EXPORT PROMOTION

A Decision Support Model Approach

Editors

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Chapter 1

Introduction

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Export promotion is often regarded as a public good and is, therefore, in many countries supplied, wholly or partially, by the public sector. Export promotion organisations (EPOs)¹ are, however, increasingly facing diminishing returns in the use of export promotion instruments, particularly the more traditional and most widely-used instruments, such as the participation in trade missions, the participation in trade fairs and exhibitions, etc. Empirical support for this assumption can be found in studies such as Alvarez (2004), De Wulf (2001), and others, including for the existence of diminishing returns to scale of the export promotion budgets (see e.g. Lederman, Olarreaga & Payton, 2006).

On the other hand, with the success of the export strategies of a number of Newly Industrialising Countries (NICs) and emerging exporting countries, public export promotion organisations in both the developed and the developing countries are facing an urgent need of enhancing the efficiency of their export promotion activities, the more so as many of these EPOs are confronted with constraints in the available financial and other resources.

From this it follows that EPOs are in need of criteria to prioritise their activities to the markets and products that are offering the most promising export results for the countries which they represent, and to develop the most appropriate export promotion strategies for the products and the markets which they prioritised. Therefore, governments and organisations that want to stimulate their countries' exports, have to identify a smaller number of realistic

1 Many alternative terms are used in the literature, such as public export promotion agencies (PEPAs), export promotion agencies (EPAs), trade promotion agencies (TPAs) and trade promotion organisations (TPOs). However, for the purpose of consistency, the term export promotion organisation (EPO) will be used throughout this publication.

export opportunities from the vast number of possible opportunities that exist as only a limited number of export opportunities can be explored due to scarce resources (people and finance).

Therefore, as governments and organisations are operating with these scarce resources, a subsequent selection of opportune markets and product groups (product-country combinations) has to be made. Furthermore, the development of an export promotion strategy or the analysis of the effectiveness of existing export promotion programmes has to rely on hard quantitative data on foreign markets.

In order to assist export promotion organisations to better and more efficiently design export promotion programmes, geared to the continuously changing international environment, a decision support model was developed by Cuyvers *et al.* (see Cuyvers, De Pelsmacker, Rayp & Roozen, 1995). It was first applied to Belgium in 1992, 1993 and 1995 for the Flemish EPO (Cuyvers *et al.*, 1995) and for academic purposes in 1996, 2003 and 2008, and to Thailand (Cuyvers, 1996; 2004) and the Philippines. After that the methodology was revised and refined to suit better the South African situation in 2007, 2009 and 2010 (Viviers & Pearson, 2007; Pearson, Viviers, Cuyvers & Naudé, 2010; Viviers, Rossouw & Steenkamp, 2009; Viviers, Steenkamp, Rossouw & Cuyvers, 2010).

This model endeavours to make a selection of possible export markets, which are potentially profitable, from the set of all possible worldwide product-country combinations. Using macroeconomic data and international trade statistics, the selection process of the model consists of four consecutive filters, such that results from a previous filter are used as input and starting point in the next filter (for a detailed description of the DSM methodology, see Chapter 4).

In the course of the years also the nature of the international trade data used changed from SITC 2-digits in 1992, to SITC 4-digits data in the 1995 Belgian DSM run, as well as the subsequent runs for Belgium, Thailand and the Philippines, with a last run for Belgium-based on SITC 4-digit data in 2008.

Although in the first application of the DSM to South Africa of 2007 also SITC 4-digit data had been used, it was decided for the subsequent applications to South Africa, Belgium and Thailand, to rather use HS 6-digit data. The rationale for this change was as follows. The export opportunities detected on the basis of the DSM approach are taking the form of product-country combinations and are to be used by export promotion organisations and exporters. These users, however, are not familiar with SITC product categories, but rather with the product codes that are appropriate to perform export and import customs procedures, which are these of the Harmonised System (HS). The drawback of using HS

6-digit international trade data, unfortunately, is that the results are very hard to compare with these from previous applications. Moreover, from the point of view of export promotion the number of detailed export opportunity leads to follow up is staggering and require to be further narrowed down. One of the aims of the present volume is to find better ways to do so and to assist EPOs to prioritise their activities.

Part I of this book focuses on the political circumstances in which the applications of the DSM in Belgium took place, international market selection methods and the development of the decision support model (DSM).

Public export promotion involves a number of “players”, such as the EPO, but also the political authorities, sectoral organisations, the business community, individual exporters, etc. It goes without saying that the material and organisational interests of these players are mostly not the same. An analytical tool as the DSM easily leads to a list of export opportunities and priorities, which in its details is at odds with some of these interests. Therefore, the results of the DSM are often met with opposition from some of the “players”. Chapter 2 is an attempt to make a public choice analysis of export promotion and which motivates the DSM as an objective tool to counter lobby pressures on export promotion. As a tool for assisting export promotion organisations, the DSM was originally developed for the EPO of the Flemish region of Belgium. In Chapter 2, the subsequent events following its first applications are interpreted from a political economy point of view. Although the chapter starts with a simple game theoretical approach to public export promotion, it is shown that, based on the historical experience with the DSM, in the real world much more “players” and more complicated interactions are involved. Yet, some conclusions are drawn which, we hope, are relevant both for the theory and the practice of public export promotion.

In Chapter 3, the vast literature on market selection methods is reviewed and the DSM approach is assessed within this literature. From this assessment it appears that for the purposes of the prioritising, planning and designing of public export promotion activities, the DSM conforms to the prerequisites that all possible world-wide product-country combinations must be considered and that a limited list of the product-country combinations with the highest export potential for the exporting country should be produced in order for an export promotion organisation to use their resources optimally. The assessment based on the literature review also clearly reveals that, in contrast to other market selection methods, the DSM seems to be capable of handling a large array of possible product-country combinations due to the filtering process used, and finally provide a list of priority products in each country and, vice versa, a list of priority countries for each product.

The DSM methodology, as such, is explained in detail in Chapter 4. As the DSM was developed in 1992 and applied on a number of occasions, also since then a number of changes were

introduced, based on experience. In 1993, for example, a scaling factor for export growth at product level was introduced, in order to correctly assess negative growth rates. Or else, as another example, when the ONDD, the organisation the political and commercial country scores of which are used in Filter 1 of the DSM, changed its risk scoring scales, this required for a subsequent minor revision of the selection procedure of that filter. Instead of asking the reader to go back to the original publications and integrate these changes for himself, Chapter 4 lays out the DSM methodology as it is at present, and as it is applied in the subsequent chapters, in a concise and coherent way.

Part II focuses on applications of the methodology of the DSM. This part consists of three chapters: a discussion of the DSM results for Belgium and, where possible, a comparison with previous results (Chapter 5), the comparison of the most recent DSM results for Belgium, South Africa and Thailand (Chapter 6) and the identification of export opportunities for South African products in the rest of the African continent (Chapter 7).

In Chapter 5, the DSM methodology as explained in Chapter 4 is illustrated in detail and concretely, by following step-by-step its application for Belgium. The present application is using 2003-2007 HS 6-digit international trade data. This should allow the reader to fully understand how the analysis is performed, in the first place, but it also allows some comparison with previous DSM results. This leads to a first and tentative assessment of the robustness of DSM results and some challenging conclusions about the scope for public export promotion in a rapidly changing international economic environment.

Next, in Chapter 6, the DSM results derived for Belgium, Thailand and South Africa as respective exporting country are compared. In addition, in order to allow a better prioritisation of the realistic export opportunities detected, the analysis in that chapter also concentrates on these opportunities for which the respective exporting countries have already acquired a sufficient degree of comparative advantage, thus allowing an analysis and comparison of the opportunities that in principle can be tapped immediately. The comparison of the results of the three countries reveals important differences.

As said and fully explained in Chapter 4, the logic of the DSM is to be applied to identify export opportunities in the world at large. In Chapter 7, the geographical coverage of the DSM analysis for South Africa is restricted to the African continent. The reason for this restriction is that, although by itself leading to instructive information, the results of an unrestricted application for exporting developing countries might on a number of occasions and for a large number of export opportunities, be unpractical, due to geographical and cultural distance from the far-away markets. Moreover, the neighbouring countries might be engaged in a regional integration process, such that the political authority of the exporting country for economic or other strategic reasons prefers to deepen the international trade

links with these neighbours. It should be clear that as a matter of principle we are not advocating such restricted geographical coverage of the analysis of the DSM, as there is a serious risk that the exporters' objective interests and potentials of exporting to the most promising markets might be sacrificed to the wishes and interests of the political authorities and their bureaucracy. However, we concede that for a number of reasons it should be accepted, as is the case for South Africa and its prioritising of the African market.

Part III focuses on some further applications of the DSM methodology and the strategic use of the DSM results. This part consists of four chapters: an assessment of public export activities using the DSM results of Belgium (Chapter 8), the development of strategies for export promotion using the DSM (Chapter 9), the development of a DSM for the identification of export opportunities for services (Chapter 10), and the use of Competitive Intelligence (CI) as an instrument to serve exporters' information requirements regarding concrete realistic export opportunities (Chapter 11).

Although the DSM has been developed and used for the identification of the export opportunities of countries, and therefore as a tool to design and plan export promotion activities at the level of the product and importing country, it can also be used as tool *post factum* to assess the export promotion activities actually planned and executed. What is required for this purpose is to translate these activities in product-country combinations, after which these can be compared with the list of realistic export opportunities in the same period. This is done for Belgium in Chapter 8, be it for 2000-2003, thus referring to a previous application of the DSM for Belgium, as the one reported at length in Chapter 5.

Following a hint in Cuyvers, De Pelsmacker, Rayp & Roozen (1995) on public export promotion strategies based on the characteristics of the realistic export opportunities detected using the DSM, Chapter 9 further elaborates on such strategies as combinations of specific export promotion instruments. The strategies are categorised into offensive market exploration, offensive market expansion and defensive market maintenance strategies, based on the market presence in the importing country achieved by the exporting country. They, in turn, are further categorised according to the import market characteristics for the product at issue. This categorisation is illustrated by developing three concrete studies of export promotion strategy for South African products, corresponding with three of its many realistic export opportunities. It is shown that the broad categorisation of the export promotion strategies proposed is leading to specific combinations of export promotion instruments, but that for the concrete elaboration of the strategies more detailed information, both qualitative and quantitative, on the many aspects of international marketing are required.

The nature of the data used in previous DSM applications limited its use to the detection of export opportunities of products for the exporting country. However, the logic of the DSM

could also be applied to identify export opportunities for services. At the time the DSM was developed, the international data on services were scant, to say the least. This situation changed dramatically during the past couple of years, and allowed to rethink the DSM methodology, with due regard of the nature of the available data on international trade in services, to be applied to services. This innovative attempt was made for South Africa and is reported in Chapter 10.

Many firms regard exporting as a means to counter and monitor growing foreign competition, enlarge their market base, and augment profitability. However, despite the financial implications of selling to foreign markets, the process is uncertain and has many potential pitfalls. Exporting requires detailed knowledge of various factors (e.g. foreign business practices, cultures, competition) that could affect a small firm's ability to be successful in foreign markets (Belich & Dubinsky, 1999:45). It is, therefore, clear that if an increasing number of firms move into export operations, gathering and processing the right information will be of critical importance. Chapter 11 firstly examines exporters' need for information, the types of information considered important by exporters and the sources consulted for gathering information. Finally, this chapter considers the manner in which EPOs and exporters associations can use CI as an instrument to assist exporters in identifying the information they need to collect from the available sources and eventually making strategic business decisions based on the results of the CI process. The results from the DSM studies can be an important source of information for the EPOs in order to assist exporters in their decision-making regarding export opportunities for their products as well as identified potential markets.

In Chapter 12, the main conclusions on the DSM methodology and its use are listed. In addition, present limitations are mentioned and an agenda for future research formulated.

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