EXPORT PROMOTION STRATEGIES FOR CONSIDERATION BY DEVELOPING ECONOMIES

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ABSTRACT

This paper examines export promotion strategies that the policy makers in developing economies should seriously consider in order to enhance national export performance. Increasing exports ranks among the highest priorities of any government wishing to stimulate economic growth. There is, however, still strong disagreement on how governments should intervene. For instance, it has often been argued that the best governments can do is to eliminate the obstacles to the smooth functioning of market forces and provide information to exporting firms about destination markets and foreign competitors. This view, is of course, far from being unanimously shared. The main objective of the paper is to sensitise the national policy makers on the importance of exports as a major contributor to the country's growth and development, and to have this reflected in the national development plans and programmes. This study contributes to the on-going discourse on the enhancing of the export performance in less developed countries, so as to increase national export earnings.

Keywords: Export Promotion Policies (EPPs), International Marketing, Export Performance, Developing Economies.

INTRODUCTION

Increasing exports is one of any government's top priorities, in both developed and developing countries. The reason for this is that promoting domestic export performance is expected to boost economic growth (Giles & Williams, 2000 and Harrison & Rodríguez-Clare 2009). Export promotion policies (EPPs) are a set of policies and practices aimed at supporting export in any country, either directly or indirectly. Developing countries are those countries whose standard of living, income, economic and industrial development remain more or less below average. According to the IMF definition, there are 152 developing countries with a current population of around 6.53 bn. The World Bank classifies the world's economies into four groups, based on Gross National Income per capita: high, upper-middle, lower-middle, and low income countries. Least developed countries, landlocked developing countries and small island developing states are all sub-groupings of developing countries.

For a long time, export promotion policies have been widely adopted by most countries around the world. Reviewing historical and current worldwide experiences with EPPs, as well as reviewing the efficacy of various policies, is therefore critical in providing governments in developing countries with some guidance to assist in identifying the best practices so far.

EPP can refer to a wide range of policies, from exchange rate policies (Bhagwati 1988) to any "particular measures that generally equate to the government absorbing a portion of the private cost of export production" (OECD 1984). EPPs cover a wide range of policies and programs targeted at aiding current and potential exporters. These policy measures could be aimed at the national exporters or international companies that produce for the local market and/or export market. However, the World Trade Organisation (WTO) has steadily limited the set of policies and tools available to states to influence exporting over the last few decades. For example, most countries' use of selective export subsidies is now highly restricted. The WTO rules do not, however, restrict all the types of EPPs. Policies that support (a) domestic

investment in research and development, (b) regional development, and (c) environmentally friendly activities, are still permissible (WTO, 2009).

RESEARCH OBJECTIVES

This research paper is designed to achieve two pronged objectives. Firstly, to inform government trade policy on export promotion and development, and secondly, to outline specific export promotion strategies that can be adopted for enhancing export performance in less developed countries.

REVIEW OF THE LITERATURE

Export credit agencies play an important role in facilitating capital access. Despite the fact that the agencies have traditionally supported public African buyers, there is an increasing amount of private sector transactions. However, a robust policy structure is needed to promote private sector growth. Despite the region's ongoing deep challenges, mounting evidence suggests that Sub-Saharan Africa has undergone profound economic transformation since the early 2000s, outpacing the global average in recent years and expected to continue to do so in the future (Jayne, Chamberlin & Benfica, 2018). Thousands of African businesses build employment by tapping into the promise of a wide range of industries. Grobler and Diedericks (2009) observed that most African companies train and employ local talent. Ekekwe (2015) pointed out that an increasing number of small and medium-sized enterprises (SMEs) in Africa are committed to long-term sustainability. In recent years, Africans' thinking has shifted dramatically: the future of economic development, especially in Sub-Saharan Africa, is inextricably linked to the private sector. Governments, both on and off the continent, recognize the critical role of private businesses in economic development.

Export transactions with riskier markets are frequently only possible with government assistance. Government export credit agencies (ECAs) are considered insurers of last resort, only stepping in when private insurers are unable to provide enough coverage. They are official or quasi-official branches of their governments, and as such, they are an important aspect of national government plans for industry, trade development, and international aid. Export credits and merchandise are generally recognised to have a causal relationship. ECAs achieve their goals by providing direct loan or pure cover support for privately financed transactions that require export credit insurance.

International trade is strongly associated with a well-developed and functioning financial ecosystem. The dynamic growth of world commerce over the previous decades was only made feasible by a tremendous rise in trade financing. For trading partners, the latter is critical in bridging the time gap between export orders and the payment for products produced and services rendered. Transaction volume and credit period can significantly raise finance costs or possibly make it difficult to secure finance at all. Trade finance disruptions result in a significant drop in company output on a micro level, as well as a contraction in trade on a macro level. As a result, companies who want to export frequently require credit insurance in order to obtain credit and control their receivables risk. This is especially true for large transactions with lengthy maturity dates.

Non-payment for political or commercial reasons is a common source of danger. Political reasons for the loss can include a lack of hard currency in the buyer's country, as well as wars, political instability, or a government-imposed payment freeze (for example the U.S. Treasury's Office of Foreign Asset Control's (OFAC) Sanctions Program Listings). Commercial risks include payment defaults by the customer or insolvency leading to temporarily uncollectible receivables or full write-offs.

The following EPPs have been found to be ideal for developing countries:

(a) Export subsidies

The World Trade Organization (2006) defines an export subsidy as a government-provided benefit that is conditional on exports. It can take a variety of forms. An export subsidy, for example, can include

1. a government transfer to certain entities (financial subsidy, tax exemption or postponement, favourable tax treatment, duty drawbacks on imported intermediate inputs or suspension of duties, temporary admittance, etc.)
2. a regulatory policy involving a direct or indirect transfer (such as regulatory protection at the border, a border tax adjustment, preferred rules of origin, and so on); and
3. the provision of a public benefit for free or at a reduced price to exporting companies.

Export subsidies can also be classified according to the type of beneficiary, such as producers vs consumers, or the nationality of the beneficiary, such as domestic versus foreign entities. Finally, subsidies might be general or specialized, depending on whether they are directed toward a broad or narrow group. Export subsidies can take the form of direct export subsidies or export-side production subsidies. The former is only given to producers on the portion of their output that is actually exported, hence they are cross-border subsidies. The latter is based on the total production of the exported goods. Export subsidies (which can be viewed as negative tariffs) are superior to production subsidies for exporters since they are less distortive. Indeed, whereas export subsidies and tariffs cause distortions on both the production and consuming sides, production subsidies only cause distortions on the production side (Gandolfo, 2006). Promoting exports rather than protecting the domestic production is supported by the WTO because, it (i) induces firms to increase productivity to be competitive in the international market (ii) gives incentives only to high productivity firms; and (iii) leads to market expansion allowing the exploitation of the Marshallian externalities and makes domestic firms aware of the foreign demand. There are several conceivable counter-arguments to using export subsidies. First, the corporation may use the subsidies for purposes other than expanding exports. This could be a common occurrence in poorer countries with ineffective control mechanisms. Second, export subsidy systems are frequently complicated, necessitating the use of special government competences to allocate them.

Export Processing Zones

Farole (2010 & 2011) defines export processing zones (EPZs), free trade zones (FTZs), and other types of special economic zones (SEZs), as demarcated geographical areas within a country's national boundaries where the regulation of firms' activity and dedicated policies are differentiated from those applied to firms outside the zone, and where the policy environment and associated infrastructure are favourable to both domestic and foreign producers. Interventions of this type may be aimed at: (a) fostering production and employment in (potentially) exporting industries, (b) increasing foreign exchange profitability of (non-traditional) exporting producers, and (c) stimulating FDI in a given area when local producers' exporting is severely restricted. (English & de Wulf, 2002). EPZs are being promoted because they are a realistic (second-best) policy in the face of significant economy-wide deficiencies and barriers to other national policies. It is always advised that the EPZ not be isolated from the rest of the economy and that efforts be made to generate beneficial spill-overs throughout the economy. Examples of EPZs that are usually considered successful are those provided by Mauritius in the mid-1990s and Mexico in the 1990s (the well-known ‘maquiladoras’); while a negative example is offered by Senegal. Key factors determining the success of EPZs are

economic and political stability, profitability of local production (and related exchange rate policies), skill-content of local employment. Export processing zones are not explicitly specified in WTO agreements and are only possibly in violation of WTO standards if they provide enterprises with subsidies in exchange for exports.

Trade Finance

A weak financial market is one of the most significant impediments to industrial development, as producers may suffer credit limits and have difficulty obtaining the necessary resources to finance initiatives. Such limits may be caused by financial sector inefficiencies or a lack of creditworthiness among private companies (English and de Wulf 2002). Sometimes, however, the problem can be purely informational, and the misalignment between credit supply and demand may be due to imperfect risk evaluation by firms or creditworthiness evaluation by banks and financial institutions. Governments may intervene in several ways to enhance credit access. Governments can assist firms get credit in a variety of ways. Subsidies for small businesses, increased competition in credit markets, improved information transmission, and credit insurance, export credit, and export guarantees are all examples of traditional approaches. By definition, export credit is required when the buyer of the products defers payment for any reason for a certain period of time. Export credits may be in the form of supplier credits (i.e. credit granted by an exporter to a foreign buyer) or buyer credits (i.e. the exporter gets in contract with a buyer, which is financed by a loan agreement between a bank in the exporter's country and a bank in the buyer's country). Export guarantees, on the other hand, are mechanisms that cover the risks of export credits (whether political or commercial) in the event of a borrower fail. In most nations, credit risk is assumed by the government through specialized institutions. These two policies clearly have the potential to result in an indirect type of export subsidy, and as a result, their implementation is governed by the WTO. In addition, the government may provide (a) foreign currency revolving funds, which allow exporters' banks to extend credit to pay for intermediate input imports; (b) pre-shipment export finance guarantee schemes, which are aimed at exporters or potential exporters who lack sufficient collateral but have export letters of credit; and (c) matching grant schemes which are targeted at potentially successful exporters that overestimate the risk of the exporting project and so underinvest in it.

Trade Promotion Organisations (TPOs)

TPOs strive to provide local exporters and potential exporters with the information they need to discover overseas markets in which to sell their products, as well as to improve potential overseas buyers' understanding of home products and enterprises. Market failures that justify TPOs' activities are primarily due to information dissemination and coordination failures, such as imperfect information from domestic producers about foreign sales prospects, asymmetric information problems between domestic producers and foreign consumers, difficulties in cost and risk evaluation by exporters, and barriers to entry in foreign markets due to lack of knowledge or coordination (among suppliers of between suppliers and buyers). The activities of the TPOs include: i) image building and marketing; advertising and marketing of domestic products through trade missions, trade fairs, trade shows and information dissemination; iii) providing support services to local exporters, in order to assist in the planning and preparation for international involvement, stimulate interest for export in the business community. Acquire expertise and know-how necessary to enter export market, provide organisational help and cost-sharing programmes; and iv) conducting market research to develop awareness of export opportunities, identify target and potential business partners. According to Singer and Czinkota (1994) export promotion programs have a favourable impact on export performance, because

a) they improve the firm's informational and experiential expertise; b) the boost the firm's export commitment (Marandu, 1995); and c) they stimulate managers' positive attitudes and perception towards exporting. According to Martincus, et al. (2010), whether or not export promotion operations result in increased trade is likely to depend on: a) the types of promotion activities and the specific instruments employed; b) the institutional features (e.g., network of offices, reporting schemes, rules for personnel selection and promotion, relationships with other public and private organizations within the country) and the associated incentive structure; and c) the macroeconomic and sectoral policies that affect the export sector at the country level. For a long time, exporting was thought to be primarily a problem of major corporations. Due to the increasing globalization of markets, SMEs are more active in export and are keen on export promotion services (Bloodgood, et al. 1996; Crick, et al. 2001; Wilkinson and Brouthers 2000). The availability of firm- and plant-level data sets allows empirical assessments at this aggregation level as well. In the last 20 years, the institutional environment in which EPPs operate has changed dramatically. The WTO has taken a more measured approach to EPPs, introducing forms of intervention that allow for the countervailing of prohibited export promotion practices. Subsidies are governed by the Agreement on Subsidies and Countervailing Measures (ASCM), which was negotiated during the Uruguay Round. The ASCM describes both substantive (subsidy types and their components) and procedural provisions (investigations and actions to counter illegal subsidies). The Agreement on Agriculture (AoA) contains specific rules governing agricultural product subsidies. Actionable subsidies, on the other hand, are those that are not prohibited by Article III of the WTO but may have negative consequences. An adverse effect is defined as harm caused to (i) the domestic industry in the importing country, (ii) foreign exporters competing with domestic exporters in a third market, or (iii) foreign exporters competing with domestic exporters in the domestic market. The WTO governs the actions that countries can take to mitigate the effects of subsidies. A country may seek the withdrawal of a rival nation's subsidy or the removal of its negative consequences.

METHODOLOGY

The researcher conducted a qualitative research study based on documents accessed from 1) the peer reviewed literature related to best practice on export promotion, export performance, export marketing and export market development; and 2) examining trade promotion materials including print, websites and interactive Compact Discs; and interviewing 1) private sector players, including exporters, business associations and export consultants; 2) officials of the national trade promotion organisations; and 3) officials of public institutions and Government Departments that regulate international trade.

FINDINGS

In this paper the writer reviewed the empirical literature on the EPPs that have been implemented in both developing and developed countries and in the last few decades. The purpose was to identify which practices can be considered and adopted by developing countries.

There are a number of instruments expected to be effective in supporting exports. Among the traditional measures, the duty drawback schemes, as the existing surveys of entrepreneurs' opinions seem to suggest, one of the most effective. Macario (2000) suggests two ways to improve the duty drawback mechanism: a) making it accessible to indirect exporters (i.e. firms that sell their products to a trade intermediary in their own country who then goes on to export the goods) and granting domestic companies to pay lower tariffs on imported goods used into

production; b) eliminating any form of duty payment for exporters. This would considerable reduce the fund needs for working capital of exporting firms.

A second crucial aspect is the availability for credit for exporters. This is a particularly relevant aspect for the SMEs for which credit constraints are more binding than for large firms. Since SMEs are the majority of firms in developing countries, if export growth has to be achieved, governments have to take some actions in this domain.

Third, the government should simplify regulation related to exports; long bureaucratic procedures negatively affect the new exporters. Furthermore, governments should improve information collection and dissemination about foreign markets and requirements for exporting. Actions in this category should also be addressed to the crucial issue of making exported goods and services comply with the requirements and rules of the export markets.

Improving cooperation among exporters and between government and business actors is one of the strategies suggested by United Nations Industrial Development Organization (UNIDO) since the mid-1990s. For instance, there is nowadays an increasing awareness about the possibility of using export consortia to assist SMEs overcome the obstacles to international markets access.

Finally, one should consider the EPPs may affect the export performance of firms either directly, through the set of polices with direct influence on foreign trade, or indirectly, trough the set of policies that have their direct influence in other aspects of the economic systems (e.g. monetary and fiscal policies, production and price controls, investment policy, exchange rate policy) but, in turn are able to indirectly influence foreign trade performance. All such policy measures cannot be considered in isolation: important complementarity in policy processes must be always taken into consideration.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the writer's review of the literature finds that successful export promotion strategies have clearly defined priorities, goals, and objectives, and in particular aim to: i) create a favourable domestic enabling for potential exporters (in terms of infrastructures, regulations, access to finance, insurance, fiscal policies); ii) foster strategic collation between private and public actors and cooperation among producers, exporters and the policymakers; iii) improve productivity and technological content of domestic goods, and provide incentives to nurturing innovation; iv) enhance access to credit; v) negotiate for a favourable international environment (multilateral relations, international trade forum, regional agreements); vi) work to build the country image in foreign markets (through marketing information provision, advocacy etc); vii) offer targeted and tailored assistance, and rely on continuous evaluation; viii) be supported by monetary and fiscal policies designed to improve the enabling environment; and ix) stimulate institutional development, and also promote institutional complementarities.

Policies for long-run export growth must also be considered. In this context, it is important to exploit the complementarity between EPPs and the set of policies aimed at improving local firms' productivity and technological content of domestic produced goods.

To further and successfully support private sector development in developing economies by the use of export promotion instruments, a comprehensive policy framework is crucial. Different institutional setups for development support show different levels of resilience and effectiveness in coping with the economic conditions they are exposed to. However, there is strong evidence that managing the interplay of fundamental building blocks – public polyc, key and critical success factors as well as institutions, is the key to crafting sustainable and responsive economies.

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