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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

D01799

Distr.
GENERAL
ID/CONF.1/B.24
4 July 1967
ENGLISH ONLY

United Nations Industrial Development Organization

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT
Athens, 29 November - 20 December 1967
Provisional agenda, Item 3(g)

Background paper

EXPORT MARKETING ORGANIZATIONS

Presented by the Executive Director
of the United Nations Industrial Development Organisation

67-16141

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

Contents

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Introduction

1. Most of the developing countries are in a difficult position in regard to the competitive position of their exports, in terms of cost, price, quality and other conditions required for successful promotion of exports of manufactures. Because of the small size of enterprises and the limited market, production costs in these countries are usually high and the prices of manufactures non-competitive in the world market. The undiversified structure of their industrial production and exports makes it difficult to adapt to the changing pattern of demand regarding the range and quality of goods, in the world market. Lack of entrepreneurial, technical and managerial experience, as well as lack of experience in export marketing, also adds to the difficulties of breaking into foreign markets. In general, all of these obstacles result from low productivity of labour and inefficiency of production.

2. This situation has a two-fold effect: not only is the development of an export trade in manufactures prevented, but in the absence of a larger market and the competitive pressures deriving from international trade, existing firms are unable to increase their efficiency and their size to the point where they will be able to produce at a competitive cost level.

3. The problems confronting the developing countries and the nature of the obstacles to development of their export trade in manufactures and semi-manufactures were described in a precise way at the first session of the United Nations Conference on Trade and Development, held at Geneva in 1964. One of the Secretariat papers prepared for the Conference stated:

> "The realization of an increasing flow of manufactures from the developing countries necessarily depends primarily on the ability of these countries to produce a rising volume of products suitable for export; and this is no easy task. It is not enough, however, that these countries seek to enlarge their industrial capacity. It is also necessary that they adapt their products to the specifications demanded in foreign markets, that they increase their industrial efficiency in order to bring their costs and prices more into line with those in developed countries, and that they establish effective commercial channels for their products in importing countries.

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For countries with only brief past experience in industrial production and in the external marketing of manufactures, these are formidable requirements. But even the most vigorous efforts on the part of the developing countries can be thwarted, or substantially impeded, if these countries do not enjoy access to the markets of developed countries on favourable terms. And there are, unfortunately, grounds for maintaining that the access which is currently granted to the exports of these countries fails to meet this stipulation".1/

4. It has been the experience in some cases, e.g. the Scandinavian countries and Japan, that export marketing organizations set up by groups of manufacturers or supported by governmental or semi-governmental authorities can contribute to the removal of such bottlenecks. The results obtained through such export organizations have occured not only in the commercial field, i.e. in mobilization of whatever export capacity may be potentially available, but considerable changes have also been effected in the structure of production of existing firms. In particular, export organizations have brought about rationalization of production, improvement in quality and diversification of goods. In some cases, they have resulted in increases in plant sizes to the point where economies of scale have made it possible to reduce costs and prices not only for the export market, but also for the output to the domestic market.

5. The establishment of such organizations could be a useful instrument for the promotion of industrial exports from developing countries. Therefore the United Nations Industrial Development Organization has initiated a number of country studies to analyse the experience gained in this area under different economic and social systems and at various levels of industrial development. Such studies have been received from Chile, Iran, Israel and Yugoslavia. On the basis of these studies and other sources, a comparative analysis of this problem has been made, and some conclusions have been drawn in regard to the possibilities of United Nations technical assistance in this field.

1/ Proceedings of the United Nations Conference on Trade and Development, vol.IV (United Nations publication, Sales No: 64.II.B.14), p.21.

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THE NEED FOR EXPORT MARKETING ORGANIZATIONS

6. In recent years, great changes in production and market conditions have taken place in the world. Production is increasingly carried out as a joint venture and in large production units. The tendency towards concentration, specialization and co-operation in production is more evident. Spectacular progress in electronics, automation of production and the utilization of atomic energy have brought about technical revolution in the world. Technical progress leads to further internationalization of production, which manifests itself in the intensification of international scientific and technical relations, the setting up of an international transport and communications network, the conclusion of agreements for international economic and technical co-operation etc.

7. These developments have led to profound changes in the structure of world industry, agriculture and trade, as well as in the pattern of international division of labour and the economic relations between developed and developing countries. The increase in labour productivity resulting from the introduction of new techniques and technology has made it possible to reduce unit costs in most industries. The new techniques, however, often require long runs in production, thus calling for large-scale investment in plant and equipment, employment of highly skilled personnel, training of labour force, and efficient organization of production. With the development of productive forces the world over, the size of national markets is becoming an ever greater obstacle to development of production and trade. The trend towards faster rates of technical progress and the desire of the people for improved living standards require an expansion of markets on a world scale, leading to an increase in competition. Further diversification of goods and services is needed,as well as mass production. As has been stated: "The production of higher-quality goods better suited to the manifold requirements of consumers, and production in quantity at the lowest possible price, are the imperatives dictated by present trends."2/

2/ Organization for Economic Co-operation and Development (OECD), <u>The Exploration of New Markets by Small and Medium-Sized Firms</u>, Paris, p.11.

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Advantages of large-scale production

8. There is no doubt that under conditions of stiff competition, large-scale production has considerable advantage over production in small-scale enterprises. These advantages are due to the fact that large-scale enterprises can reduce the investment layoffs per unit of output; they can apply modern production techniques and rational forms of organization, thereby increasing labour productivity and efficiency and reducing prime costs of production. The economic advantages of large-scale production are most evident in the electrical, metallurgical, chemical and other branches of heavy industry. It is outside the scope of this paper to dwell on the question of the optimum scale of enterprises. However, it should be pointed out that in establishing the optimum scale of an enterprise, wo basic factors should be taken into account: its average production costs and the extent of demand for its products.

9. The advantages of large-scale enterprises and of concentration of production should not lead to the incorrect conclusion that with technical and commercial progress, small and medium-sized firms are doomed to disappear. It is true that in the present era, "there is no room for the weak"; but small-scale enterprises in some cases have lvantages, especially in certain branches of the consumer goods industry. To cite an example of a successful export business in that category, a small United States firm with about 400 employees in the United States derived more than half of its sales and profits from overseas operations. The latter included a wholly owned manufacturing subsidiary in Western Europe, a joint manufacturing venture in Japan and a world-wide export business.3/

10. Even small markets may be large enough to enable individual manufacturers to co-operate at an optimum scale. Second, economies of scale are not determined solely by technological considerations. While an optimum manufacturing unit may be small, it is possible that economies of scale may be realized in marketing, research, development or management. The total number of industries that need a larger market to operate at low average costs is consequently higher than it would have been if production technology alone determined the optimum scale.4/

3/ United States, Small Business Administration, Export Marketing for Smaller Firms, second edition, Washington, D.C., 1966, p.i.

4/ Israel Financial Research Institute, Central Export Marketing Organizations in Israel, a study commissioned by the Centre for Industrial Development (now UNIDO) November 1966, p.6

Opportunities for small-scale exporters

11. These problems were discussed at the OECD Conference on the Exploration of New Markets by Small and Medium-Sized Firms, held in Vienna in 1961. The participants agreed that, "although it is naturally unthinkable that small and medium-sized firms should be able to compete successfully in the production of raw materials and automobiles, it has been noted that in a number of specialized industries, such concerns can produce better-quality goods at a lower cost price than the larger firms."5/ Other advantages over big firms, e.g. flexibility, specialization in production and services, personal relationships etc., were also noted.

12. The main conclusions of the conference may be summarized as follows:

(a) Small and medium-sized firms have opportunities in export marketing which can be realized by these firms if they make proper use of their business organizations and marketing consultants;

(b) Product research and product design become more important, in both the capital and the consumer goods fields with growing competition;

(c) The cost of market research can be considerably reduced if it is jointly carried out by firms in the same sector of industry.

Characteristics of small-scale industries in developing countries

13. In most developing countries, numerous small-scale industries and handicrafts produce goods for the local market. The small-scale sector, in terms of enterprises, is the largest group in manufacturing. In 1950, according to available data, 87 per cent of all industrial establishments in Japan were those employing eleven to fifty persons; the figures for Brazil and Argentina were 77 per cent and 76 per cent, respectively.6/

14. In some developing countries, there are modern plants which were installed along lines of production and organization similar to those in Europe and the United States. However, their optimum capacity is rather small compared with that of enterprises in highly industrialized countries. Furthermore, in developing

5/ Op.cit., The Exploration of New Markets by Small and Medium-Sized Firms, p.8.

6/ Economic Commission for Latin America, Development Possibilities for Small-Scale Industry in Specific Fields of Industrial Activity, (document ST/ECLA/Conf.25/L.18), p.5.

countries, the difference in the productivity of large-scale and small-scale enterprises in a given branch is very great. For instance, in Chile, the ratio is 7 to 1 in the product per man in the cotton textile industry and 3.2 to 1 in the wollen textile industry. A greater discrepancy has been observed in the Brazil's textile industry, particularly in cotton, where the ratio is 12 to 1 in spinning factories and 5 to 1 in webbing factories.7/

15. According to Eugene Staley, the distinguishing features of small-scale industry in developing countries are:

(a) Very little specialization, or none, in management functions;

(b) Shortage of capital, and very limited access to institutional finance;

(c) Weak bargaining position in its markets;

(d) Close personal contact between management and workers, and often between the firm and its customers.

Associated with the foregoing may be:

(e) Employment of obsolete technological processes

(f) Preference for production of traditional lines;

(g) Reluctance to introduce innovations.8/

Limited market and high costs

16. The present markets in developing countries are too small to enable them to obtain the benefits of economies of scale. As stated in a United Nations document: "If a local factory is, in fact, established, the limited market is likely to restrict the size of the plant. The implications of this in terms of technique of production and unit costs obviously vary from industry to industry."9/

7/ United Nations, Economic Survey of Latin America, 1964 (Sales No:66.II.G.1),1966 p.47

8/ Eugene Staley . "Small Industry Development", Research Programme on Small Industry Development, Stanford Research Institute (Menlo Park, California), Miscellaneous Paper No.1, December 1958.

9/ United Nations Processes and Problems of Industrialization in Under-Developed Countries, 1955, (Sales No: 55.II.B.1), p.14.

17. In consequence, the costs and prices of export goods manufactured in small-scale plants in developing countries are usually much higher and their quality is lower than industrial products of the same kind produced in large-scale enterprises of developed countries. Where manufacturing facilities exist for such products in developing countries, the survival of such plants is due largely to government protection and subsidies.

18. In the absence of joint arrangements between small producers and specialized servicing institutions, such problems as packaging, shipping and selling goods for export are usually solved in a wasteful and uneconomic way by wholesalers, middlemen and export traders who provide the material and finance, give some guidance on products and processes, and secure an outlet for output of the plants.10/

SPECIFIC PROBLEMS OF EXPORT MARKETING OF MANUFACTURES

19. Concerning the specific problems of export marketing as against domestic marketing, particular attention should be devoted to certain factors affecting domestic and international traders (risk, competition, information and communication, scale and marketing costs).

Risk

20. Commercial, exchange rate and political risks affect international traders especially exporters, more seriously than domestic traders. Commercial risks arise from the possibility that buyers may fail to pay for goods supplied to them - a risk which is particularly great with respect to foreign customers because it is usually more difficult to obtain reliable credit information and to collect debts from overseas. Similar considerations apply to exchange rate risk - an element peculiar to international trade.

21. International trade, more than other types of trade, is subject to a host of government rules and regulations, which vary in detail and complexity from country to country and from time to time. These regulations may be changed at short notice, a distinct risk to foreign traders.

10/ "Promotion of Exports of Small Industry Products from Developing Countries" in Proceedings of the United Nations Conference on Trade and Development, volume IV, (Sales No: 64.II.B.14), p.87.

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Changes in an importing country's tarrif rates, quota allocations or administrative procedures governing imports may profoundly affect exporters' profits. This type of risk is especially pronounced in international trade, an area in which Governments tend to exercise a large degree of control.11/

Competition

22. The risk issue is closely interrelated with the problem of competition. When selling in world markets, the risks on the demand side tend to be much greater than in the case of selling in the domestic market. As Raymond Vernon puts it: "The conditions of competition in world markets are not so easily defined or predicted - and certainly not so easily controlled - as in the markets at home. When selling to export markets, one has no guarantee against the risk that a competitor may enter the market from any direction... The outcome, therefore, is much less predictable than in domestic marketing." 12/

23. Domestic manufacturers are often protected against foreign competition by high transportation costs, tariffs or administrative regulations. Exporters have to overcome these barriers before they can even hope to begin to compete with domestic manufacturers. Even when they succeed in meeting domestic competition, exporters may still be excluded from the market by a new tariff or regulation. In cases where their competitive position remains unchallenged by domestic industry, exporters from other countries may deprive them of their market. Unlike domestic manufacturers, they have no recourse to government protection, and their market position is always an exposed one.

24. In addition, there is a difference between exports of raw materials and of manufactures. It is a fact that prices of raw materials are more variable than those of manufactured goods. However, if the manufactured products are undifferentiated and come from many different sources, the fluctuations in prices are not much less than those of raw materials. A higher degree of price stability is likely when the manufactured products are well-differentiated and their sources are few.

11/ For further details on this question, see Central Export Marketing Organisations in Israel, pp.1-3.

12/ Vernon, Raymond: "Problems and Prospects in the Export of Manufactured Goods from the Less Developed Countries," in Proceedings of the United Nations Conference on Trade and Development, vol.IV (Sales No: 64.II.B.14), p.203.

25. However, there is another risk with which the export manufacturer is confronted. This is associated with the fact that the exporter of manufactured goods, to the extent that he offers a differentiated product, tends to be committed to given markets and given distribution channels. Although he may have managed to insulate himself from competition in regards to price level, he probably will lose some of the averaging effects of selling to diversified markets. Much greater risks, as a result of sharp changes in sales, are involved in selling to a more constricted and specialized market.

26. In the view of Professor Vernon, it would be a mistake to assume too readily that there is some given prospective rate of return which the entrepreneur would regard as sufficient to justify the risk involved in exporting manufactured goods. He goes on to say: "Countrary to the easy assumption sometimes made in economic theory, entrepreneurs in fact are not necessarily willing to accept larger risk for the chance of greater gain". 13/

27. The threat of competition in international trade is greater because it is carried on at prices which may cover less than the full costs. Manufacturers, in order to maintain prices in their domestic markets, often restrict supply and attempt to sell the surplus output abroad at lower prices. While a domestic manufacturer may induce his Government to protect his market position against such competition, an individual foreign supplier can hardly expect the Government to intervene on his behalf, thereby preventing its citizens from enjoying cheap goods provided by foreign suppliers. 14/

Ignorance or lack of information

28. Ignorance or lack of relevant information constitutes a major handicap to the exporter *vis-a-vis* domestic competition. It has been stated: "Hawaii may, for example, offer a first-rate market for bathing costumes manufactured in Israel, but the existence of Hawaiian demand may remain unknown to the Israeli manufacturers, and the availability of a suitable source of supply in Israel may not be known to the Hawaiian market.

13/ Ibid., p.204

14/ *Central Export Marketing Organisations in Israel*, p.4.

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Such investments in market research are very uncertain, since it is difficult to assess in advance the chances of the research paying off. Furthermore, market research in one country does not necessarily yield relevant information about the market potential in other countries."15/ This is especially the case with developing countries which are in great need of statistical offices, economic research departments and agencies, and other information, intelligence and research facilities. Many manufacturers have neither the time nor the qualified staff to weave the data, obtained from various sources, relating to market intelligence into a clear-cut pattern which concerns their particular problems.

29. "The difficulties involved in basing potential export industries on foreign markets alone, constitute a serious challenge to developing countries whose domestic markets are often comparatively small", it is pointed out. "The range of these countries' export products is limited not only by their inability to compete on a cost or quality basis, but also because of their inability to overcome the information and communication barriers."16/ As a result, the entrepreneurs in developing countries prefer to sell first to the domestic market; and they would be expected to make this choice even if exports were a real possibility.

Marketing costs

30. The problem of marketing costs is also more serious for the exporter of manufactured products than for the domestic producer.

31. High transportation costs, customs duties and other government-imposed trade restrictions undoubtedly limit the scope of exports. As noted earlier, entrepreneurs justly regard exports as more of a gamble than domestic marketing; the cost of export financing generally exceeds that of financing domestic trade; and the problems of establishing channels of distribution and reliable information networks are far more complex in the case of exports. In addition, one must add export packaging, insurance, and port charges.

15/ Ibid.

16/ Ibid., p.5.

The exporter, moreover, must often hold larger inventories than his domestic competitor, and may also have to maintain expensive overseas offices. "If these differential marketing costs are so high as to prevent manufacturers from gaining access to foreign markets, their output will be restricted to the domestic market, and if the domestic market is comparatively small, manufacturers will be deprived of the benefits of economies of scale which are available to those of their foreign competitors whose domestic markets are large. Thus, a situation may arise where a potential low-cost producer may be unable to compete internationally and even in his own market with a high-cost producer, because export marketing costs exceed domestic marketing costs." 17/

EXPORT MARKETING ORGANIZATIONS - FUNCTIONS, ADVANTAGES, OBSTACLES

Role

32. Expansion of sales to foreign markets raises problems especially for small and medium-sized firms. They can solve their marketing problems successfully only if their size and structure give them enough flexibility to adapt their output to the requirements of demand in the foreign market.

33. It should be borne in mind that the establishment of an export marketing organization requires large investments. The rising standards of consumers in regard to quality, packaging and grading of goods - a characteristic trend in the present world market - make it necessary for producers and exporters to resort to costly market research, product adaptation and export promotion. Such costs may be beyond the means of small-scale producers eager to export their manufacturers. To quote from one study: "As small and medium-sized firms are rarely able to establish export sales on an individual basis, especially as their range of products is often too limited to bear the heavy export marketing costs, they are therefore forced to sell their products together with those of other exporters." 18/

17/ Ibid., p.7.

18/ Export Marketing Groups for Small and Medium-Sized Firms, p.10.

34. Export marketing groups or associations can play an important role in solving the specific problems of export marketing of manufactures - the problems of risk, lack of information and communication, and marketing costs. By bargaining as a group, small-scale exporters can improve their position regarding the price and quality of raw materials purchased for production purposes, as well as the sales prices of the exported manufactures. In general, co-operation among small-scale producers in developing countries can offset any possibility of monopolistic power on the part of foreign corporations or local big business and result in much better terms than if the products were sold independently. Specialization of the export marketing function as an activity apart from production, and concentration in larger organizational units, may afford opportunities for greater specialization of labour, management and other services involving human skill. Export marketing organizations can also be instrumental in promoting the production of enterprises manufacturing for export. They encourage the general development of export-oriented industries, stimulate entrepreneurship, help in modernizing plant and equipment, in raising productivity and lowering costs of production, improving the design and quality of products, improving management etc.

Functions

35. The general functions of export marketing organizations should be mainly concentrated on the provision of seven major services to its constituents in the areas of quality control, documentation, credit and insurance, freight rate negotiations, market intelligence, capital supply and governmental and public relations.

36. Export organizations of a centralized type maintain continuous contacts with foreign markets and study the conditions in these markets, this being their regular and normal function. They relay the impulses emanating from foreign markets to domestic producers, thus assuming the role of importer of foreign technology and of a channel through which foreign demand is transmitted.

37. As a result of the efforts of export organizations, the quality standards of export articles may be improved or maintained at an even level.

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38. A large number of export organizations send their own experts or foreign experts to a domestic enterprise to advise on how to organize the production of a given article, or a given assortment of items, in order to satisfy the foreign buyer. Another way of extending technical assistance is to place blueprints at the disposal of the producer and provide information on the technical specifications, outward appearance and properties of an article destined for export to a given market.

39. Export organizations are able to organize sales promotion and advertising on a broader scale than individual producers could do for their own products, and which is likely to raise correspondingly the over-all costs for the national economy. Export organizations can do the job more economically, as they are specialists in such services, which would probably be performed in a more diffuse way by numerous small enterprises. The organizations should be able to provide the necessary investment for their services - maintenance of an appropriate network, acquisition of equipment, teleprinters etc. -- thus reducing the cost of investment per unit of turnover.

40. In raising the level of skills of the personnel employed in foreign trade enterprises, export organizations would be expected to build up a group of specialists possessing an adequate knowledge of foreign trade techniques, marketing, domestic and foreign trade regulations, foreign languages and other skills necessary for the conduct of foreign trade affairs.

Contacts with producers

41. One of the main tasks of an export marketing organization is to have contacts with producers and to organize production for export. It can help producers in such matters as reconstruction of plant, better utilization of existing capacity, modernization of production processes, raising of productivity, etc. All of this is the subject of a standard contract on business co-operation, which is typical of an arrangement between two partners. Under this, an export organization assumes

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the obligation to:

(a) Protect the interests of the producers and to behave as an orderly and conscientious businessman;

(b) Sell abroad at the highest possible prices and on the best terms;

(c) Make continuous, expert and systematic efforts to assure the proper marketing of products on the domestic and foreign markets;

(d) Inform the producer regularly, in writing, as to the conditions of marketing abroad;

(e) Safeguard for the duration of the contract the business secrets confided by the producers;

(f) Protect the interests of producers on the market against the competition of other producers in the same country, who may also have contractual relations with the export organization in question.

42. On the other hand, the producer is obligated to:

(a) Harmonize production, in accordance with the export organization and the requirements of the foreign market;

(b) Utilize the most suitable packaging which corresponds to the demand on the foreign market;

(c) Strictly observe the terms of delivery and other conditions of sale;

(d) Adjust the prices of his products to the level of prices of similar products on the foreign market. To achieve this end, the producer should enable the export organization to have an insight into the production processes.19/

43. If the export organization should discover possibilities for the sale of a product which had not yet been manufactured in the country, it would take steps to organize production of this item in the country, first contacting the existing large production units. Experience has shown, however, that the problem of introducing new items is often solved more efficiently when smaller enterprises are engaged for the production. In this case, the export organization may induce a group of enterprises to co-operate in such a way that each enterprise organizes a certain stage of production of the item in question. Alternatively, the production of the quantity to be sold abroad could be sub-divided among all the members of the group. There are examples to show how small enterprises, after establishing links

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19/ Export Marketing Organizations in Yugoslavia, Belgrade, 1965, pp.32-33 with foreign markets through an export organization, have obtained good results in specializing in a given production. A characteristic example concerns the Yugoslav foreign trade enterprises Jugodrvo and Eksportdrvo, which persuaded a number of small enterprises to produce furniture for export. In another case, Jugometal took account of the demand for bauxite in Western Europe and opened a series of small bauxite mines. Starting at a rather modest level, these mines raised their total output and exports to more than one million tons of bauxite ore within five years.20/

General and specific advantages

44. The general advantages of co-operation among small-scale producers for export through various types of export groups, associations or marketing organizations may be summarized as follows:

(a) Economies of scale inherent in large-scale operations can be obtained by enabling individual firms to reduce the number of products produced and to specialize in fewer items which can be manufactured in larger runs;

(b) By sharing costs, especially in research and development facilities, modern marketing comes within the reach of the small or medium-sized enterprise;

(c) Small and medium-sized firms can eventually become integrated within the structure of the national export policy, an integration which would be difficult, or impossible, to achieve on an individual basis as a result of ignorance, lack of time and a certain amount of apprehension.21/

45. Sharing of risks: Among the specific advantages, the risks associated with exporting, can be borne partly or wholly by the marketing organization.

46. In the opinion of the author of one study, when exports are marketed centrally, it makes sense that certain risks should be shared and that no individual producer should be responsible for the failure of the marketing organization to realize a

20/ Ibid.

21/ The Exploration of New Markets by Small and Medium-Sized Firms, pp. 76-77.

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better price for his output. But does it make sense that the marketing organization should bear no risk at all? According to this study, "The wisdom of the institutional arrangement whereby they act merely as central selling offices for their constituents, having no profit motive of their own, may well be questioned on the ground that it is not necessarily conducive to achieving efficient operations".22/ The study states that management may be tempted to increase staff more than is necessary, and may not be sufficiently alert to obtain the best possible arrangement. It is also liable to equate success with the quantity sold rather than with profits. This situation may be particularly serious in cases where only one export marketing organization operates in the industry, i.e. where the individual manufacturer has to choose between exporting his output through the existing organization or refraining from exporting altogether.

47. Information and communication: Export marketing can mitigate problems of maintaining communications with and obtaining information about foreign markets. Several institutional arrangements come to mind - trade fairs and trade missions, commercial sections of diplomatic delegations, trade information centres, etc. By providing exporters with relevant market information and facilitating relatively inexpensive communication with potential clients, centralized institutions of the type discussed above help to reduce the burden of financial commitments which firms must make. They also reduce the risks associated with such commitments by directing the initial information-gathering activities to the more promising markets, thus shortening the process of information-gathering and evaluation. As a result, more firms are likely to join the ranks of those who seek to export, and once having decided to investigate export possibilities, they tend to investigate more markets and products.

48. Scale: It has been argued that in cases where export marketing costs exceed domestic marketing costs by a substantial margin, manufacturers located in small markets may be prevented from exporting their output even when their production

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22/ Central Export Marketing Organizations in Israel, pp. 50-51.

costs are competitive. Exclusion from export markets prevents them from enjoying the advantages of large-scale production methods, and they may end up importing from high-cost producing countries whose large domestic markets enable them to take advantage of economies of scale.

49. It may be possible to overcome these difficulties through export marketing groups of several companies, thus reducing average overhead costs, eliminating duplication, streamlining procedures, and sharing the benefits of expert services. However, the well-known dangers of cartelization or similar forms of restrictive business practices should not be overlooked. These arrangements may result in higher prices for domestic consumers.

Problems and obstacles

50. Export marketing groups are not new. In many cases, such groups have worked successfully for years. On the other hand, many attempts have failed. "Unwillingness to co-operate has been one of the main causes of such failures, but also inadequate planning and organization, faults in the structure and composition of groups, and many other facts have been conducive to these failures. 23/

51. The obstacles and handicaps to development of export marketing organizations are numerous. They stem mainly from the form of ownership and market sharing when manufacturers export through a centralized marketing organization. Since the partners remain independent, as joint owners, their interests may clash in regard to market sharing and distribution of profits. They inevitably face problems of finding an acceptable basis for sharing the export market, for establishing price and brand policies and, more often than not, for sharing the domestic market.

52. For lack of a better method, most existing organizations divide the market among their members on the basis of past performance, production capacity or existing shares in the domestic market. Where the earnings of the export group or association are divided among participants in proportion to actual sales of their respective

23/ Ibid.

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products, a certain amount of mutual competition is likely to be maintained. A slight variant of the joint sales system is the central order-receiving office, which collects all orders received by the participating enterprises and allocates them on the basis of an agreed distribution schedule. This re-shuffle of the initial destination of the orders received entails a certain equalization of profits.24/

53. A conflict of interests is particularly acute in cases where products of participating enterprises can readily be substituted for one another. If their co-operation includes market information, advertising and service, the fact that participating firms are offering rival products does not usually entail any adverse consequences. If, on the other hand, co-operation also includes centralization of order booking and distribution, then the actual allocation of orders to rival firms may cause difficulties.25/

54. There also may be difficulties of a psychological and organizational character. These difficulties may be placed in three large categories, relating to:

(a) The creation of the desire to co-operate;

(b) The creation of a climate of confidence, an essential condition for continuous co-operation;

(c) The financing or cost of co-operation.26/

55. The desire to co-operate is particularly important, not only in forming the actual export group, but also in the degree of co-operation to be achieved and in the soundness of its finances. One must not forget that many small and medium-sized enterprises are of a one-man type. The individual concerned wishes to remain his own master and will be reluctant to take part in a collective experiment. The will to co-operate in opening up foreign markets is a question not only of

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24/ Contracting Parties to the General Agreement on Tariffs and Trade (GATT), Restrictive Business Practices, Geneva, May 1959, p. 22.

25/ Op. cit. Export Marketing Groups for Small and Medium-sized Firms, p. 13.

26/ H. van der Aa, "The Role of Export Groups for Small and Medium-sized Firms", in The Exploration of New Markets by Small and Medium-sized Firms, pp. 73-82.

knowing the possibilities of expansion but, above all, of calculation based on the knowledge of the advantages of a collective export drive.

56. However, insistence on the value, need and convenience of such a group is not enough to create the will to co-operate. The second prerequisite is to establish confidence, which is indispensible in determining the formula to be adopted, the partners, and the administrators of the group.

57. The third essential is the financial base. The authorities in certain countries have realized that the financing of the period of take-off often constitutes a bottleneck which can slow down or even prevent the launching of export groups. To remedy this state of affairs, they have devised various formulae: subsidies, loans free of interest, loans at low-interest rates, or tax exemption for capital placed by firms at the disposal of export groups.

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CLASSIFICATION OF EXPORT MARKETING ORGANIZATIONS

58. Export marketing organizations may be classified according to various criteria, by:

(a) Size;
(b) Form of ownership;
(c) Nationality;
(d) Organizational structure.

In the category of size, export marketing organizations may be large-scale, medium-scale or small-scale organizations. Large organizations prevail in industrialized countries, while medium-sized and small-scale organizations are typical of less developed countries. The advantages of a large over a small-scale enterprise are evident, not only in production but also in foreign trade; the former is more competitive in terms of production and distribution costs, price and quality. It is more capable of adapting its output to changing conditions of demand. It has greater financial, organizational and commercial resources, as well as more experience in export marketing.

59. An export marketing group consists of "two or more manufacturers who combine, to varying degrees, their export activities on a voluntary basis in order to strengthen their market positions abroad. The co-operating firms remain financially and legally independent. Export functions, carried out by the firms individually up to then, are combined and centralized. Such co-operation enables the member firms to have their sales and promotion work carried out more extensively, by specialists, and at lower costs.[27] Functions such as market research, advertising campaigns and product development, often neglected by small and medium-sized firms for lack of financial means could be carried out by the group and lead to more effective marketing abroad. A combined assortment of products also could facilitate the establishment of a more efficient distributions system and group sales force in foreign markets than the firms could achieve individually.

27/ Export Marketing Groups for Small and Medium-Sized Groups, p.11

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60. The range of products offered by an association would depend on whether the members belong to identical or different industries. Both types of organizations exist, and adoption of either would depend on the region or industry concerned, there being no grounds for claiming that one form is better than the other.

61. By exchanging experience and studying problems together, the firms joining in a common export drive should strive to reduce their costs, raise productivity and achieve a certain division of labour among themselves. In order to protect the reputation of the group, all partners would have to ensure that each observed minimum standards in business practice and fulfilling orders[28/].

62. The ZETA Group, a typical example, comprises practically all industrial art firms in the Netherlands. It was established in its present form in 1948 for the purpose of building up an export trade in industrial art products. The group includes about 500 member firms, of which about 40 export regularly. Members are divided into two categories: the largest one consists of small family companies with five to ten employees; the other category comprises larger factories mass-producing industrial art products.

63. Since few members could handle export trade on their own, ZETA performs these functions for most of them. Products are exported in ZETA's name and under its trademark. Since orders are often filled by products from several members, and careful packing of industrial art products is important, all exports are packed at a central plant under ZETA's supervision. The group prepares all shipping documents and collects payment. As a rule, 60-90 days' credit is granted, with insurance against non-payment.

64. ZETA receives periodic information from members about production developments. It also has a limited stock of current industrial art products and a permanent display of the range of products. It has published a joint catalogue of mass-

[28/] The Exploration of New Markets by Small and Medium-Sized Firms, pp. 63-64.

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produced products, on the basis of which customers may place orders. ZLTA keeps members informed of current market conditions and the reception accorded to individual products.[29]

65. Large-scale export associations have been set up in accordance with the Webb-Pomerene Act in the United States; some are limited to specific products or specified markets; others provide for shipment to any foreign country. Most of the groups were formed to develop a regular export business, year in and year out. In certain cases, an association may be organized to meet a special need or temporary situation. Occasionally, an association operates only when there is a surplus to be disposed of in foreign markets. Membership agreements may be permanent or drafted for a limited period with provision for extension; in the latter case, they have usually been extended for longer periods.[30]

66. According to R. Kramer[31], numerous advantages have been realized by associations operating under the Webb-Pomerene Act. These include:

(a) Stabilization of export prices;

(b) Reduction of selling costs so that small concerns, unable individually to branch out into foreign markets, are well able to pay their share of the expense;

(c) Standardization of grades, contract terms and sales conditions;

(d) Prompt and efficient filling of orders;

(e) Elimination of harmful practices;

(f) Combatting combinations of buyers that might be in a position to play one exporter against another;

(g) Consolidation of cargoes and chartering of ships for better service and lower transportation costs;

29/ Export Marketing Groups for Small and Medium-Sized Firms, pp. 64-66.

30/ Pratt, Modern International Commerce, Allyn and Bacon, Inc. (New York) 1956, pp. 71-74.

31/ Kramer R., International Marketing, pp. 344-345.

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(h) Joint advertising and exploitation;

(i) Division of territory, not only among members but also with foreign competitors;

(j) Utilization of direct export channels and methods.

67. However, it should be borne in mind that such associations are usually a form of cartel because its "members agree to pursue certain defined group policies with respect to levels of production, prices and marketing arrangements, as well as other common or specified policies pertaining to industrial or trade activities".32/

68. Form of ownership. In the ownership category, export marketing organizations may be classified as (a) private; (b) co-operative; and (c) State or public.

69. The type of export organization will depend on the prevailing form of ownership and the economic and social system in the country concerned. In developed countries with a market economy, all three forms of export organizations may be found. In countries with centrally planned economies, the private export organization is non-existent; the second form is widespread; and state-owned organizations are prevalent. In developing countries, all three kinds of organization are available, particularly the co-operative and public types.

70. Private export organizations: All of the export organizations described in the previous section are private.

71. Co-operative export organizations: A co-operative is generally defined as "a membership organization designed to do business as a unit, the benefits or profits from which are either distributed to the members or the customers."33/

72. In developed market economy countries, groups have been organized along co-operative lines to engage in nearly all types of business enterprise. With

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32/ Franklin Root, Roland Kramer, Maurice D'Arlin, International Trade and Finance, second edition, 1966, p.318.

33/ Op. cit., Modern International Commerce, p.78.

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regard to methods of operation, there is hardly any difference between an ordinary corporation with widely distributed ownership and a co-operative. The distinction applies almost entirely to the method of distributing the profits. This feature of co-operatives is a means of attracting and holding customers.

73. In less developed countries, the creation of co-operatives and other associations of small producers is aimed at providing them with some of the benefits, services, economies of scale and bargaining power of large enterprises.

74. One type of co-operative which might be formed by export manufacturers is the so-called "joint enterprise" co-operative association. In this type, the members amalgamate their individual production processes and business operations in one unit controlled and managed by the organization. Members are small producers working in the same industry or participating in manufacture of the same product, usually established at different locations. The co-operative is mainly concerned with production operations. Although such co-operatives are not common in developing countries, some efforts might be made to encourage their creation by export manufacturers.[34/]

75. More widespread are "common facility" or "common service" co-operatives, in which members maintain the separate identity of their operations and the organization provides one or more of the facilities or services needed by all - in the fields of processing, procurement, marketing or shipping. These co-operatives are well adapted to supplying, in part or as a whole, many of the services needed to promote the export products of small industry and handicrafts: representing export industries vis-a-vis government authorities; improving processes, products and management methods; disseminating marketing information, and assisting in executing some of the export formalities. Some co-operatives may also engage in contract negotiations and export operations proper.

34/ "Trade in Manufactures" in Proceedings of the United Nations Conference on Trade and Development, vol. IV, p.89.

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76. State trading organizations may be defined as organizations in which there is "direct participation by the Government (or its agent) in foreign trade, including those trading activities in which the Government (or its agent) holds title to exports before transactions and acquires title to imports."35/

77. The objectives of state trading vary between one country and another, depending on the economic system, the national goals and objectives of the country concerned.

78. In developing countries, the main objectives of state trading are the following: to secure better prices and markets; regulate prices of essential goods, including food supplies; facilitate and increase trade with centrally planned economies; implement trade agreements and barter deals; transfer trade from the control of non-nationals; and raise revenue for the Government. The nature and scope of State trading also vary from country to country, and from commodity to commodity. In the case of some exports, government participation begins from the production stage and is carried through to exportation. In others, government participation is limited to exportation. In still other cases the government role extends to both procurement and export, apart from some indirect influence on production through incentives. In a few cases, the State does not directly undertake production, procurement or export, but employs agents or principals for all of these transactions, while holding only the title to the export. In some countries where state trading is an integral part of the economic activities of government corporations in certain sectors (mining, forestry, industry, transportation), the role of the State extends from production, through internal procurement and distribution, to export and import of the goods involved.

79. A typical example in developing countries is the State Trading Corporation of India (STC), established in 1956. Although wholly state-owned and state-managed, it is a limited company registered under the Indian Companies Act of 1956 and

35/ United Nations State Trading in Countries of the Asia and the Far East Region, 1964 (Sales No.: 65.II.F.2), p.1

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functions as an autonomous commercial organization. The Corporation has been granted the monopoly for import and export of certain commodities in which bulk-contracting and bulk-handling are considered advantageous, or which are in short supply and present peculiar problems of fair distribution. It has also been entrusted, to a limited extent, with some highly speculative commodities in which trading yields a high margin of profit. In addition, it handles the export of some commodities that would otherwise be difficult to sell because of high internal costs. The STC has exclusive rights to export iron ore, salt and cement. Imports of caustic soda, soda ash, raw silk, tin and ball bearings are also handled exclusively by STC. A large share of imports of certain commodities is channelled through the Corporation for the purpose of arranging barter deals, gaining favourable terms or stabilizing internal prices.

80. This Corporation constitutes the main channel for India's trade exchanges with centrally planned economies. The main commodities which it exported to Eastern European countries were mineral ores, cotton textiles, woollen fabrics, shoes, tobacco etc.

81. The STC was the first to introduce the system of business associates, whereby it actually helped exporters, particularly those with small capital resources, to export goods which they could not have done individually. It enabled local suppliers to obtain about 90 per cent of their money immediately after they put the goods on rail, with the STC looking after the export of goods, arranging for letters of credit and waiting for the documents to be negotiated.[36/]

82. The foreign trade of countries with a centrally planned economy is carried out on the basis of a state monopoly. It covers not only import and export transactions, but also currency, insurance, credit and transport operations, and technical assistance abroad — in fact, all forms of economic relations with foreign countries.

83. In the Soviet Union, the main administrative bodies in the field of foreign trade are: the Council of Ministers, the Ministry of Foreign Trade and the State

36/ Ibid., p.18

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Committee on External Economic Relations of the Council of Ministers, as well as the trade offices in foreign countries.

84. The majority of foreign trade operations are carried out directly by the foreign trade firms according to a fixed list of commodities. The Centrosoyuz (a co-operative organization) is also entitled to handle foreign trade operations.

85. Foreign commercial operations are conducted by foreign trade amalgamations. These are autonomous state trading organizations, operating on a profit basis (on a self-supporting basis) and carrying out import and export operations and transport operations in foreign trade commodities. The number of such amalgamations is fixed, and each has a specific list of commodity items. This rules out the possibility of competition among Soviet trade organizations in the purchase or sale of goods. The State is not responsible for commercial transactions and other operations of the amalgamation and, conversely, the latter has no responsibility for claims against the State. The range of operations of an amalgamation may be illustrated by the following example: the Machinoexport Foreign Trade Amalgamation deals with foreign trade organizations and firms in forty-two countries, while timber products are imported by about 1,000 firms in fifty-five countries through Exportles. Mashpriborintorg took part in more than 1,500 negotiations with foreign partners.37/

86. Foreign trade organizations in Yugoslavia are of a different type. In earlier periods, the dominant type of organization was the foreign trade enterprise, which played a major role in export promotion. More recently, business associations, which were originally concerned with production and general problems but which tended to specialize in the export-import business, have appeared. After some initial successes, organizations of this kind have acquired an important position in the Yugoslav economy. Leaving aside organizations for promotion of foreign trade that are of a specific character, there is now a pronounced tendency among export organizations to polarize around two types: the foreign trade enterprise and the business association. As the process of evolution continues, there is a new trend towards a combined type in some larger enterprises, which endeavour to set up

37/ Chervyakov, P.A., Organization and Techniques of the Foreign Trade of the USSR Union of Soviet Socialist Republic, Moscow, 1962, p.37-62.

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managing boards composed of producer-delegates in their former departments.[38/]

87. Nationality: Export marketing organizations may be: (a) locally owned; (b) foreign-owned; or (c) mixed. These three forms may be found both in developed market economy countries and in developing countries. However, their impact on the economy of a given country depends on the level of economic development, structure of industry and foreign trade, and degree of dependence on foreign capital (particularly in industry and export trade), as well as the socio-economic structure and policy of the country concerned. In developing countries, foreign-owned export marketing organizations have a much greater influence on the economy and the external sector than in industrialized countries. Most international trading companies are large organizations engaged in importing and exporting. They often handle a large volume of commodities and are often integrated backwards into the production of various products and sometimes integrated forward into the operation of retail outlets.[39/]

88. Most of the world's major trading companies have their origin in Western Europe or Japan. It has been estimated that Japanese trading companies handle between 80 and 90 per cent of Japan's imports and exports. The larger Japanese trading companies, such as Mitsui and Mitsubishi, are active throughout the world, with offices in many big cities.

89. Trading firms of European origin or with European orientation, such as Jardine Matheson in Hong Kong, are an important factor in trade with parts of the world that were formerly British or European colonies, particularly in Africa and South-East Asia. One of the largest of these firms is the United Africa Company, a part of the giant Unilever complex. United Africa's operations, particularly in West Africa, include everything from manufacturing plants to retail outlets.

38/ Export Marketing Organisations in Yugoslavia.

39/ United States, Small Business Administration, Export Marketing for Smaller Firms, second edition, Washington, D.C., 1966.

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90. The advantages of a trading company are its well-established position in certain parts of the world, its reliability in terms of credit and its general stability. These companies are in a position to sell and service almost any type of product required in their area of operations. As such, they are eminently qualified to represent a number of smaller firms. However, some are in a difficult position in certain countries that resent having their foreign trade controlled by foreign firms. Indeed, the Governments of the United Arab Republic and Burma have nationalized their foreign trade.[40/]

91. It is up to the Government of the developing country concerned to weigh the pros and cons of foreign-owned trade corporations or nationally-owned ones. Their impact on the economy of a country cannot be considered in isolation from the problem of foreign investment.

92. As stated in a recent United Nations document: "It is useful to start with the straightforward recognition that there are bound to be divergencies between the developing country and the foreign investor: the latter is concerned primarily with the business advantages (though not necessarily with the immediate profit maximization) which he hopes to derive directly or indirectly from the contemplated venture, while the Government must seek to secure his contribution - in capital and know-how, at the lowest possible economic and political cost to the country... The differences - while unavoidable - thus are not irreconcilable, but they can be resolved only on the basis of determination and recognition of what are the reasonable and legitimate expectations and requirements of both sides."[41/]

Organizational structure

93. The choice of organizational structure of export marketing organizations depends on:

40/ Ibid., p.48

41/ United Nations. "Financing of Economic Development, Promotion of Private Foreign Investment, in Developing Countries, Summary and Conclusions", document prepared for the Economic and Social Council (E/4293), 6 March 1967, pp.8-9.

(a) The nature of the product to be sold - the type of customers likely to buy it (number, importance and location);

(b) Distribution methods and the choice of distribution channels (direct sales, sales through wholesalers and retailers, sales from stock, sales against quotations);

(c) The size of the firm.

94. The structure of a marketing organization must be constantly checked in the light of the various factors determining, among other things, the choice of product and the market for it.

95. The various types of marketing organizations correspond to the various types of business organizations: functional organization, organization by product and regional organization. Different types of marketing organizations may result from these basic types.

96. Functional organization. This type groups the various departments controlled by the chief marketing executive. It is suitable for small or medium-sized firms selling a range of similar products to a single type of customer through the same distribution channels. (See chart below).

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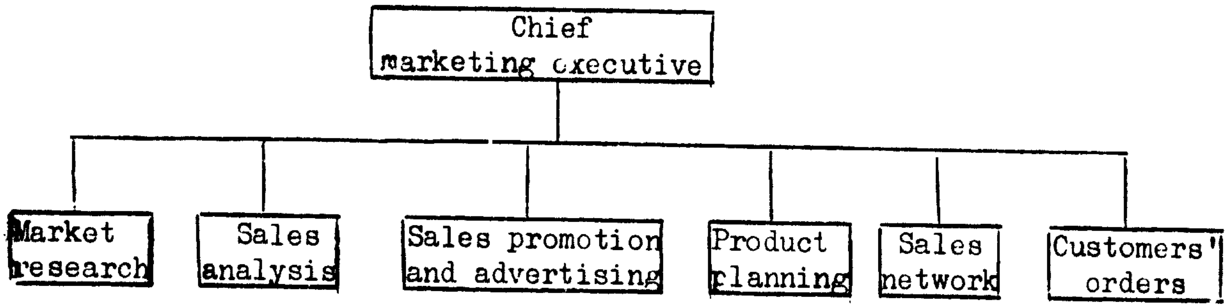
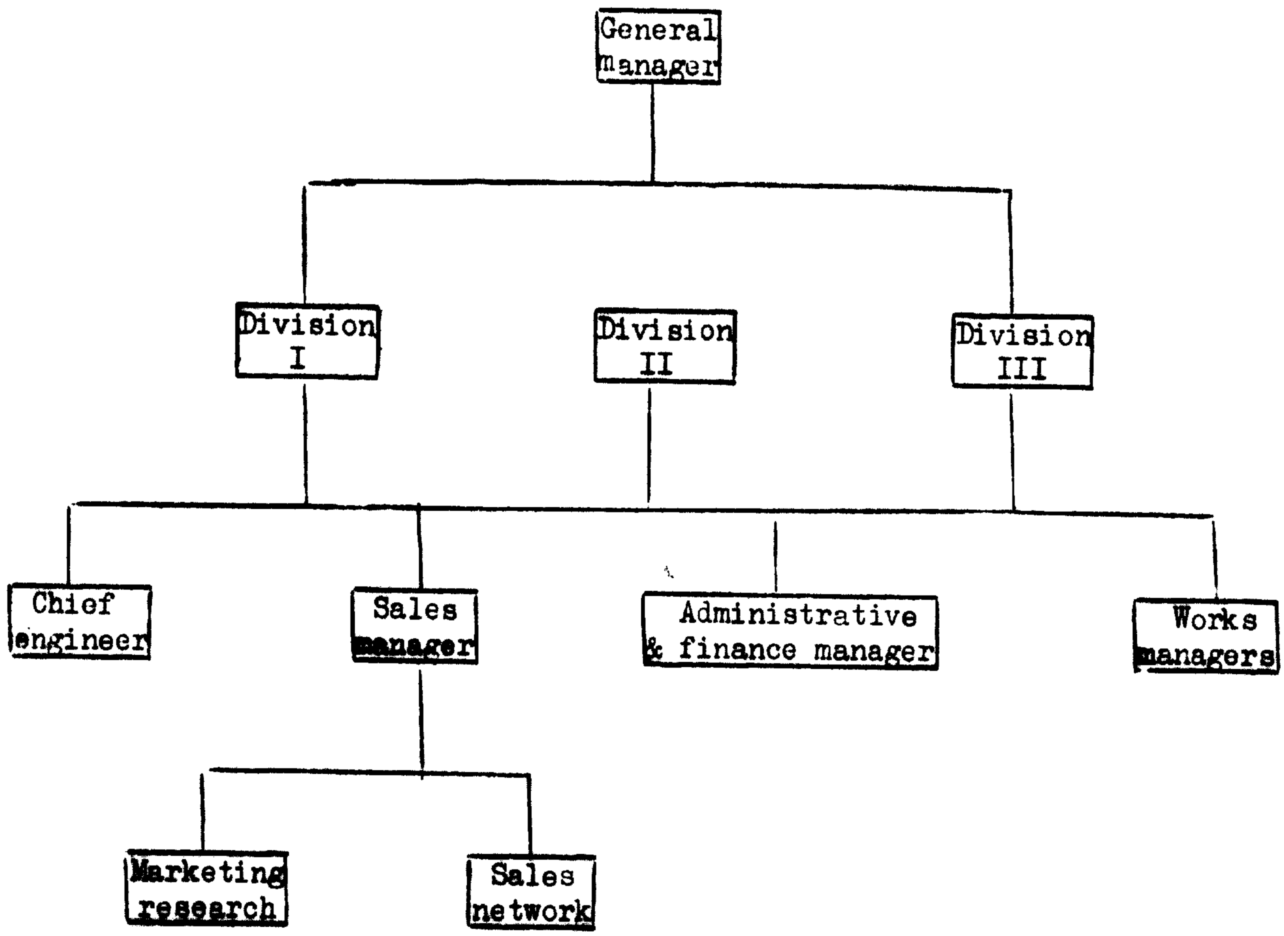


97. <u>Grouped products sales organization</u>: This has one sales manager for each group of products; he is not subordinate to a single chief marketing executive, but only to a division manager.



98. The drawback of this type of organization is that it multiplies the central services and involves two or three sales networks covering the same area, so that one customer may be visited by three different representatives of the same firm. However, it offers the advantage that each sales division specializes in one range of products and has one sales network and one group of customers.

99. Regional organization: This type is mainly called for whenever the number of dealers becomes very large; it is not always accompanied by regional decentralization of the various services, including those which operate on a nation-wide scale, such as market research or advertising.

100. Two kinds of regional trading firms are prominent in Israel - those dealing with countries whose international trade is tightly regulated and those trading with geographically remote areas. Israel has trade and clearing aggrements with a number of countries of Eastern Europe, Africa, Latin America and Asia. Several firms specialize in this trade, and their activities have met with varying degrees of success.

101. Some of Israel's trade with Latin America, Australia, the Far East and other geographically remote areas is also handled by specialized companies. Potential exporters are often unwilling to invest the time and money necessary to establish their own regular channels of distribution, and prefer to leave the marketing function to specialized companies, even at considerable cost. Sometimes, however, a firm which initially exports through a specialized export company, may at a later stage — as a result of sales growth or improved communications with importers — shift to direct selling.

102. One of Israel's largest regional export firms is Elda, founded in 1963 through a merger of four international trading companies operating in Africa, the Near and Far East, Australia and Latin America. The Government owns 57 per cent of Elda's shares. The remaining shares are held by Zim, Israel's largest shipping line; by Solkoor, the trading company of the General Federation of Labour in Israel (Histadrut); and by a number of smaller concerns. Elda has eighteen branches in fifteen countries; the branches act as wholesalers and they stock merchandise for the firms they represent. The company is involved in three basic types of transactions. In about 50 per cent of the cases, it serves merely as an agent, obtaining enquiries from buyers and passing them on to suppliers, who ship the goods directly to the buyer. In these transactions, Elda operates on a commission basis. Second, the company purchases goods from suppliers, stocks them in its

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local warehouses and itself sells directly to retailers. The third method is for the company to assume ownership of goods ordered by a customer, but not to stock them. In such cases, the supplier ships directly to the customer, but bills the transaction through Elda. The company's gross profit and loss on these transactions is determined by the spread between the buying and selling price for the goods it handles. Recently, the company has been instrumental in establishing local industries in countries where it operates.[42/]

103. Export promotion organizations: These are government controlled or under public or mixed sponsorship. (The role and functions of export promotion organizations are outlined briefly in this paper. The great importance of such organizations for promotion of exports of manufactures from developing countries necessitates a more detailed study).

104. Export promotion institutions under public or mixed sponsorship - official export promotion boards, semi-official export boards, chambers of industry and commerce, export promotion councils - bring together representatives of Government, industry and trade. They advise the Government on export policies and provide services and information to manufacturers and exporters, and sometimes to foreign importers.

105. The role of an official export promotion board is to assist small and medium-sized firms in their efforts to export. It can provide to the firms the kind of service which they cannot afford to organize themselves.

106. This seems to be a twofold task: national and external. At the national level, such boards could and should supply manufacturers with fuller information on sales possibilities in foreign markets. This should be confined to basic information of interest to firms in a number of industry branches. They could also help export firms with more detailed information on problems of export organization, such as finding representatives in foreign markets, appointing

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42/ Central Export Marketing Organisations in Israel, pp.14-19 suitable importers, supplying information on transport charges, providing legal and financial advice etc. Good advice is particularly important in an export drive in the present era, as successful exporting depends largely on marketing methods and organization. At the <u>external level</u> the task largely consists of providing publicity for particular national products, through advertising abroad (press, radio, television and cinema) or setting up information bureaus at trade fairs and exhibitions in foreign countries.43/

107. The functions of semi-official boards, chambers of commerce etc. are similar, For instance, a Small-Industry Export Office was set up in Sweden in 1949, in co-operation with the General Export Association of Swedish Exporters, to help small and medium-sized firms explore and gain a foothold in foreign markets. As another example, the Japanese External Trade Organization (JETRO) covers practically all aspects of export promotion, at home and abroad, by direct action through its centres and branches, research and publications services and other facilities, or by guiding and assisting private export agencies, co-operatives and associations, and co-ordinating their activities.44/

108. In this respect, it would be worthwhile to review a recent plan of the Government of Iran to promote exports through establishment of a Centre for Export Promotion (Markaz Tovsea Saderat). This centre is authorized to utilize the proceeds of a 5 per cent <u>ad valorem</u> duty on imported goods for export promotion bonuses to exporters of Iranian commodities and industrial products. The centre is also authorized to use the proceeds for marketing purposes. This is an attempt to bring about an expansion in the volume of export trade. In effect, it constitutes a kind of subsidy for the export sector at the expense of the import sector.

109. Another new development is the establishment of several <u>Shovray Markazi</u>, Central Councils for Iranian export products. For example, the Central Council

43/ <u>The Exploration of New Markets by Small and Medium-Sized Firms</u>, pp.21-22.

44/ <u>Proceedings of the United Nations Conference on Trade and Development</u>, vol. IV, p.90

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of Carpets, which handles all problems connected with the production of this industry, will initiate a programme to improve the raw materials used by weavers throughout the country. Additional Central Councils should be established for export promotion of commodities and manufactures and semi-manufactures. The setting up of such councils should enable individual exporters to overcome their inherent weaknesses in so far as access to foreign markets is concerned. Both financial and technical assistance must also be provided so that Iranian exporters can continue to maintain their contacts in foreign markets.45/

110. Each export marketing organization should be created in such a way as to meet the special requirements of the industry or industries concerned, and it should have a high degree of adaptability to changing circumstances. Practice has shown that particular types of export organizations tend to specialize in determined production sectors, depending on the character of production, on the size of the enterprises which dominate in the given production sector, and on the kind of service the producers expect from the export organization in question. Frequently, producer firms are linked to several export organizations, which may be of different types. Generally speaking, it is in the direct interest of both partners to establish the kind of link which best suits the situation.

45/ Ordoobadi, A., Promotion of Exports through the Establishment of a Central Trading Organization, a study commissioned by the Centre for Industrial Development (now UNIDO), pp.40-41.

MARKET RESEARCH AND POLICY OF EXPORT MARKETING ORGANIZATIONS

A. Research

111. Market research should be considered as one of the major specialized activities in marketing, along with such functions as the development of export policy, adaptation of a product for export, transportation of the product, credits and financing.

112. In overseas market research, the principles in elaborating the findings are fundamentally the same as in domestic market research. The primary source of information is the existing literature, including all available statistics. This is followed, if funds permit, by interviews with foreign customers. Yet, overseas market research is regarded as a special branch of market research. For one thing, the cost factor is of far greater significance for the technique to be selected than in the case of investigation of domestic markets. In many firms, exports account for only a modest share of total turnover. Moreover, these exports are distributed over a more or less large number of markets. Unless special circumstances prevail, the firms cannot afford to pay the same amount for an analysis of each market that they would be prepared to appropriate for domestic investigation. Therefore, extensive surveys are ruled out in most cases. From this state of affairs, there arises the need for briefer, less exhaustive and less costly investigations which still could provide reliable information on existing sales prospects. A further characteristic of overseas market research is that it almost invariably includes investigations on expedient methods of distribution.[46]

113. Export organizations have to solve two major problems. First, they must select questions to be the subject of information, and then find the sources of such information. Furthermore, export organizations are becoming increasingly aware of the necessity to make projections and calculations of the future prospects of a market.

114. The patterns of market research organisation are varied. They range from market research services of central export offices to the private market research

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46/ Organization for European Economic Co-operation (now the Organization for Economic Co-operation and Development), Market Research Methods in Europe, Paris, p.14.

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organization specializing in investigations of overseas markets. In between, there are the most varied systems of special foreign trade promotion agencies which extend their activities now in this direction, then in another; which occasionally send commissions abroad on a study or good-will tour; and which provide business addresses or establish contacts with potential customers and representatives.

115. Great differences exist as to the legal status of market research organizations. Some carry out work in connexion with their Government (as in the United Kingdom). Others are organized as central authorities, especially established for this purpose and responsible to the Ministry of the Exterior or the Ministry of Economy, or both (Belgium, Federal Republic of Germany, France). Still others are semi-official institutions receiving government subsidies (Switzerland), and a fourth category includes foundations whose legal status is somewhere between the public and the private organization (Netherlands).

116. The way in which Israeli exporters are aided in their search for market intelligence may be considered as an example. The Ministry of Commerce and Industry operates a documentation and market research centre which collects, and classifies a large amount of commercial data. This is made available, without charge, to exporters and other interested parties. The centre operates two sections, one organized on a regional basis and the other on a product basis. The regional section collects published data on production and trade trends, trade policy and agreements, as well as information on various countries and regional groupings. The information gathered by the secend section is classified according to product groups and stored in product files.

117. Exporters who approach the centre for information are directed to the area or product specialist who deals with the topic under consideration. The specialist places at the exporters' disposal the information available and directs him to the relevant sources. Occasionally, the centre circulates reprints of articles and news items to interested parties.

118. The Export Institute supplements the Documentation and Market Research Centre by publishing newsletters and bulletins containing information about enquiries

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received from abroad, and other news of interest to exporters. This institute has a membership of several hundred, including manufacturers, traders, shippers and insurance companies. Its budget is financed partly by members' contributions and partly by the Government.

119. The institute engages in a large variety of activities, such as organization of seminars to discuss common problems and the techniques and practices of international trade; employment of experts and consultants to advise manufacturers on their production techniques, design or marketing methods; investigation and follow-up of complaints received directly from dissatisfied foreign customers or relayed through commercial attachés; supervision of quality standards established by the Standards Institute or some other authority and the institution of quality control procedures; organization of trade missions and the arbitration of disputes among manufacturers and traders.

B. Marketing policy

120. Marketing policy comprises many elements, being the ingredients of what is called a "marketing-mix". There is no such thing as a single recipe for preparing a mix which will suit all manufacturers, regardless of their products or of the conditions under which they sell. The marketing policy and the export methods of manufacturers are frequently influenced by the volume of their sales or prospective sales in particular markets, by the volume of their export business as a whole, and by their financial position.

121. The elements of any marketing policy or strategy usually fall under the following headings relating to policy:

(a) Product: What product or what line of products does the manufacturer sell?

(b) Pricing: How does the manufacturer establish his prices in order to achieve the desired results?

(c) Promotion: What steps does the manufacturer take to ensure that a given product will be accepted at a given price?

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(d) Channelling: What distributive agents does the manufacturer employ, ensuring that his merchandise flows smoothly to the final customer?47/

(e) Financing: What funds and credits are provided to facilitate the flow of goods and services from producer to consumer or industrial user?

Product policy and the problem of quality

122. Product policy is directed towards the adaptation of products to existing needs and wants, as revealed by research. The question of selecting the range of products to be marketed by an export group or association is of paramount importance. A rational selection greatly influences marketing efficiency and, consequently, export costs. Before establishing the assortment of goods, it is necessary to consider the problem from another basic point of view: the type of goods and their existing and accepted distribution patterns.

123. Products are usually divided into consumer goods (including convenience and shopping goods) and producer goods. Convenience goods are bought on a current and routine basis. Shopping goods are considered and compared. The purchase of producer goods is usually based on more rational considerations.

124. Convenience goods generally lend themselves to mass production by large firms; smaller firms must meet keen competition when marketing such products. In the line of shopping goods, the possibility of developing specialties is generally greater than in the other category. A good example is the ETA Group in Austria, whose large assortment of jewellery offers innumerable possibilities of variation. Furniture is another field which provides excellent opportunities for manufacturing distinctive products (for example, the Danish furniture industry).

125. Potential buyers of producers goods generally have more expert knowledge of technical details than buyers of consumer goods and are therefore in a better position to appraise the products. As a result, substitutes constitute a major element of competition in the producer goods industry, and export groups handling such products are likely to be persistent in refusing to include rival products in their collective range.

47/ Organization for European Economic Co-operation (now OECD), Marketing by Manufacturers, Paris, pp.53-54.

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126. The basis for deciding the right marketable range of products should be the findings of market research studies on sales possibilities abroad. To avoid disappointment and financial losses, it seems appropriate to follow four chronological steps in establishing a successful assortment:

(a) Selection of a test assortment of available products to be sold on test markets;

(b) Analysis of sales achieved and of real conditions found abroad;

(c) Adaptation of products to market requirements (quality, appearance, packaging, consumer appeal, price etc.) where necessary and profitable;

(d) Establishment of the final assortment, containing only products which will be successful in that foreign market.48/

127. The problem of quality of products is of particular importance to promotion of exports of manufactures from developing countries. They are faced with tough competition abroad from manufacturers of developed countries, whose products have reached a very high level of sophistication and consumer appeal. Therefore, export-oriented industries in developing countries should do their best to match competitors not only in price, but in quality. This requires improvements in design, raw materials, standards, equipment, labour skill, production and finishing processes, storage, packing, and other industrial factors and operations.

128. This does not mean that only high-quality goods will have access to foreign markets. "Within certain limits products of relatively low quality may find a market, even in the most advanced countries, provided they are sufficiently uniform and price is competitively adjusted."49/ However, failure to achieve munimum levels of acceptance by consumers regarding the quality of exported goods may be very detrimental to export promotion efforts. It would undermine the reputation of the export industry in a given country for supplying high-quality goods. It should be borne in mind that in developed countries there exists, in many cases, a certain lack of confidence in

48/ Export Marketing Groups for Small and Medium-Sized Firms, pp.28-29.

49/ Proceedings of the United Nations Conference on Trade and Development, Vol.IV, p.91.

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the quality performance of goods produced by developing countries. This relates to the fear, not always warranted, that these countries cannot be relied upon. Even if the prices are acceptable, it is preferred that orders be placed elsewhere. This is one of the serious handicaps to export of new products from the engineering, chemical and pharmaceutical industries in India, for instance.

129. By insisting on high quality standards, an export group would encourage its members to co-operate in adapting their production programmes to the requirements of export markets; this also would have a very positive result on product quality in the home market. A particularly strong incentive to improve quality would be the requirement that new products are only accepted in the collective assortment if they are of higher quality than existing ones. The DELTA Group, an export association in Denmark, has shown that new and improved products add to the value of the assortment offered even if this means keen competition for the other products.

130. The packaging should help to emphasize the quality. It should accentuate the merits and appearance of products. Consequently, no article should be included in a group's range of products unless its packaging fulfills these requirements in a satisfactory manner.[50]

131. Yugoslavia's experience, however, shows that improvement in packaging is a task extending beyond the powers of isolated exporters. It requires much stronger efforts, and has led to the establishment of a special branch of industry. Large export organizations can suggest to producers what kind of packaging they should use for a given merchandise, but they cannot impose their views, particularly if the proposed package requires materials in short supply, such as high-quality tin plate, fine paper, corrugated paper-board etc. Only the most powerful exporters can impose their views directly, and they do so by importing the needed materials and placing them at the disposal of or selling them to their clients, the producers.

132. The cost of setting up and maintaining an effective quality control system would be too heavy for the majority of small-scale enterprises in developing countries. However, much of the expense could be shouldered by the Government by providing technical assistance to approved firms through technological institutes and technological

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50/ Export Marketing Groups for Small and Medium-Sized Firms, p.29.

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departments of universities. This would also further a more rapid diffusion of better working practices from more efficient undertakings to the lagging industrial branches.

Pricing policy:

133. The price at which merchandise is to be offered for sale in foreign markets is one of the real problems of the export trade. The basic elements affecting the delivered price of an export product are: the factory price and extra charges, including transportation, tariffs, taxes, warehousing etc. Three widely used methods for determining product price are: the domestic factory price, marginal-cost pricing and product modification (see below).

134. Domestic price structure: The first method, used most frequently, is simply to use the domestic price structure and add the costs of freight, packing, insurance etc. If the product must compete with less expensive goods of foreign manufacture, however, the domestic price may be too high for the foreign market, especially when shipping, tariff and other special charges have been added. If the product is new, and faces little or no competition, the domestic price may still be too high to achieve the ideal price-volume-profit relationship. In rare cases, it may be lower than necessary allowing too much margin for distribution channels.

135. This faces the export manufacturer (especially in a small-scale industry) with the following dilemma: either the volume of exports will be small if the domestic price is used, or more goods can be sold at a lower price but without any margin of profit or even at loss. "Thus, the seller might - and often does - immediately conclude that it is impossible to do satisfactory business abroad. This is not necessarily true because by using a second method of pricing, based on 'marginal' product costing, he may find he can sell profitably at a lower price." 51/

136. Marginal Cost Pricing: This second method is based on increment costs. It uses the direct out-of-pocket costs of producing and selling products for export as a "floor" beneath which prices cannot be set without incurring a loss. Each dollar

51/ Export Marketing for Smaller Firms, p. 33.

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received for the product above this "floor" provides a dollar of contribution to overhead of profit that would not otherwise be realized. It enables the export manufacturer to take competitive prices into account when setting his own prices, and requires him to analyse the profitability of his export sales separately from his domestic business. In using this method, it is essential that he should know the competing prices and price ranges and their importance in the sale of his product in a foreign country. "The marginal cost approach to pricing is only valid when surplus production capacity exists, and when there are no other alternatives for using it on the basis of full costs. It is not valid in a full production situation, since there is no reason why one should export a product priced on the basis of marginal costs when the same product could be sold in this country at full cost." 52/

137. Product Adjustment: The third method of pricing involves modification of the product so that it can be sold at a competitive price and still yield a suitable profit. Essentially, it involves decreasing the value of the contents of a package or stripping down an elaborate product so that a certain price level can be achieved. For example, a candy manufacturer slightly decreased the weight of each piece of candy, made appropriate changes on the label of the package (weight of contents) and then sold it profitably at a competitive price. 53/

138. As to pricing policies of export groups, the following cases should be considered. If the export group's range is made up of complementary products or specialties that do not compete in price, pricing may be left to the individual firms. To obtain the most rational pricing policy, however, it might be helpful to develop uniform calculation methods for member firms.

139. If the group's range of products comprises articles competing in price, members will often find it advantageous to agree on minimum prices for the various export markets. If individual firms are able to obtain orders at the expense of other members by competing in price, the group will not stand much chance of surviving. To preclude any circumvention of price agreements and to avoid disagreements concerning the interpretation of such agreements, it should be clearly indicated to which groups

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52/ Ibid., p.34.

53/ Ibid.

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of buyers the prices apply. The price agreements should also lay down rules concerning discounts and credit terms and provide for heavy fines for members who break the agreement.

140. Price agreements sometimes fail because members use different channels of distribution. These firms should therefore be selected and considered carefully before any agreements are made, particularly if the agreement is to include future members who have established casual connexions with retail distributors; if the price agreements foresee distribution through importers, such casual contacts may prove detrimental to the group's exports.54/

Sales promotion policy and advertising

141. In a specific sense, sales promotion is understood to mean "those sales activities that supplement both personal selling and advertising and co-ordinate them and help to make them effective, such as displays, shows and expositions, demonstrations, and other non-recurrent selling efforts not in the ordinary routine."55/

142. Sales promotion is closely allied with advertising and aids in maximizing the advertising effort. It covers marketing and merchandising activities completely controlled by the manufacturer and exporter that help in the development of sales. Sales promotion differs from advertising in that regular advertising media are not used. It assists selling rather than participates in it.56/

143. One of the difficulties experienced by nearly all trade enterprises after launching their export drive is the high cost of advertising abroad. A particular difficulty stems from the fact that a large part of these costs has to be paid in foreign currency. For this reason, preference is given to advertising media which can be paid in domestic currency and expended in the country itself. Only enterprises which have considerable resources of foreign currency (and this is rarely the case in developing countries) can influence the demand for their products through advertising

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54/ Export Marketing Groups for Small and Medium-Sized Firms, p.30.

55/ McNair and Hansen, Readings in Marketing, p.73.

56/ Pratt, Modern International Commerce, p.193

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in large importing countries where, for instance, one minute of advertising on television may cost $1,000-$2,000. Small-scale and medium-sized firms are unable and disinclined to budget adequately and specifically for advertising overseas. If such advertising is to be conducted along successful lines, which would bring increased returns, it must be treated as an investment and provision made for this in the price of the product.

144. The reasons why advertising abroad may prove more successful if effected through export organizations, rather than by each enterprise alone, are the following:

(a) The costs of advertising are considerably lower. It is more economical when an export organization advertises, under its own name, several similar or different products of various producers.

(b) The permanent presence of an export organization on the foreign market is a prerequisite to easier advertising. Central trade organizations that have a good knowledge of foreign markets and keep informed of the tastes and purchasing power of consumers, are more competent to select the best advertising media for the purpose than small firms which lack experienced personnel or are located in remote areas.

(c) A single export organization is likely to ensure the reputation of its trade name abroad and the continuity of sales for a larger number of enterprises. For instance, the Yugoslav organization, "Jugoinvest", with its tradition of serious work, can provide good references for firms whose interests it represents. This is also the case with other large Yugoslav enterprises such as Centroprom, Tehnopromet, Centrotekstil, and Jugodrvo, which sell under their names the products of many other enterprises and thus enable these enterprises to acquire a good reputation abroad. Centroprom has developed the practice of reserving one half of the available space on the product package for its own name and giving the rest of the space to the enterprise whose product it sells.

145. The choice of advertising media depends on two factors: the kind of product to be promoted and the amount of available resources at the disposal of the exporter. In Yugoslavia, there is a general tendency among exporters themselves to entrust the foreign partner who is the importer of their goods, or any other enterprise operating on the foreign market, with the task of organising the foreign publicity campaign.57/

57/ Export Marketing Organizations in Yugoslavia, pp.16-18.

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One of the most common forms of collective export advertising comes through participation in exhibitions or fairs. This often consists of renting a large stand where the various firms arrange separate displays of their products. The expenses may be reduced greatly by employing expert assistance, and by collectively using display-stand personnel, transport etc. There may also be an advantage in using other media in collective advertising, such as printed advertisements, commercial radio and television, posters, and show cards.

Channelling policy

146. Today, the physical distribution of goods is considered to be only one aspect of channelling policy; another aspect is promotion.

147. Most export groups of small and medium-sized firms are unable to raise the capital required to finance their own sales organizations on the export market. However, if co-operation is restricted to a single market, a group may find it advantageous to establish its central office in the export market itself, rather than in the domestic market. In any case, a realistic evaluation must be made of the ability of participating firms to build up a volume of exports that will enable the group to maintain its own sales organization in the export market.

148. During the early period of an export group, when exports are limited, it is customary to use existing channels of distribution, such as agents, importers and wholesalers. The cost of distribution, in the form of sales commission, would then vary *pari passu* with the group's export sales. At the same time, the group might allocate a certain percentage of the sales to a fund which could later serve as the initial capital for the group's own sales offices in the market concerned.

149. If an export group has succeeded in building up a rational export range without any rival products, it will probably have a good chance of finding an efficient distribution organization for its products. It might be difficult to centralize distribution on the export market if the range includes rival products. In such cases, it might be advisable for members to select individual distributors. However, this should not prevent them from co-operating in advertising and

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co-ordinating their general marketing policies in the market.

150. It is sometimes difficult for group members to agree on channels of distribution in the various markets. The group management might then request a marketing bureau or trade association to study available distribution channels.58/

Financing for export

151. The capital at the disposal of small firms in developing countries is as small and limited as their volume of business. The relatively long period in which their capital is tied up also adds to their difficulties. More often than not, a merchant has to pay the supplier the full or partial value of a commodity in advance to make certain that the merchandise will be made available to him. There is no assurance, however, that the supplier will abide by his commitment to deliver the merchandise if the price of the commodity should rise as a result of external or internal factors, such as crop failure, increased demand etc.59/ The difficulties of small-scale industries in obtaining financing, whether for investment in plant and equipment or working capital, are well known. The financing difficulties of small industries manufacturing for export appear to be even greater than those confronting producers catering to the domestic market. Export trade involves heavy commercial and promotional expenses, particularly abroad - travel, display and exhibition of lines of goods, advertising and occasionally, establishment of facilities abroad for after-sale servicing etc. All of this contributes to an increase in financial needs and lengthening the rate of turnover of the working capital.60/

152. Therefore, Governments and various public bodies offer financial assistance to exporting firms, especially those of small size. The extent of this financial assistance differs considerably from country to country. It may be provided in the form of a public grant (subsidy) or as a loan on favourable repayment and interest terms.

58/ Export Marketing for Small and Medium-Sized Firms, p.36

59/ Op.Cit., Promotion of Exports through the Establishment of a Central Trading Organisation, p.39.

60/ Proceedings of the United Nations Conference on Trade and Development, vol.IV, p.97.

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153. Public grants are primarily intended to help small and medium-sized firms to initiate export trade. In many countries, such grants are for joint expenses only, but they may be extended to include advertising material, such as brochures, posters etc. Often, the public authorities will also pay for establishment of an information office at exhibitions.

154. A considerable part of public grants is limited to supporting export functions discharged by a number of firms collectively. Such assistance is often an important incentive to more permanent co-operation. In some cases, public authorities have gone so far as to offer financial assistance for the administration of export co-operation itself and the establishment of joint sales offices abroad. As a rule, such aid has been given in the form of loans towards the investment proper, but there have been cases where the State has made direct grants towards the operation of a group in its initial stage.

155. Most of the joint measures mentioned so far presuppose ad hoc co-operation, but they have frequently proved to be the forerunner of permanent export co-operation.[61/]

156. A problem which affects many export traders and industrialists concerns the difference between the domestic and export prices of goods. As a result, export incentive schemes have been devised to cover the losses due to the price gap. However, difficulties arise in export financing because banks provide advances on losses of export prices of the goods concerned. If domestic prices are 20-25 per cent higher on many of the engineering goods (in many cases, the difference is as high as 50-60 per cent), the exporter may be able to obtain credit for about 60-70 per cent of the domestic value. To meet this problem in India, the Matharani Committee has recommended the introduction of a guarantee scheme to be operated by the Export Risks Insurance Corporation. This guarantee would cover 75 per cent of the loss arising from the provision of credit to cover this difference between domestic and export prices. Credit facilities at a lower rate of interest is a normal feature in many countries.[62/]

61/ Export Marketing Groups for Small and Medium-Sized Firms, pp.49-50
62/ Singh, R. K. Prosperity through Export, Calcutta, p.117-118

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157. In Yugoslavia, stimulus for export trade has been provided through the system of export coefficients to neutralize the difference between higher domestic and lower foreign prices. As a rule, the coefficients were fixed at a level to compensate the difference between the domestic price and the most often quoted foreign price obtained for exports of a given article. In multiplying the export coefficient by the realized export price, converted into domestic currency, by using the official settlement rate, it was possible to determine the amount to which the enterprise was entitled.

158. Through subsequent amendments, the former system of export coefficients was abolished and replaced by a new system of export premiums, granted directly to exporters. Depending on the type of exported goods, the exporters receive premiums amounting to 10, 22 or 32 per cent of the value of exported goods, calculated in national currency, by using the settlement rate. Enterprises, in exporting, are freed from the obligation to pay a turnover tax. To promote trade, the exporters, especially those who sell bulky products in which the transport cost is a price factor, are granted rebates on freight charges.[63/]

159. Measures that tend to make exports more profitable than sales on the domestic market may be considered as direct subsidies that create incentives for exporting. Cheap loans to exporters are a convenient form of subsidy. These do not necessarily appear in the government budget; their volume and terms of availability can be adjusted at short notice; and they can be administered by financial institutions in the course of their routine functions. This type of export financing is carried out to enable exporters to compete with foreign industries on an equal footing. Apart from the problem of justifying such subsidies, there is a question about the efficacy of public loans to exporters. "It is, of course, practically impossible to ensure that loans granted to finance a given export order will indeed be used for that purpose. The Government does not even pretend to be able to tie the loans which it approves to specific transactions. Exporters are allocated a credit quota which is established with a

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63/ Export Marketing Organisations in Yugoslavia, p.7.

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commercial bank on the basis of the firm's export performance or undertakings for a whole year. The firm can utilize its quota as it sees fit, with few restrictions. The quota can be enlarged if the firm obtains more export orders than it had anticipated when the quota was established. If exports fall short of expectations, a fine is payable on the excess funds drawn and the quota is reduced."[64]

160. One of the useful functions of a central exporting organization could be to engineer improvements in the size and flow of export credits and, for some lines of manufacture, production credits. Such activities would probably prove crucial to the success of some enterprises in the export field, and it would appear that such an agency could constitute a powerful pressure mechanism for influencing future bank-lending policies.[65]

64/ Central Export Marketing Organizations in Israel.
65/ Centralized Exporting Organizations in Chile, a study commissioned by the Centre for Industrial Development (now UNIDO), p.20.

DOMESTIC AND INTERNATIONAL ASSISTANCE TO EXPORT MARKETING ORGANIZATIONS

161. Financial and technical assistance to export marketing organizations cannot be isolated from assistance to export-oriented industries in developing countries. The latter assistance also cannot be isolated from assistance to industries in general. Aid to export marketing organizations can be considered as direct or indirect assistance to export-oriented industries to the degree that aid to over-all industry of itself has a bearing on the export potentialities of recipient countries.

162. Undoubtedly, the setting up of an appropriate institutional framework and an adequate system of export marketing organizations to promote export-oriented industries depends mainly on the domestic promotion efforts of developing countries.

163. Among the principal functions of export promotion are the provision of information on foreign trade and markets to exporters and manufacturers, in order that they may evaluate the possibilities of placing their products on new markets abroad, and the facilitation of contacts between domestic exporters and foreign importers. Along with quality control and promotion of sales abroad, the functions of increasing knowledge about trade and trade sources constitute the areas of assistance in which Governments can make their most effective contribution towards expansion of the export trade.

164. Technical assistance is another means of promoting exports by providing advice on production and export problems and providing training facilities for personnel. Governments also may assist in the formulation of minimum and uniform standards to be met by manufacturing processes and products.

165. Increasing productivity is one of the fields in which Governments may offer services that are fundamentally important to industrial development. Such assistance may indirectly have a favourable effect on diversification of exports. Technological research, and aid to manufacturers through the use of consultants and the training of personnel at all levels, are the means by which productivity can usually be improved.

166. In developing countries, these measures are all the more important, as the

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stage of development of their industry is lower. Measures tending to increase productivity may then acquire primary importance within the aggregate of measures that tend to diversify industry. This is even more vital when the possibilities of exporting manufactures are being considered. Special attention should therefore be given to the establishment of institutions that would provide services designed to accelerate the training of manpower and to advise industry in all matters relating to increased productivity.

167. The training of specialized personnel is another essential phase of export promotion. This activity generally includes the training of personnel in export enterprises and industries, public and private institutions, and banks and institutions dealing with foreign trade. Technical and financial assistance by foreign Governments and international organizations is needed in the training of national personnel of developing countries if they are to accelerate the rate of their industrialization and economic growth. The Group of Experts on United Nations Technical Assistance relating to Exports of Manufactures and Semi-manufactures stated in October 1966 that the emphasis of United Nations assistance should always be placed on the training of national personnel.[66]

168. The expert group, set up to advise on the areas in which the United Nations should render technical assistance in the field of development and promotion of exports, pointed out in its report:

> "Potential exporters in the developing countries are generally subject to a variety of structural disabilities, which prevent them from entering foreign markets, even where external obstacles to trade are not important. These weaknesses are largely a result of their inexperience, their small operational size, and their predominantly domestic-oriented approach. The United Nations could provide important assistance to overcome many of these difficulties. Among the different areas suggested, mention was made of training domestic personnel in the necessary techniques, provision of experts for the solution of specific problems, help in the establishment of export companies specialising

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[66] The Group of Experts met in Geneva, 24-28 October 1966, under the joint auspices of the United Nations Conference on Trade and Development and the Centre for Industrial Development (now UNIDO). The report on the meeting is contained in document ID/B/11 (see paragraph 9).

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in particular areas and products. Discussion centred on the advantages of producers organizing themselves together for export through such institutions and arrangements as exporters' associations, chambers of commerce, producers' agreements for pooling production facilities to accommodate large export orders, co-ordination of marketing efforts, the umpiring of quality control, etc., and in so doing to achieve collectively what is not possible individually. Technical assistance to form such institutions or arrangements on a national or regional basis should be provided upon request."67/

169. Similar ideas were developed in 1964 at the first session of the United Nations Conference on Trade and Development (UNCTAD), held in Geneva. As stressed in the report of its Second Committee (Trade in Manufactures and Semi-manufactures): "An effective dissemination of relevant information and the organization of appropriate promotion services, both on a national and international scale, call for wide experience and substantial resources which are, at present, beyond the means of most developing countries."68/

170. In view of the importance of basic information to the export effort, one of the most useful areas of United Nations technical assistance could be the establishment by UNCTAD and UNIDO of a central training, consultancy and information service for exports, which could be supplemented by the setting up of regional and sub-regional centres where necessary. The report on the meeting of experts in Geneva, mentioned above, points out that such a service is a major need and that a proposal to this effect should be worked out as a matter of urgency. A start could be made by setting up a consultancy and training service to develop personnel and to help businessmen in developing countries build up their export marketing organizations, as well as to assist Governments and trade associations in their export promotion activities.69/

171. There is no doubt that export marketing organizations have a high potential as an instrument for expansion and diversification of exports and for promotion of export-oriented industries in developing countries.

67/ Ibid; paragraph 19.

68/ Proceedings of the United Nations Conference on Trade and Development, vol. I, Final Act and Report, p. 150.

69/ Document ID/B/11, paragraph 31.

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