EXPORT PROMOTION

A Decision Support Model Approach

Editors

**LUDO CUYVERS
WILMA VIVIERS**

Chapter 12

Conclusions and agenda for further research

Ludo Cuyvers & Wilma Viviers

In the present volume a decision support model (DSM), which was designed to help export promotion agencies to identify export opportunities in the world at large and to formulate and implement suitable export promotion activities, has been presented and thoroughly assessed. In the course of the years, since the early 1990s when the DSM originated, it was applied several times, both for policy preparation and assistance of export promotion agencies and for purely academic purposes, for the detection of export opportunities of diverse countries, such as Belgium, Thailand, the Philippines and South Africa.

A critical political economy analysis of the use that export promotion organisations have made of the DSM, particularly in Belgium, showed that the export promotion process involves many “players”, apart from the export promotion agency, such as the private sector organisations, political and government representatives, powerful exporters, etc. The objective economic and organisational interest of these “players”, although overlapping, is not identical, which has occasionally led to interference in (if not boycott of) the DSM research and application process. The process of formulation and implementation of export promotion activities is a very complicated one, the outcome of which depends on the strategic behaviour and interactions of the “players” involved. It is, therefore, difficult to model and analyse using game theory. However, it was shown that even a simple game-theoretical model of the strategic interactions of two major “players” leads to interesting results and begs for extension and further analysis.

Yet, as public resources are scarce (often increasingly so) and as traditional export promotion activities are showing diminishing returns, also taking into account the export promotion

activities of the new exporting countries and emerging economies, there is today not much alternative but to extensively use hard statistical data and thorough statistical methods, and to provide a solid scientific foundation for export promotion.

Based on the review of the international market selection literature, which categorised the DSM as a country-level market estimation model, it was concluded that the DSM is the only methodology that includes all possible product-country combinations (markets) in the world as a starting point of the market selection process, making it unique as an analytical tool for export promotion purposes. Moreover, the consecutive filters that are built into the DSM are relying on the most recent, accurate and internationally comparable statistical data at the highest possible level of disaggregation. However, as by their nature, such statistical data only become available with a rather considerable delay; the output of the DSM should always be critically assessed using the various other sources of information available. This combination of the analysis of hard statistical data with other sources of information, including the assessment by privileged witnesses and experts in the field – both at country and product level – is required to optimise the use of the DSM results and will highly improve the usefulness of the DSM output. The DSM seems to be a necessary, but not a sufficient condition for an efficient public export promotion programme.

The results of the DSM to Belgium, which were primarily included as a detailed illustration of how the DSM methodology is actually applied, showed this need abundantly. First of all, important product groups with large export potential are often produced by multinational corporations and normally do not need export promotion. Secondly, a comparison with DSM results for previous years, although somewhat difficult due to changes in the product classification, shows that the export opportunities detected change significantly over time and, therefore, need to be critically assessed and prioritised. The DSM is definitely not a “push button” system, neither in its filtering process, nor in the direct use that can be made of its output. Moreover, in the future, simulations with the DSM based on “shocks” of its decision parameters, instead of comparing results over time, should allow assessing better the robustness of the results.

Evidently, the DSM, although its strength resides in its considering of export opportunities of an exporting country in the world at large, can also be applied at a regional level, worldwide or individual. This was illustrated in the analysis of the export opportunities of South Africa on the African continent. Apart from political considerations, an important reason for restricting the analysis to the African continent is that for reasons of geographical and cultural distance from South Africa, the other African countries are probably offering export opportunities that can easier be tapped than these in faraway markets. Moreover, in the use of the DSM for analysis of export opportunities of a country at a regional level, instead of a global level, more detailed and reliable information on existing trade barriers

are available, and the implications of relevant bilateral, multilateral and regional economic agreements for these trade barriers and for international trade of the countries involved can better be ascertained.

Another promising and new avenue which was followed is the application of the DSM methodology to services. This necessitated some important adaptations in the filters of the DSM, in order to fully take into account the nature of the available statistical data. The South African DSM results for services thus detected, revealed important potentials in travel and transport business, as well as in telecommunication, construction, advertising and market research, etc. Apart from the detection of such opportunities per se, the combination of these results for services with these for products is offering an innovative research agenda for the future, also allowing countries to better tap the synergetic effects in the joint export promotion of specific products and related services.

The same arguments hold *mutadis mutandis* for foreign direct investment (FDI), both incoming and outgoing. We are convinced that the basic DSM methodology can be applied to foreign direct investment promotion, which will offer a completely new and unexplored area of research in public choice. By combining the results thus obtained regarding FDI opportunities, with these on export opportunities for products and these for services, a fully integrated approach develops for policy decision-making in the field of international business at large.

Although there is no standard available to compare the number of export opportunities of a country, or the value of potential exports associated with these opportunities, cross-country comparison is possible and leads to some challenging results. In this volume we assessed the DSM results of Belgium, South Africa and Thailand, against each other. However, as the filtering process of the DSM as well as the data used are the same for the three countries, reflecting the global economic situation and recent international trade patterns at a world scale, it will come as no surprise that the results of these countries are similar. Important differences appear once the DSM results, which can be interpreted as showing potential export opportunities, are supplemented with the respective comparative advantage indicators. In this way, actual export opportunities for Belgium, South Africa and Thailand were derived, which in turn were used in an analysis of the potential degree of utilisation of the export opportunities per broad product group and/or importing region in the world. This analysis revealed that Belgium is most adapted to exploit its potential export opportunities in the world market, which should not come too much as a surprise taking into account that a lot of demand in the world still originates in the industrialised countries. It was also shown that Thailand seems to be much better adapted than South Africa to tap into the export potentials in the world. Future research on the export opportunities of

other exporting countries will lead to more insight in the patterns of international trade that shape economic development of countries and regions.

Apart from being an instrument to identify export opportunities, export promotion organisations can also use the DSM results in the preparation and assessment of export promotion activities. In Filter 4 of the DSM, the export opportunities detected are grouped according to the respective market shares of the exporting country in the various target markets and according to some general import market characteristics at the level of the respective products. Obviously, export promotion strategies will differ, and hence the export promotion activities required, between, e.g. a yet to tap relatively small export opportunity which shows long-term growth in the past, and a large and relatively stable export opportunity in a country where the exporting country has already achieved a relatively strong market position. Appropriate export promotion strategies at product level can thus be designed, by taking this into account. In the present volume, we have explored this in some detail and attempted to make the strategic considerations based on DSM results as concrete as possible by illustrating the choices made in three detailed case studies of South African export opportunities. If one lesson can be drawn from this exercise it is that the DSM results provide input in this process of concrete strategy formulation, but that much more concrete and detailed information is required for designing an appropriate export promotion strategy. This important input should come from market research, both desk and field research, and from further competitive intelligence on given export opportunities.

Post factum assessment of the export promotion agency's activities has remained an underdeveloped area. One of the major reasons for this unfortunate state of affairs is that often significant time lags are involved between an export promotion activity and its impact. As the DSM identifies existing export opportunities in the world, these can be used as a standard of assessment. Whether the export promotion activities in a given year or a given period, were directed towards the relevant export opportunities, can then be ascertained in various ways. The potentials for such assessment were illustrated in this volume for Belgium in the 1999-2003 period by looking into the correlation between the list of export opportunities and the list of export promotion activities organised. It is striking that not much correlation was found. Most likely, the existing processes of identification, formulation and planning of export promotion activities within the Belgian public export promotion agencies during the period covered, must be held responsible for the poor correlation with the Belgian export opportunities in the world. In the future it would be interesting to do a similar exercise for a more recent period, and also to explore whether time lags are involved between changes in demand in the world and the policy reactions of export promotion agencies.

Last but not least, this volume explores the needs for competitive intelligence of exporters. After export promotion strategies were formulated and implemented by the export promotion agency, using all relevant information, the exporters who follow the export leads, need careful preparation for which the agency, but more importantly private sector organisations and consultants can provide the required input by using the appropriate competitive intelligence techniques. In particular such input will take into account the concrete situation of the individual exporters and the stage of exporting they are in.