in foreign markets in order to suggest what could be produced in the country to satisfy the needs and opportunities of foreign markets;
- (c) Clear indication of constraints or problems for exports in terms of production or market conditions, which

should lead to recommendations about how to solve problems or counteract any constraints.

Proper analysis will define the extent and focus of the strategy in the short, medium and long-term periods. Export promotion and development can succeed through orderly distribution of responsibilities, adequate co-ordination of policies at the formulation and implementation stages and definition of an appropriate and realistic strategy.

2. The role of trade promotion organizations in export promotion

Governments establish TPOs to develop and implement the country's export promotion and development programmes. TPOs normally have a dual role: (a) to provide specialized support to the producers of products for export, and (b) to serve as a catalyst for related services provided by other entities in the public and private sectors.

A TPO acts as adviser to the government on foreign trade and related matters. Due to the nature of its services, the TPO and the export community should develop close ties. This will give the TPO an opportunity to have first-hand knowledge of policies and procedures that support (or hinder) the development of exports. In this way, the TPO also acts as a bridge between the export community and the government.

The TPO can also be an effective bridge between the export community and the foreign markets, if it can call on the services of other specialized institutions. In this way, the TPO also serves as a catalyst for the use of specialized services.

It is also possible for the export community to establish direct contacts with foreign markets and with the government through channels other than the TPO. However, these other contacts should not prevent the TPO from acting for the benefit of exporters.

Export promotion and development activities should be carried out by specialized institutions devoted to this task. This makes the TPO a key actor, which receives support and relies on other specialized institutions.

F. Coordination among export promotion bodies

It is important to have effective mechanisms to co-ordinate among trade-related institutions and organizations, since most Governments have many institutions responsible for various foreign trade activities and an assortment of policies, procedures and practices that affect foreign trade performance. Regardless of the nature and responsibilities of each institution, three basic conditions must be fulfilled to enable successful operations and to effectively implement foreign trade policy:

Each institution must have clearly defined responsibilities. It is common for a TPO to be overworked, with responsibility for all promotional activities, including activities that should be the responsibility of specialized agencies. This often happens simply because responsibilities and functions of the various institutions have not been clearly defined.

Formulation and description of responsibilities and activities should not lead to conflicts between institutions.

There must be an efficient mechanism to co-ordinate among these institutions. When such a mechanism for policy formulation and implementation is missing, confusion or undesirable situations might result.

There are various kinds of structures and ways to achieve such co-ordination.

1. The role of councils

Most countries have a council of ministers to co-ordinate foreign trade policy, with participation by ministries dealing directly with trade-related matters. Few countries have a foreign trade council. A council is responsible for defining policy issues and coordinating the way in which foreign trade matters are related to other policy areas. There are two different general types of councils: (a) policy-making council and (b) advisory council.

(a) Policy-making councils

Several countries have established a high level trade policy-making body in their governmental structure. Such a council is composed exclusively of public sector officials, usually at the

ministerial level. Although they are somewhat similar to a council of ministers or cabinet, they involve only ministers who deal with economic matters. In several instances, the policy-making council also includes the top-level official of the Planning Board and the Central Bank. A policy-making council makes it possible to achieve the objective of forming a policy making structure that can focus on export development.

The functions of such high level policy-making councils are:

- (i) formulate the foreign trade policy,
- (ii) co-ordinate it with other policies,
- (iii) propose/adopt adequate mechanisms for implementation,
- (iv) formulate recommendations in particular trade-related areas,
- (v) define requirements for imports and exports,
- (vi) define policy for international agreements.

(b) Advisory councils

Some countries have chosen to create advisory councils in which both the public and private sectors participate. The International Trade Center (ITC) has published details about their composition, functions, frequency of meetings and the role of a technical secretariat in its publication, *Institutional Mechanisms for Foreign Trade Policy Making in Developed and Developing Countries*, (1992).

Since advisory councils are composed of public and private sector representatives, they have less power than a policy-making council. The recommendations of advisory councils can be the basis for formulating various parts of the government's foreign trade policies. Some countries, including Colombia, Ecuador, Paraguay, and the United States of America, have set up both types of council in order to enhance and facilitate the role played by high-level policy-making bodies.

2. Basic considerations in formulating and managing foreign trade policy

Three basic considerations and requirements must be kept in mind when formulating foreign trade policy.

First, trade promotion programmes must come from a coherent mix of consistent policies and institutions. There is no single policy that can define and lead to implementation of promotional activities. In a similar way, implementation of promotional activities should be the responsibility of a mixture of institutions, with each one playing a specialized role. Any weakness in one institution will jeopardize the effectiveness of the others and make the entire programme ineffective.

Second, trade promotion programmes operate within the general context of a country's overall foreign trade policies. The general foreign policy of the government must also be taken into consideration. This whole set of policies cannot work against each other or be implemented in isolation.

Third, a successful trade promotion programme will respond to market conditions abroad, the needs of exporters and the production possibilities within the country.