EXPORT PROMOTION

A Decision Support Model Approach

Editors

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Chapter 2

The political economy of public export promotion: the case of the Flemish region, Belgium

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2.1 Introduction

Public export promotion involves the use of a number of policy instruments, the impact of which is well-documented in the literature, such as that of exchange rate manipulation or subsidies. Other instruments are much less rigorously analysed. Moreover, not only the impact of these instruments is relevant, but in order to understand their existence, an analysis of the working of the policy formulation and implementation process is even more required.

Why export subsidies, or subsidies in general, for instance, are granted has been analysed using game theory. Political economy models mostly assume that governments want to maximise their political following (e.g. Hillman & Ursprung, 1988). Mathematically, the function that determines the political following reflects the welfare gains of the interest groups due to specific policy measures (e.g. export subsidies) and the welfare losses of others (e.g. the loss of consumer surplus due to higher prices). In the Grossman-Helpman model (Grossman & Helpman, 1994) the interests of economic sectors are represented by lobbyists who are paying contributions to the political decision-makers that depend on the trade policy measures taken. In this model, the government will select the set of trade policy

1 The author is member of the Board of Directors of Flanders Invest & Trade (FIT). However, the opinions expressed in this chapter are not reflecting these of FIT, and he is assuming sole responsibility. Comments by Jan Bouckaert and Michel Dumont on an earlier draft are gratefully acknowledged.

measures (among which subsidies), which is maximising the weighted sum of aggregate social welfare and the lobbyists' contributions.

Apart from imperfect competition, strategic trade policy is prompted by market imperfections related to imperfect knowledge or economies of scale internal and external to the company (see e.g. Brander & Spencer, 1985). Due to the imperfect competition situation, these other market imperfections make it possible to influence the volume of output and therefore the cost of production of the exporting firms by subsidising production, marketing, access to information, research, etc. Export subsidies, therefore, are very diverse and can take subtle forms.

Indirect subsidisation often takes place through the government financially supporting or otherwise the organisation of seminars and workshops on business in well-identified foreign markets, official trade missions abroad, the participation in trade fairs and exhibitions, the presence of commercial attachés at embassies, etc. In fact, these are just of few instruments the use of which is to overcome, or at least counteract, information market imperfections. Their use being a long-standing tradition, however, they are mostly lacking innovation. No country can avoid them, but they have to be increasingly supplemented by other and newer instruments. Yet, their use and rationale can only be explained by the presence of imperfections in the market of information and knowledge, and the economies of scale, both internal and external to the company, or by the welfare gains associated with co-operation and co-ordination.

The decades of use of the traditional instrument of public export promotion, as well as the ever-increasing number of countries using them, rendered them less effective, not to say made them blunt. Evidence indicates that export promotion activities are showing diminishing returns (e.g. Czinkota, 2002; Lederman, Olarreaga & Payton, 2006) and it, therefore, can readily be assumed that for instance each new trade mission to a foreign market, all other factors and instruments remaining the same, will show a smaller contribution to the exports of the organising country. In addition, the available financial and other resources for public export promotion are becoming increasingly scarce, in contrast to the expenses to be made. More than ever before, an optimal use of the scarce resources – given the set of instruments of public export promotion – is, therefore, of paramount importance, which implies that in designing strategies for the export promotion of related goods and services in the world market, the best combination of instruments has to be considered, which will lead to the highest return in terms of exports growth.

This optimisation requires a scientific approach which identifies the important potential export opportunities, using hard statistical data and state-of-the-art analytical tools, and which allows to design the most suitable and sufficiently focused export promotion

strategies. Observation learns, however, that this optimisation is often hampered by the interaction of the relevant “players”, such as private sector lobbyists, politicians, bureaucrats within or outside the public export promotion organisation, to mention a few. Therefore, a good understanding of the strategic moves of the players, which would lead to the optimal outcome, is required.

2.2 A simple game theoretic illustration of export promotion

Assume that two players are determining the number of international trade missions to be organised: the export promotion organisation (EPO) and a sectoral organisation (SO). The trade missions are, however, organised separately, but are catering to the needs of the “fish pond” of exporters who will benefit from it. The trade missions organised separately by each of the players is influenced by these organised by the other. The total exports generated by export promotion by the respective players can, therefore, be written as:

$$E_{EPO} = a_1 + b_1 M_{EPO} + c_1 M_{SO}$$

$$E_{SO} = a_2 + b_2 M_{EPO} + c_2 M_{SO}$$

with E_{EPO} and E_{SO} standing for exports generated by the Fs’ and SOs’ trade missions respectively, M_{EPO} and M_{SO} for the trade missions organised by the EPOs and the SOs, and the parameters a_1 , a_2 , b_1 , b_2 , c_1 and c_2 for the “spill-over effects” between the export promotion activities of the two players.² From this their respective reaction curves can be derived. If $M_{SO} = 0$, $E_{EPO} = a_1 + b_1 M_{EPO}$ and thus $M_{EPO} = (E_{EPO} - a_1)/b_1$. Similarly M_{SO} can be derived for $M_{EPO} = 0$. The reaction curves R_{EPO} and R_{SO} thus show how the number of trade missions that each player wants to organise decreases for increases in the number organised by the other, according to the equations for R_{EPO} and R_{SO} :

$$M_{EPO} = (E_{EPO} - c_1 M_{SO} - a_1)/b_1$$

$$M_{SO} = (E_{SO} - c_2 M_{EPO} - a_2)/b_2$$

These reaction curves are depicted in Figure 2.1. They are intersecting at N, the Nash equilibrium, which is the situation where the missions organised by the EPO are inciting the SO to organise a number of missions itself, which, in turn, would trigger the EPO to act as it is doing now, and the other way round.

The players consider the exports generated by their actions as the gain for the exporters, from which they deduct the efforts and costs expended to organise the trade missions,

2 Alternatively the variables can represent “shocks” in which case they are deviations from the present (or average) values.

which also are showing diminishing returns. The net welfare gains can be expressed in mathematical terms as:

$$W_{EPO} = E_{EPO} - e_1 M_{EPO}^{-2}$$

$$W_{SO} = E_{SO} - e_2 M_{SO}^{-2}$$

Figure 2.1. Game between EPO and SO about the organisation of international trade missions.

Each player attempts to maximise its W by designing and organising an appropriate number of trade missions. The EPO will attempt to increase its W , moving from $W_{EPO} 1$ to $W_{EPO} 2$ and $W_{EPO} 3$. Likewise the SO will attempt to reach the highest W by moving from $W_{SO} 1$ to $W_{SO} 2$ and $W_{SO} 3$. In doing so each is moving up its reaction curve until N is reached.

From Figure 2.1 it also will appear that when the EPO and the SO are cooperating and designing a cooperative strategy, they will maximise a joint $W = uW_{EPO} + (1-u)W_{SO}$ at P , the Pareto equilibrium, where their respective W 's are tangent.

The picture becomes more complicated if the SO is contributing financially, from its membership fees, to the operations of the EPO, and when the EPO is partially subsidising the international trade missions organised by the SO, but the game played is essentially the same, although involving now more and other interactions. Thus, other factors may enter the W -functions, such as the financial contributions and subsidies, or the number of

exporters reached, or even the bureaucratic impact of the two organisations (e.g. proxied by their respective budgets).

We can also consider another, but similar game, which is played between the EPO and the political authorities, with the political authorities being influenced by the amount of taxes generated directly and indirectly by the exports (net of the financial contribution to the EPO), and the EPO's welfare W , apart from the exports generated, influenced by e.g. its budget, the number of employees and the exposure of its international network of attachés. Also in such a game a Nash equilibrium will be reached in the end, although the strategic moves will be somewhat more complicated.

Consider for instance the following game, where both the EPO and the political authorities are organising trade missions, which through their interactions are generating exports, as follows:

$$E_{EPO} = a_1 + b_1 M_{EPO} + c_1 M_p$$

$$E_p = a_2 + b_2 M_{EPO} + c_2 M_p$$

The welfare function of the EPO and P, which each will maximise, is assumed to be:

$$W_{EPO} = g_1 \tau m (E_{EPO} + E_p) - e_1 M_{TPA}^{-2}$$

$$W_p = (1 - g_1) \tau m (E_{EPO} + E_p) - e_1 M_p^{-2}$$

with τ the average income tax rate, m the income multiplier and g_1 the share of taxes generated by the income from the exports. It can be seen that the Nash equilibrium of this game between EPO and P is reached in essentially the same way as depicted in Figure 2.1.³

The existing political economy models of international trade have not incorporated the subtler and more widely used public export promotion activities in their analysis. The present chapter endeavours to show the need to do so, by providing concrete factual insight into the major “players” in the game of designing and planning public export promotion activities, as well as into their not always economical, let alone welfare maximising behaviour. As will become clear below, even the scientific or other tools used in this game are a game by itself.

3 Michel Dumont has suggested that the interrelationship between EPO and SO can also be considered as a duopoly with both EPO and SO attempting to maximise the number of participants to their activities. In addition, the negotiations between EPO and P can be modelled as a situation with both maximising the number of participants to their respective missions, but with the budget of the EPO, as a function of the number of participants, being a subsidy for the EPO and a cost for P.

Not surprisingly, EPOs have been incited by important or large exporters and influential lobbyists with privileged contacts, to take specific initiatives and/or organise specific activities. More than often, this influence was also exercised by political authorities themselves, the more so as these authorities are the prime movers in organising activities such as diplomatically supported official trade missions, in which they are represented as well. Moreover, the political class and the political authorities were (and are) the potential supporters of the EPO, within their sphere of influence, which also have the power to curb its activities. In the past, the relationship between political authorities and EPO was often *quasi feudal*.

However, many EPOs evolved new instruments of export promotion, such as the provision of tailor-made support services for exporters, the organisation of media campaigns in target markets, the development of a network of personal contacts with decision-makers in the foreign markets, the provision of better focused, more specialised and more detailed information and intelligence, etc. This allowed them to wrestle themselves free, at least partly, from undue political influence and to better use own expertise and networks, as well as to better respond to the new opportunities of the “information society”.⁴

The aim of this chapter is to look into the factors and parties/players that are, in an interactive way, influencing public export promotion, based on own experience since the late 1980s and early 1990s with the development and application of a decision support model (DSM) for the Flemish EPO in Belgium. The results of the DSM would allow a scientifically based follow-up of realistic export opportunities and better defined and focused export promotion strategies by the EPO. In this way we will identify the players that became involved and their motives. We hope not only to contribute in this way to the history of Belgian public export promotion, but also to show that the export promotion game is much more complicated than political economy theories have been able to model. Yet, such formal political economy modelling, even partially, would be an important and path-breaking contribution, as it would lead to a much better insight into the alternative outcomes of the game and the way to these. This is, however, beyond the scope of this chapter.

4 The previous methods of information dissemination to exporters about foreign markets are largely outdated due to the exporters' enhanced capacities and possibilities to gather this information themselves on the Internet. Many EPOs, therefore, have abandoned their traditional role of information providers and are focusing increasingly on the provision of tailor-made information and supporting services.

2.3 Export promotion in the Flemish region of Belgium: political and economic considerations

Until 1990, the main government organisation responsible for export promotion in Belgium was the *Belgische Dienst voor de Buitenlandse Handel (BDBH)*. The law of 8 August 1988, which amended the special law of 8 August 1980 regarding institutional reform, transferred part of its former competences to the Belgian regions Flanders, Wallonia and Brussels Capital Region. This regionalisation had been negotiated politically and aimed at bringing export promotion closer to the needs of the small- and medium-sized exporters. It was the outcome of an unfinished process of political and economic regionalisation of the country, of which it was also part. As a result, a major slice of the political powers over international trade promotion came into the hands of the newly established regional governments of Belgium.

Somewhat schematising a complicated political compromise, this regionalisation implied that general export promotion and general information collection, including the updating of the exporters database, remained at the federal level, but that the regions became responsible for the more company-oriented export promotion services, such as coaching and supporting companies in exporting to new markets, the subsidising of the companies' participation in international trade fairs and exhibitions, etc. The BDBH became largely a coordinator of the export promotion initiatives of the regions, although also organising trade missions abroad presided by the Crown Prince. In addition, by the special law of 16 January 1989 on the financing of Communities and Regions, 444.5 million Belgian francs (ca. 11 million euro) were transferred from the federal BDBH budget to the regions, of which Flanders received 58%, Wallonia 33% and Brussels Capital Region 9%. The responsibilities of the BDBH were curbed further by the law of 24 June 1997, but it remained responsible for interregional coordination and consultation. The revision of the Belgian constitution of 2001 contained provisions to reduce overlap of competences between the federal and regional level by the creation of a special agency for interregional coordination and consultation and the dissolution of the BDBH (Law of 13 July 2001, Art. 3).

The Belgian situation of the 1970s and 1980s is a case in point to illustrate the political economy of public export promotion. Facing the new responsibilities regarding international trade promotion transferred from the Belgian federal level to the Flemish region, the author of these lines was commissioned by the then Flemish vice-president and minister of economy, Norbert De Batselier, to provide a policy advice on the needs and requirements of a regional Flemish policy of public export promotion and acquisition. In our policy advice to the vice-president (Cuyvers, 1989b), we proposed the creation of the *Vlaamse Dienst voor de Buitenlandse Handel (VDBH)*, which happened in 1991 (since 2005: *Flanders Investment & Trade*), and outlined its organisational structure. We also emphasised the need

to categorically abandon the old practice of the BDBH to compose an annual programme of activities, mostly by simply compiling the proposals from the various industries as ventilated by the representatives of the sectoral organisations.

With due regard to the need to provide more focused and tailor-made activities, and to tackle public export promotion in a more innovative, professional and scientific way, the transfer of the former federal export promotion mandate to the Belgian regions, allowed the Flemish EPO to live up to the slogan of its regional political authorities: "What we do ourselves, we do better!" Contrary to the BDBH, the *Vlaamse Dienst voor de Buitenlandse Handel (VDBH)* discussed its proposal for the annual activities programme with sectoral representatives in its Advisory Board. This procedure was abandoned, however, in the mid-1990s, when the daily management of the *Vlaamse Dienst* was granted more autonomy.

In order to assist the *Vlaamse Dienst* in designing and planning the most suitable export promotion activities, we were commissioned in October 1991 by the Flemish vice-president and minister of economy to construct a decision support tool allowing the identification of the most promising realistic export opportunities, which in turn would help the *Vlaamse Dienst* in its annual activities programme. The research was conducted by a team of researchers at the University of Antwerp. The results of the Decision Support Model (DSM), which was constructed, were presented to the *Vlaamse Dienst* in September 1992, and thoroughly discussed with the sectoral representatives in its Advisory Board.

Our recollection today of these discussions is that the management of VDBH had rather mixed feelings about the DSM. On the one hand, it seems that they liked being provided a powerful analytical tool that was also new and innovative. Moreover, this tool would allow them to use the results piecemeal and selectively, and thus to silence public criticism (which on occasions was even voiced in the Flemish Parliament) that some of their activities were badly or wrongly targeted or could not sufficiently be justified. On the other hand, we are convinced that the management of the VDBH, and possibly also the political authorities, felt constrained by the results, when these were at odds with their ideas and priorities.⁵ It

5 The management of the VDBH at that time consisted of a triumvirate with one director-general and two under-director-generals. Their political affiliations differed and their appointment was the result of a politically negotiated deal. One of the under-director-generals was very much supportive and in favour of the DSM, while the director-general clearly was in favour in as much as he could "bend" the results where they suited his own ideas and priorities. The powers of the management were constrained by the Board of Directors, which often created frustrating situations of wrangling. This was changed in 1995 when the VDBH was reformed into *Export Vlaanderen* with one managing director responsible for the daily management, working in close contact and consultation with the Cabinet of the Minister, and in which the Board largely was restricted to play a supervisory role. Therefore, although formally being granted more autonomy, in reality the *quasi-feudal* relationship with the competent Minister and his Cabinet had become stronger. Today, *Flanders Investment & Trade (FIT)*, which succeeded *Export Vlaanderen* in 2005, is managed by a managing director and the Board of Directors. The operations and management of FIT are assessed by "key performance

is not surprising that they objectively became allies of the sectoral organisations, which felt threatened by the results of the DSM, as the export promotion activities of these organisations were often based on demands from within the sectors or on the *Fingerspitzengefühl* of the top of these organisations or their representatives. A temporary compromise was reached in the Board of Directors of the VDBH that the DSM results would be used together with these of an annual survey of the commercial attachés abroad about priorities.

To be fair, the DSM was a new, but also a complicated analytical tool and its operation time consuming. The model largely built on techniques discussed in the literature on international market selection (see Chapter 3). Quantitative and statistical information on all the countries in the world (not only those to which Belgium was exporting) and their imports at disaggregated level (instead of investigating Belgium's export performance at product level, which often was the practice) were "filtered", finally leading to a list of "realistic export opportunities" (see Cuyvers, De Pelsmacker, Rayp & Roozen, 1995). In 1993, for the preparation of the annual activities programme of 1994, an update was made in close collaboration with a staff member of VDBH. However, no further policy supporting research based on the DSM was done and as policy instrument for the VDBH the DSM met a silent death.

Admittedly, apart from being complicated and requiring a solid statistical background for all who wanted to apply it, the DSM was afflicted with other apparent shortcomings. The DSM might give the impression of a "push-button" device; in fact it certainly is not. A major stumbling block in its operation is the derivation of some thresholds in its "filters", e.g. for imports growth or import market concentration, which is intricate and needs insight and research expertise, unfortunately lacking in the VDBH. The international trade data used were according to the Standard International Trade Classification (SITC) at 2 digits, and later at 4 digits, which does not allow identifying the products for exporters in a sufficiently detailed way. Rather, product groups were identified as offering realistic export opportunities in individual foreign markets. Moreover, this data that were "filtered" through the model, although the most recent available, were mostly two years old. However, the main reasons for the demise of the DSM as policy instrument have to be found elsewhere.

In 1992, a switch in ministerial responsibilities took place. It is well known that each new minister is at pains of differentiating himself from his predecessor. The DSM was a "child" of a previous minister and was soon considered by the new minister as a nasty legacy of a political opponent. Moreover, the politicians in power and their entourage have not much inclination, if at all, to justify their actions by having to refer to hard statistical data and analysis by academics.

indicators" laid down in a five-year management contract with the Flemish government.

As suggested before, also the representative sectoral organisations were not very amused that the output of the model often could force them to direct their attention to other markets than these that were traditionally looked at, and that it limited their impact on the annual activities programme of the EPO.

Apart from political rivalry and the mixed feelings about the DSM both inside the VDBH and in the sectoral organisations, due to their own agendas and priorities, also purely political reasons can be listed to explain the fate of the DSM in Flanders. These political reasons are going back to the 1988 “breaking in” of the Socialist Party into the then centre-right wing Flemish government and the coming of political “heavy weight” and outspoken ideologically driven socialist Norbert De Batselier in the Flemish executive as vice-president and regional minister of economy. Lacking a smooth working administration and good regional statistics, he would commission during the first 18 months of his mandate, 21 policy supporting researches, among which our advice on how to organise the just regionalised public export promotion mandate. He would incorporate our advice entirely in his Policy Letter to the Flemish Council of March 1990, and later entrust to us the construction of a decision support tool, which would assist the VDBH in identifying priority markets and designing its annual activities programme accordingly.

Combining sharp intellectual insight and vision with pragmatism, De Batselier met with open hostility and caustic opposition from the Liberal Party and some fractions of the Christian-Democrats, as well as from the *Vlaams Economisch Verbond*, the Flemish private sector organisation (Hellinck, 2010:175-178). Not surprisingly, the DSM was ludicrously portrayed by a number of political opponents and private sector representatives, both inside and outside the Board of Directors of VDBH, as an instrument that would introduce government dirigisme, if not right away socialist economic planning, in public export promotion, which traditionally was the realm of the exporters’ organisations and their lobbyists.

De Batselier was also confronted with obstinacy, including from top-ranked civil servants. His biographer Bart Hellinck writes:

The man, who in accordance with the agreement within the political majority, was appointed as head of the VDBH was constantly and publicly – as a civil servant – questioning his ministerial decisions, hired his daughter and acquaintances without entrance exam, wanted to focus on non-priority markets ... On the occasion of the solemn installation ceremony of the Board of Directors and the Advisory Board of VDBH, De Batselier had declared that they would not suffer from his dirigisme, in as much as they would work quickly, correctly and efficiently. When the funny pranks of the director-general became apparent, he attempted to stick to this intention. In internal notes circulating in his Cabinet he wrote that he did not want to interfere patronisingly: it was the business of the VDBH board members when they were ‘crazy enough’ to follow the personal foreign policy of the leading official. Rapidly

things got out of hand and a flaming letter from De Batselier and Gaston Geens (the Regional President – L.C.) came in response to ‘this nonsense’ (Hellinck, 2010:184, our translation).

Like the other traditional political parties, the Socialist Party suffered a severe election defeat in November 1991. The Christian-Democratic Party strengthened its grip on the Flemish Executive and their new Flemish president of the council also became responsible for economy, which regularly led to an undermining of the former policies of De Batselier, who remained vice-president, but now had become the minister of environment.

There can be no doubt that the association of the DSM with the previous regional minister of economy, contributed to its silent disappearance as instrument for preparing and assessing export promotion in Flanders. Both political opposition as well as opposition from the major lobby groups of the private sector against De Batselier’s policy stance had accumulated during the legislature, such that soon after he had taken up other responsibilities, also the political weight of the DSM results waned dramatically.

From the cenacles of power we occasionally heard some disconcerting rumours:

- (i) As the author of these lines was since its establishment a member of the Board of Directors of the VDBH, further commissioning research to him and his team at the University of Antwerp, would create a conflict of interest;
- (ii) Lacking time, people and expertise, the DSM research could not be conducted by the VDBH internally; and
- (iii) The research on the DSM in the past had given one university team a monopoly – how about cooperating with others?

As a consequence, for the next ten years, public export promotion in Flanders as organised by its EPO was largely based on a rather rudimentary or even incorrect use of limited statistical data.⁶

The Flemish avenue being blocked, we occasionally set out applying the DSM for purely academic purposes to identify and analyse the realistic export opportunities of Belgium again, or these of other countries such as Thailand and the Philippines, about which we were doing research (see e.g. Cuyvers, 1996; Cuyvers, 2004). But the DSM finally “rose from its ashes” in South Africa, where it was first mentioned in the 2005 “Export Promotion Strategy” of the government (DTI, 2005) as one of the two policy instruments in the years to come, after which the South African Department of Trade and Industry (DTI) commissioned research using the DSM, directed and supervised by Prof. W. Viviers (North-West University,

6 “Incorrect” means that even if international trade data were used, the Belgian export statistics were mostly looked at. It is evidently the foreign import data that contain the relevant information, rather than the Belgian export data, as the possibility cannot be ruled out that Belgium, or Flanders for that matter, is leaving import markets for specific products insufficiently tapped.

Potchefstroom Campus). Where required the model was improved and adapted to the South African situation.⁷ The DSM output, consisting of the list of South Africa's realistic export opportunities, based on the latest statistical data, soon was used by the DTI to programme and conduct a number of well-targeted export promotion activities⁸ (see Chapter 6 for a comparison of the DSM results for Belgium, South Africa and Thailand).

In contrast to Flanders in the 1991-1994 period, where it had been intended to finally have the model run and used within the EPO, South Africa opted from the outset for the research being conducted by external, and therefore, independent researchers. This seems to be the best option, in spite of some subtle attempts by the EPO and its staff to try the results to their own ends. Luckily some quick successes in concrete export promotion actions in the field created sufficient credibility with the DTI management to limit intentional or unintentional attempts to "direct" the results of the model.⁹

2.4 The DSM researcher as communicator in the export promotion game

The issue whether methodological and statistical research of export markets and export opportunities can best be conducted by the EPO, or else by independent researchers, shows a number of facets that need clarification and careful consideration. External research evidently offers a much larger probability of independence and objectivity, while internal research by the EPO can be easily influenced and directed. Moreover, with external research, the EPO can focus fully on the translation of the research results in policy measures. External policy supporting research of the kind at issue is, however, by definition not a "one-shot" activity, but structural and repeated, which in turn implies that the external researchers and their research funding become dependent on the "goodwill" of the decision-makers within the EPO. We have here another indefinitely repeated game between the external research team and the EPO. It thus remains to be seen how independent the researcher will remain.

The problem is not easier when looked from the EPO's perspective. External research is making the EPO dependent on the researchers, which can lead to a research monopoly. It

7 Belgium and Thailand have neighbouring countries at a similar level of economic development, the competitive position in specific foreign markets of which, therefore, can be used as "benchmark". South Africa's neighbours are too dissimilar for this purpose.

8 For the first results we refer to Pearson (2007). An analysis of South Africa's opportunities in the BRIC countries was published separately as Pearson, Viviers, Cuyvers and Naudé (2010). The final results are in Viviers, Steenkamp, Rossouw and Cuyvers (2010).

9 This observation is given with the required reservation as it is based only on the attempts that were brought to our notice. It remains to be seen whether these were attempts to "direct", or rather originate from insufficient insight in the DSM and its results. For instance requests by the EPO for further research on well-identified, but apparently non-existing export opportunities can be interpreted both ways.

will be remembered that this was argued against the continuation of the DSM research for the VDBH in 1994 and afterwards. Attempts by the EPO to break out of this situation can easily create an acute conflict between the need to have the policies permanently based on research that follows the same methodology, and the intellectual property of methodology and research results if the research is entrusted to external researchers. The relationship between external researchers and EPO is clearly one of dancing on a tightrope.

The external research team should be considered as a communicator in the export promotion game. By providing output from statistical analysis, informational input is provided to the players of the game. In a sense, the external research team is behaving in this capacity as international economic organisations are doing when involved in a game of international economic policy coordination (see e.g. Cuyvers, 1989a). In contrast to these international organisations, such as the IMF or the OECD, the research team is not in a position to provide information to the players about each other's targets and strategies. Neither – again in contrast to the role played by international economic organisations in games of international policy coordination – can it act as supervisor of the repeated cooperative game of identifying target countries and products. But by providing the list of realistic export opportunities and other information on relevant import market characteristics, the team will give input to the players' own strategy formulation and therefore will make the game more transparent. By further comparing, during the game, the probable outcomes in terms of export performance of the country of alternative public export promotion activities and export promotion strategies, and feeding this back to the players, it will also thoroughly perform its function of facilitator and communicator.

2.5 Some conclusions

Public export promotion today is facing the urgent need to innovate and diversify its instruments. The traditional instruments, such as the organisation of international trade missions and of a network of commercial attachés abroad, participation in international trade fairs and exhibitions, the provision of general information on “doing business with ...” etc. have been used extensively and are showing rapidly decreasing returns. Tailor-made and better-focused export promotion activities have to be designed, requiring a scientific approach rather than the eclectic pragmatism, which is often applied by EPOs.

In this chapter we have indicated that the EPO is only one of the players who impact export promotion activities, as the outcome of an indefinitely repeated game. The political economy models of international trade policy can provide useful insight into the strategic moves of the main players in this game at the national level. However, as the tribulations of the use of the DSM as a policy instrument in Flanders show, other players and other relevant

factors have to be taken into account to understand and analyse the strategic moves, their interactions and their final outcomes.

Among the players mention should be made of the political class, the government administration, specialised government agencies (such as the EPO, if any) and the representative private sector organisations. Moreover, in contrast with the present-day political economy models, the political class as player in this game is far from homogeneous and the role of differences in ideology of the political parties and their representatives, as well as the role of simple rivalry and behavioural rules of thumb, which are rather within the realm of social psychology and sociology, was acknowledged and has to be introduced in the analysis.

Each of these players aims at maximising its objective function, which contains a number of non-economic variables. Given the number of players and their objective functions, this is certainly difficult to model mathematically, but it seems fruitful to explore well-defined aspects in isolation.

We illustrated the game and its major players by looking into the issue of the introduction of a decision support model (DSM) for the planning and assessment of export promotion activities and its use in the Flemish Region of Belgium, in the 1991-1994 period, immediately after the 1988 transfer of public export promotion from the federal authorities to the regional governments. We attempted to show that not so much direct economic considerations, but rather political and ideological motives, as well as economic interests, were driving the major players in the export promotion game about the application of the DSM and the implementation of its results.

From a normative point of view, the role of an institutional communicator and independent provider of information about the future and the expected outcomes of the game played should be stressed. At a national level, this role is to some extent similar (be it not in all respects) to that of international organisations involved in a cooperative game of international economic policy coordination, such as the IMF, the WTO or the OECD in the international arena. However, from the above, it will be clear that this role cannot possibly be assigned to the EPO, who is a major player itself. We have endeavoured to show that the specialised research institute or team should rather become involved such that a better economic outcome can be expected from the strategic interactions between the players of the game of public export promotion. Although the involvement of such research institutes or teams, so it seems, is at least a sub-game, we think that it contributes substantially to the benefits and welfare gains obtained from the export promotion actions, which result from the game played.

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