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INVESTING FOR EXPORT

Issues related to the
development and promotion
of export-oriented industries
in developing countries

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F O R E W O R D

For a number of years already, developing countries have become more and more aware of the value of export-oriented industries as a means to increase their exports, generate foreign exchange and create employment. However, in many cases the results have come short of expectations. It seems that the discrepancy is mainly to be ascribed to a lack of understanding of the special characteristics of export-oriented industries and the corresponding requirements for their successful development and its relationship with investment activities.

The purpose of this paper, therefore, is to outline:

- The conditions and pre-requisites of export-oriented industries;
- The development of industrial exports through investment in new industries or (re)habilitation of existing capacities;
- The means of financing export-oriented industries;
- The ways of promoting such industries in developing countries in the context of an investment programme.

This paper draws on the experience of:

- UNIDO concerning industrial development, the identification and formulation of industrial projects, and the promotion of industrial investment;
- ITC concerning the development and promotion of exports from developing countries.

ABBREVIATIONS

C.I.F.	Cost, insurance and freight
DFC	Development finance corporation
DFI	Development finance institution
EPO	Export promotion organization
F.O.B.	Free on board
IPA	Investment promotion agency
ITC	International Trade Centre, Geneva.
SMI	Small and/or medium-sized industry
UNIDO	United Nations Industrial Development Organization, Vienna.

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1. INTRODUCTION

The need for export-oriented industries

The need for exports is obvious, only exports can provide fresh foreign exchange which is necessary for buying equipment, spare parts, intermediate products, and consumer products not available locally, and for servicing and repaying foreign debts.

The development of export-oriented industries will also bring some more benefits besides fresh foreign exchange. By nature, such industries will be competitive which means two things: First the national consumers will benefit for the part of their output which will be sold inland, and secondly it means that advanced technology and management will be introduced into the country. These industries, therefore, are conducive to sustained and self-perpetuating industrial development.

For industrial producers, exports may be needed if they want to expand their business. This is especially true of producers in small countries or countries which are small markets for the products contemplated. Exporting may also be a means of getting foreign exchange for expansion or operation whenever such foreign exchange is not obtainable otherwise, as is the case in countries suffering from a foreign-exchange shortage.

Characteristics and requirements of export-oriented industries

Export-oriented industries have the following characteristics:

- For entrepreneurs, exports are more risky and may be less profitable than home oriented production. More risky because foreign markets are less well known, open to wide competition, the buyers are far away and out of the jurisdiction of the exporter (problem of confidence). Less profitable in many cases because of additional costs due to quality standards, foreign regulations, market prospecting, and price competition.

- To become and stay competitive may be very difficult in a protected high cost environment because (i) inputs are relatively expensive, (ii) manpower is relatively unproductive, (iii) industrial management and discipline are lax .

- The preparation of export-oriented projects and the management of export-oriented industries require skills which are not always available.
- Because of the costs of transportation and marketing involved in international trade, export-oriented industries have to produce higher grade, higher quality and higher priced products,usually requiring more advanced technology, management and skills. Let us note incidentally that exporting higher priced products does not necessarily mean larger profits than selling lower priced products on the home market.

In order to develop and prosper, export-oriented industries require:

- An appropriate economic environment:
- Incentives to increase the profitability of export operations for the entrepreneurs;
- Assistance, especially to SMIs, to facilitate export operations;
- Insurance facilities to reduce risk;
- Access to appropriate technology and management, and,since this often requires foreign involvement, suitable conditions for foreign capital and participation.

In what follows, the issues related to the successful development of export-oriented industries will be grouped under two main headings, viz. (i) Methodological aspects: the development of export-oriented investment projects, viz. how to identify export opportunities,formulate, prepare and evaluate export-oriented projects, habilitate existing industries to export, establish joint ventures for export, and finally manage the export operations in the post-investment phase;
(ii) Policy implications: the promotion of export-oriented industries, in their inception (promotion of investment) and in their operation(facilitation of export operations and training in the required techniques); two typical examples of export policies will be used as illustrative cases,namely that of Mauritius which was largely based on foreign investment in new industries, and that of Korea which was essentially a comprehensive export drive mostly domestic.

II. METHODOLOGICAL ASPECTS
DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES

1. Identification of export opportunities

Export-oriented investment projects can be formulated only if export opportunities have been identified in the first place. The identification of export opportunities proceeds from the simultaneous consideration of the supply and market (or demand) sides.

The supply side indicates what the country does produce currently and what it could produce. An industrial survey can list the existing industries, with their current output and the description of their equipment and products. An extension of the survey, carried out at the plant and company level, can indicate what the industries could produce with no or little investment, either by increasing output to capacity, adapting the products, or adapting the capacities to new products.

The survey could be further extended at the national level and look at the factor endowment of the country as a whole and by areas. Such survey would cover:

- materials of mineral origin - current output, potential availability, location, and cost.
- produce from agriculture - current and potential
- natural conditions (geographical, climatic,...)
- existing infrastructure (roads, harbours, etc.)
- availability of skilled and unskilled labour
- availability of entrepreneurial and management skills,
- availability of finance, including conditions and cost, institutions involved.

The market side indicates what products are in demand and where, what are the technical specifications for each product or type of products, what is the accessibility of the markets in the physical, economic, commercial and political senses. The market side enquiries would cover:

- Import statistics and the import trends

- Consumption of the products and its trend, world-wide and by countries.
- Production of the products (competitors) and trend
- Development plans and economic outlooks
- Existing and foreseeable regulations affecting imports and consumption, etc.

While on the supply side all existing products and a significant range of potential products can be contemplated, one must be elective on the market side. In practice an empirical approach is used, by which a few products or a range of related products are considered on one side and related to the situation on the other side. There is a natural tendency at the national and company levels to start from the supply side and try to locate markets for products either already manufactured or of the same type. This approach may be useful but does not lead to diversification into new, more promising productions. The latter is better achieved by starting from the market side, looking at products which are in the expansion phase of their cycle (refer to product cycles), and finding out whether and how they could be manufactured at home and exported.

It is by considering alternatively one and the other side that exportable products can be ultimately identified. The identification of exportable products will lead ipso facto to project ideas, i.e. projects designed to produce and export the products identified as exportable. These export-oriented projects will have to be formulated into valid project concepts, and then studied in more detail and finally implemented into export-oriented industries.

Export-oriented projects may be defined as those projects which are mostly if not entirely, geared to the export markets. Akin to them are projects in which the export component, though less than 50%, is of crucial importance meaning that the entire project would collapse or be seriously affected, if the export component would not materialize satisfactorily. Finally there are other projects in which export components are minor but are contributive elements to the whole projects. These export components will have to be formulated and studied with the same care as export-oriented projects if they are to bring their expected contributions.

In many cases, export components, upto 50% of expected outputs, have been added to projects to make them acceptable because without the export components they would not have reached the so-called minimum economic sizes. Such projects have failed because exports have not materialized.A typical example is provided by several cement projects in the Western part of the Indian Ocean which were supposed to sell a part of their production on the international cement market at the prevailing price. Those export sales did not occur because of the general overcapacity in cement at the time (about 10 years ago) and the near impossibility for a newcomer to enter the market in such conditions. Obviously, the export opportunity never existed or had not been properly identified (price discounts, selected channels of trade,countertrade possibilities, etc.)

It has been said that one of the major constraints to industrial development is the shortage of well-studied industrial projects. In the same way it can be said that one of the major constraints to the development of industrial exports is the shortage of well-conceived export-oriented industrial projects. In order to obtain well conceived projects,export opportunities (i.e. exportable products) should be properly identified in the first place. Then, and this is the subject of the next section, a workable project concept should be formulated, followed by the elaboration of a full-fledged flexibility study and ultimately a final report containing a financing plan and an implementation programme.

2. Preparation of export-oriented projects

The development of export-oriented projects follows the pattern established for any investment project (but the contents will be somewhat different). Generally the life of an investment project can be perceived as a cycle of three main phases which are labelled: pre-investment implementation (investment) and operation. The pre-investment phase is itself broken down into several stages which are named differently according to various sources though they are essentially the same. An appropriate equivalence is shown below between the terms used in UNIDO (IPIFB AND FSB) and ITC.

IPIFB	FSB	ITC
Identification	Identification (opportunity study)	Generation andscreening of project idea (project, idea profile)
Formulation	Preliminary analysis (pre-feasibility study)	Project concept(Opportunity or pre-feasibility study)
Promotion (specific to IPIFB)	(Promotional activities may occur at any stage but preferably here)	
Preparation	Final analysis (feasibility study)	Feasibility study
Appraisal	Project evaluation (evaluation study)	Final report

Sources: IPIFB "Industrial Investment Division", Internal report of September 1988

FSB " Manual for the Preparation of Industrial Feasibility Studies" Annex VI

ITC " Identification and Assessment of Export Projects"

a. Marketing aspects (Export)

Marketing aspects are of prime importance in all industrial projects, but they are more complex in export-oriented projects and therefore deserve even more attention. The marketing aspects cover the identification of exportable products already dealt within the preceding section, and then the selection of target markets, market studies, the marketing approach and the determination of the selling price.

The market/marketing part of an export-oriented project will thus contain sections on:

- the selection of target markets, how it was arrived at, and with a justification of the choice;
- studies of the target markets thus identified as being the more promising;
- marketing approaches to those markets;
- Sales estimates established on the predicated quantities and the estimated selling prices.

The first section will be completed in the opportunity or pre-feasibility study, the other sections will carry more and more detail as the project matures. The process may be visualized as follows:

Stages of project preparation	Market/marketing part
Project Idea	Exportable products identified
Opportunity or pre-feasibility study	Market selection: completed Market studies: Mainly desk studies Marketing approach: sketched Sales estimates: rough
Feasibility study	Market studies: field research completes desk studies Marketing approach: elaborated Sales estimates: more precise
Final report	Market studies; possible additions like market testing Marketing approach: completed Sales estimates: up-dated
Implementation	Preparation for (export)marketing (in particular: training of the sales force)
Operation	Export marketing function fully operational

i. Market selection

It would be unadvisable, especially for SMIs to try selling to the whole world. Market studies and marketing cost money, they should be concentrated on a few selected markets. The identification of export opportunities already pointed to some preferred directions. The markets must now be selected by:

- eliminating those which cannot be entered because of political reasons economic conditions, or trade regulations,
- Ranking the remaining ones on the basis of import statistics, market indicators, and the particular factors to consider in each case.

In the export trade, markets are most often countries because most trade statistics and indicators are given on a country basis. The Swedish Trade Council devised a form of tabulation for using the various indicators and obtain a short list and some ranking of the more promising markets. The table can be filled out with yes or no, plus or minus or unknown, or with figures indicating the degree of intensity. For instance "obstacles to trade" may be filled out as follows:

	Country A	Country B	Country C
Obstacles to trade (+=more obstacles, - =less obstacles)	+	++	-
Or scale of 0 to 5 (5 = many obstacles, 0= no obstacle)	2	4	0

TABLE FOR THE SELECTION OF EXPORT MARKETS

Indicators and factors to consider	Country A	Country B	Country C
A. Country indicators			
1. General indicators			
Political stability			
Economic stability			
Obstacles to trade			
Growth rate of GNP			
Geographical distance, etc.			
2. Sectoral Indicators			
Number of cars, telephones, T.V. sets, etc.(according to product considered for export)			
Imports of (specify)			
Growth of such imports			
B. Special factors for consideration			
1. Technical			
Standards required			
Product adaptation, etc.			
2. Marketing			
Degree of competition (in the branch)			
Distribution facilities, etc.			
3. Financial			
Payment facilities, etc.			
C. Factors internal to the enterprise			
Experience of the country			
Business contacts, etc.			

ii. Market studies

This section in the market/marketing part of a project study deals with the description of the selected target markets and the corresponding market forecasts. Normally the description of a market would include sub-sections on: demand, competition, marketing practices, prices and regulations affecting the product(s) considered. In the study of export markets, a sub-section is added on market access which specifies the situation concerning:

quotas and tariffs
internal taxes
currency restrictions
health and safety regulations
any other factor affecting entry
transport costs to the point of entry

The product requirements are not only determined by health and safety regulations, there are also packaging requirements, various legal requirements, and technical specifications proper to the target market considered.

The research techniques have to be adapted to the export context. Desk research will turn to sources not used for domestic market, like the export promotion organization of the exporting country, and the foreign missions of the target countries, and will look for information specific to export operations like currency restrictions. On the other hand field research is much more costly when investigating export markets than it would be at home, and sometimes there is a language problem. To minimize these difficulties, some research will be carried out by correspondance and the use of intermediaries such as the trade representatives abroad.

Finally, something should be said about the product cycles. Products usually pass through five stages which are: introduction, growth, maturity,stagnation, and decline. When studying export market,enquiries should be made about the stage of the cycle which the product has reached in the target markets. For instance a manufacturer of TV sets in a developing country with a limited domestic market could easily double his output with little new investment, but he may find out that this type of TV sets is already in the stagnation stage of the product cycle in the markets considered.

Forecasting demand and competition in foreign markets is even more difficult than forecasting future developments in the domestic market. The promotion of an export-oriented project must therefore proceed cautiously, and should try to obtain assistance in assessing the possibilities of exporting to foreign markets. To surmount these obstacles, the would-be exporters and investors in export-oriented industries in developing countries must receive assistance in preparing export projects and planning for exports. Such assistance is normally channelled through export promotion organizations and exporters associations at home and the national trade representations abroad. In several industrialized countries, exporters from developing countries may also receive valuable assistance from import promotion organizations.

iii. Marketing approach

In this sub-section, marketing is taken in its narrow acception as the term used to describe the activities required to move the goods from the sellers to the buyers. The target markets having been identified and studied, it is now necessary to devise a workable marketing approach to penetrate the markets. This marketing approach should be spelled out in the project because:

- it is an essential part of the project study, a necessary link between the intention to sell and the future reality (success or disaster);
- it permits the realistic estimation of marketing expenses in the operation phase;
- it permits the realistic estimation of expenses for training the workforce who must be ready to operate as soon as the production comes out of the plant;
- it permits the realistic estimation of investment costs in marketing.

The marketing approach delineated in the project study should present a realistic scenario of what is going to happen so that adequate preparation and costing can be made. The positioning of the product, the adaptations necessary, the packaging required, the market segmentation, the distribution channels, and the modes of transportation should be anticipated. All these elements which may be intuitively perceived when aiming at the domestic market, are not so obvious when dealing with foreign markets, sometimes far away and all different. For example, the choice of distribution channels will have an impact on the mix of investment costs and marketing expenses. Usually, the shorter the distribution channel, the larger the investment in marketing and the lower the current marketing expenses (less margins are left to intermediaries), and vice versa.

To take another example, decisions on transportation are interrelated with the rest of the project. The choice of transportation (sea, air, rail, road) may be influenced by the type of product, the location of customers, the local availability of means of transportation, but in turn the choice of transportation will influence packaging, the mode of dispatching, the investment in vehicles (for instance smaller vehicles for shorter distances to reach the airport rather than the harbour).

Finally there are still some other expenses related to marketing, such as promotion expenses which are distributed between advertising, public relations, store promotions and exhibitions. They have to be anticipated and estimated.

iv. Pricing for export

As a rule the selling price is determined by what the market will bear. The marketing approach can try to maximize this price by market segmentation, product adaptation and product positioning. This is not always possible, especially for SMIs which often have no other choice than accepting or rejecting the prices dictated by large foreign importers. However, national institutions such exporters associations or export promotion organizations can be of help by providing price information and assisting in price negotiations.

Export sales are usually carried out on the basis of f.o.b. or c.i.f. prices. In order to estimate the effective receipts of the project, the project formulator may deduct all expenses external to the project by using retrograde pricing. In the example below, in which the project is assumed to coincide with the plant, retrograde pricing starts with the price to the customer (importer) and ends up with the price ex-factory gate (also called net-back at factory gate).

Typical Retrograde pricing

c.i.f. price
minus handling charges on arrival
minus sea or air freight
minus insurance cost
equals f.o.b. price
minus export duty if any
minus cost of documentation (bill of lading, etc.)
minus handling charges on departure
minus transport to harbour or airport
minus loading at plant
minus export packing and marking
equals price ex factory gate

This price ex factory gate is the maximum (or ceiling) unit price that can be charged in order to be able to sell. It can then be compared with the unit cost which represents the minimum (or floor) that is normally acceptable. The unit cost considered may be either the full unit cost made of variable expenses plus a share of fixed expenses and depreciation, or the marginal cost only made of additional variable expenses. The difference between the floor determined by cost and the ceiling dictated by the market represents the exporter's margins within which he can manoeuver to maximize profit over time.

When preparing a project, the formulator may start by considering the operating expense (cash flow) line as a base. He will also calculate the ex-factory gate price from a realistic c.i.f. or f.o.b. price and thus determine the(maximum) sales receipts (cash flow) line. According to the marketing scenario anticipated he can then modulate the sales receipts over time either

- by lowering the sales price whenever this seems necessary to secure market penetration and a continuous or growing sales volume, or
- by considering the price rebates as marketing expenses, and reflecting this increase in the operating expense line.

In this cash-flow approach, the margin of maneuver will come out as the difference between the calculated rate of return on investment and the minimum acceptable rate.

b. Technical aspects

In a project study, the technical aspects are closely related to the marketing aspects. This interrelationship is most evident in product specifications and the provisions which should be made for quality control and packaging.

i. Product specifications

In an export-oriented project, the production will have to be geared to one or several export markets. Each export market may have its own specifications for the product contemplated. Actually within one importing country, there may be various specifications to meet, be it between various importers or distributors or according to the segmentation of the markets. Moreover,export markets are usually very competitive, so that the exporter must be ready to shift his export thrust from one country to another, from one importer to another, from one niche to another. In designing an export-oriented project, therefore, it is advisable to foresee as much as possible this need for versatility and product adaptation, and thus facilitate the work of the future managers and ensure a sufficient economic life for the project.

In many cases, product specifications are supplied by the importers themselves, otherwise they have to be found and incorporated into the market studies. The choice of technology will be exercised within the limits imposed by the product specifications thus determined. This may involve some additional investment and operating costs as compared with similar production for the domestic market. These costs should be taken into account when the financial analysis and economic evaluation of the project is carried out.

ii. Quality control for export

The project promoter or the project formulator will have to design the project so as to ensure competitive quality. They will have to make provisions for quality control at all stages of the production process starting with the raw materials, through the processing equipment to the finished products. The quality dimension of the product will be reflected mainly in some corresponding investment and production costs at the opportunity or pre-feasibility study stage (cost of establishing and operating control laboratories, personnel in charge of inspection, etc.) Later on, at the feasibility study stage the quality dimension will be reflected in the organizational set-up of the plant and the description of the production process. The establishment of a system of so called total control, by which control is built in the production process, is advisable for export-oriented industries. Only the quality conscious enterprise has a future in export trade.

iii. Packaging for export

The project formulator will also make due provisions for packaging for export. For some products such as fresh fruit and vegetables, the cost of packaging may be larger than the cost of the agricultural produce. The packaging costs should be therefore estimated as carefully as possible according to the modes of transportation and distribution contemplated.

Packaging has several functions which may be grouped under three main headings:

- Protection - The need for protection is larger and more complex for export products than for those destined to the national market, either because of the sea or air transportation or because of changes in climatic conditions duting transportation and upon arrival to destination.

- Promotion - The promotional function of packaging will make it necessary to adapt to the languages and local conditions in the export markets (e.g. colours, coding, etc.)

- Conformity to regulations. - Some countries may forbid the use of wood and straw because of pest control, while others may forbid some plastic materials because of environmental considerations.

Packaging costs will cover the purchase and procurement of packaging materials, or eventually their production at the plant, the act of packing (machinery, supplies and personnel), and also design and research.

C. Financial aspects

The export orientation of a project will be reflected in the financial aspects. It was already mentioned that the product specifications required by the prospective export markets would have repercussions on the cost of investment, including possibly the purchase of technology and know-how, and some operating costs, including quality control and packaging for export. Transportation costs which are usually external to the project or the enterprise, come into the picture when figuring out the net sales proceeds at the factory gate. Here the focus will be put on working capital and marketing expenses.

i. Working capital

When estimating the working capital requirements of an export-oriented projects, the project formulator should make provisions for the following:

- Imported materials: Because of the specifications required for export products, some materials may have to be imported which would not be so when producing for the domestic market. A typical case would be a shirt manufacture which would use domestic cloth for the domestic market but would have to use high quality, expensive cloth from say Hong-Kong to produce luxury shirts for say Germany. If the cloth comes by air, transportation will be more expensive but stocks can be limited to perhaps one month. If it should come by boat say every two months, transportation would be cheaper but stocks would have to be carried for two months or more, depending on the possibility of using air transport in case a boat would be late or would miss one voyage.

- Finished products: Cost and availability of transportation for export may also increase the inventory requirements of finished products. Even assuming the same kind of transport (air or sea), it may be cheaper to send the production of two months in one container than to send the output of each month separately. The saving in transportation cost will entail an increase in the inventory requirements for finished products.

- Accounts receivable: There are two reasons why the credit to customers overseas would be for a longer duration than at home. Firstly, the export market is more competitive and if the importers are asking for 60 days instead of the normal 30 days of the domestic market, the would-be exporter (and therefore the project formulator) will have to make allowance for the corresponding working capital requirements. Secondly, the credit term will usually be computed from the time the merchandize reaches the buyer so that the time taken by transportation will have to be added to whatever duration is demanded by the buyer.

- Finally, one should take account of the large series or batches required by international trade; in order to be able to fulfil export contracts, SMIs may have to shut off the plant for other productions when fulfilling an order, with a corresponding increase in inventory requirements in material inputs and finished products.

ii. Marketing expenses

In many industrial projects marketing expenses are underestimated, usually because marketing activities are not well understood. It is therefore in order to have a brief review of the main elements of such expenses:

- Training of the marketing people: The training would be carried out during the investment phase of the project so that the marketing people are ready to operate even before the product comes out of the plant. The main effort of training will have to be expended as part of the implementation of the project, but training will have to remain a permanent activity with the breaking in of new recruits and the freshening up of the seasoned ones.

- Prospection of markets: These are expenses also incurred during the implementation of the project and during start-up, which may have to be periodically renewed. They involve personnel costs, travel and communication expenses, sending of samples, participations in fairs, etc.

- Market studies: Mainly during the preparation of the project, the expenses in market studies have to be renewed periodically, and at least in the form of monitoring are also permanent marketing expenses akin to prospection.

- Marketing proper: Besides training mentioned above, these expenses are linked to the normal marketing activities of the enterprise issued from the project, and are of a continuous nature. Payments made for penetration of markets, in the form of refunds, fees, margins or discounts, may either be considered as expenses or deducted from the net sales proceeds (retro grade pricing).

- The costs of pre and post-shipment finance (short-term financing of production for export) and of credit insurance may be listed under financial expenses or under marketing expenses.

iii. Financial Appraisal

When due account has been taken of all expenses related to the export orientation (investment expenses in equipment and technology, operating expenses in production and marketing) and the requirements in working capital, and after estimating the net sales proceeds, one has also to estimate and make allowance for possible changes in exchange rates. Within certain limits it is possible to insure against exchange fluctuations, but this will be an additional financial cost.

Once all these expenses have been carefully identified and accounted for, financial appraisal of an export-oriented project can proceed on the same lines as for any other investment project. The element of risk, however, will remain somewhat higher.

Due to risk, one criterion will become more important, viz. the pay-back period i.e. the delay necessary to recover all expenses put into the project since its inception. The criterion is especially important for foreign capital because of the special risk involved in investing in a foreign country, but it is also significant for national capital because as just mentioned the project cannot be made immune against sudden fluctuations in foreign markets and exchange.

iv. National Economic Evaluation

Since export oriented projects are designed to generate fresh foreign exchange, the governments should be particularly interested in an evaluation of the national economic benefits of such projects. The evaluation can use one of the recognized methods of cost benefit analysis, notably those outlined in the UNIDO Guidelines for Project Evaluation and the World Bank Guideline to DFCs.

The normal procedure consists in (first) identifying the resource flows related to the project, and (second) estimating the true value to the economy of the identified resource flows. In doing so it is of course especially important to attribute to foreign exchange flows their true value in terms of national currency units, in order to fully reflect the real contribution of export-oriented projects to the national economy.

For export-oriented projects it is therefore interesting to calculate the rate at which such projects will be converting domestic resources into foreign exchange. This rate can be also calculated for projects which are partly export-oriented and partly import substituting. In the latter case, earnings in fresh foreign exchange are supplemented by savings of foreign exchange.

The calculation is carried out on the following pattern:

Receipts (and savings) in foreign exchange
minus expenses in foreign exchange
minus import content of expenses in domestic resources
equal net receipts (and savings) in foreign exchange

These are then compared to domestic resources used, net of import content, and expressed in domestic currency.

The ratio of the two values supplies the rate at which the project will convert domestic resources into foreign exchange. The ratio should then be compared to the true value of foreign exchange to the economy in order to figure out whether the project will be very beneficial, moderately beneficial, or not beneficial enough for the economy.

For projects which are not mostly export-oriented and /or import substituting, a full national economic evaluation should be undertaken to take into account all the benefits fo these projects and not only the ratio of domestic resources used to foreign exchange generated (and/or saved).

3. Management of export-oriented enterprises

a. Export-Oriented Enterprises

When projects move to the implementation and operation phases, they have to be managed by an enterprise. However well conceived and studied the projects may be, their outcome will depend on the way they will be implemented and managed.

The export-orientation may be total, dominant, partial, or minor. Whatever the case, the export element can materialize and lead to profit only if the managing enterprise considers export as a legitimate and continuous activity.

In this respect it was recognized that there are two main attitudes to export:

- One is passive. Export orders are met whenever they come but there is no effort to look for new export business or even to do much adaptation for export.

- The other attitude is positive, export is seen as an important activity deserving full attention, the enterprise is striving to continue and develop its export business.

Promoters of export-oriented projects must have this positive attitude toward export. Before committing to an export-oriented project and especially before tackling its implementation and operation, the managing enterprise will have to make sure that it can adequately take care of the project.

The ability of an enterprise to export will depend on:

- the national environment,

- the competitive position of the industry,
- the resources and management of the enterprise.

The national environment covers the advantages and drawbacks presented by the economic and political climate of the country, and the general competitive strengths and weaknesses of the country. The position of the industry to which belongs the enterprise, within the country and abroad, will indicate what basic strategy can be contemplated for the product or product group which it is manufacturing. But ultimately it is at the enterprise level hat the ability to export will have to be examined and whenever possible strengthened.

At the enterprise level, the analysis will bear on the resources and constraints peculiar to each enterprise in the various aspects of its activities:

- personnel: skills, experience
- technology: products, processes,
- equipment: age, versatility, obsolescence
- marketing: experience, contacts
- and especially management: dynamism, experience, etc.

In many cases, the search for enterprises that can export will precede the identification of export-oriented projects for the twin reason that such enterprises will (i) originate export possibilities (on the supply side) and (ii) will be able to implement and operate the corresponding export-oriented projects. The search for those enterprises has been undertaken in several places with variable results.

When Sweden launched an export drive in 1979, the Swedish National Industrial Board attempted to identify SMIs with unexploited industrial potential. The Board made a first selection of enterprises according to criteria basic for success in export, viz. the motivation of management and staff, the financial capability to meet the commitments of international trade and the risks involved, the possibility of training the personnel in the skill and techniques necessary for successful exporting. The enterprises thus selected were submitted to a second screening on the basis of a detailed questionnaire bearing on: the strength of the marketing function in the enterprises, the quality of the installed equipment and its rate of capacity utilization, the type and amount of assistance needed. The enterprises retained after the second screening received assistance in identifying exportable products, working out the necessary adjustments (technical and managerial) and elaborating suitable marketing plans.

In Ireland a programme was launched in 1980 by the Irish Export Board to identify SMIs that could manufacture for export. From the census of SMIs, a first selection was made by using a brief questionnaire which provided company profiles and eliminated those which were not interested in export trade. A second selection was then made through interviews and the analysis of the current performance in the home market, production capacity, exportability of the product (as such,or more often with a few changes), and management adaptability. The selected enterprises then received appropriate advice to prepare them for actual exporting. As a consequence of this programme, valuable experience was gained at the company level and by the Board about the essential factors making for success: commitment and capability of management,competitivity of products, successful marketing performance, and availability of financial resources.

The International Trade Center (ITC) who is providing assistance to developing countries to increase their export rade, has had several programmes aiming at the identification of enterprises with export potential. These programmes involved the following sequence:

- A census of SMIs: names, locations products;
- A short questionnaire to obtain company profiles and check interest in eventual export;
- Interviews to obtain a more comprehensive picture of the strengths and weaknesses of the enterprises, in particular about the constraints and obstacles preventing export;
- Technical assistance programmes to selected companies in order to overcome the identified constraints and obstacles;
- And eventually the formulation of export-oriented investment projects at the company level.

The interviews which form the basis for diagnosis, technical assistance and export-oriented investment, are designed to establish company profiles, product profiles, and to look into the export constraints. The latter are divided into: internal ones proper to the company, national ones proper to the country, and external ones relating to international transport and the conditions proper to the target markets.

b. The export marketing function

Export-oriented enterprises should recognize the special nature of exporting and have an export (marketing) department. In SMIs the export department may consist only of an export manager, a sales clerk, and a secretary. In larger companies, the export department, like any marketing department, may be organized either by functions (distribution, sales, advertising, etc.), by geographical areas, or by products.

The export marketing function should be fully operational even before the plant comes on stream, because several marketing activities should be undertaken as soon as the project implementation starts.

The export marketing function will have the following tasks:

- Information - Obtain trade information, statistics and other types. Maintain contacts with export promotion agencies, exporters associations, etc.
- Studies - Conduct, sub-contract, or obtain market studies on foreign markets and on the products exported.
- Planning - Select target markets, elaborate marketing plans, evaluate export performance.
- Sales - Contact clients, take and fulfil orders, receive payments,etc.

The export marketing function is interrelated with other functions in the enterprise, such as finance, production, and packing/despatching. Three important subjects are worth mentioning at this juncture, viz. costing/pricing,quality control, and packaging for export.

Export pricing is the responsibility of the export manager since the selling price is determined by the market, or more precisely the ceiling of the selling price. The floor of the selling price will be determined by cost, either the full cost or the marginal cost depending on the circumstances surrounding the export decision. The difference between the ceiling and floor of the selling price will delineate the margin of maneuvre and/

or profit margin of the exporting enterprise. It is therefore of great importance for the export manager to know the floor based on cost and to relate to the general management of the enterprise in its efforts to reduce costs throughout. An export-oriented enterprise which has to face stiff competition in foreign markets is bound to operate an efficient cost control system which will keep tract of all costs and see to it that they are reduced to the minimum compatible with the required product specifications.

Quality, together with price and delivery, is one of the key factors which ensure the competitiveness of an export product. Quality being an essential requirement for successful exporting, export-oriented industries must have a comprehensive system for quality control as part of the manufacturing process.

Finally, the packaging function is related primarily to marketing, but also to production (protection requirements of the product).

C. Rehabilitation of export-oriented enterprises

A large number of export-oriented enterprises are in distress in many of the developing countries. There are many reasons why these enterprises are experiencing difficulties. It may be that:

(i) The project concept is wrong. Either there was no export opportunity in the first place, or the project was totally inadapted from the outset to take advantage of the identified opportunities.

(ii) The feasibility study was not properly carried out. In many cases the analysis of export markets is insufficient or faulty concerning product specifications, conditions of access or entry, quantities to be sold, and selling prices. Also, expenses for investment or operation were forgotten or under-estimated, especially marketing expenses. Sometimes, the technology chosen was not the right choice.

(iii) The implementation of the project, especially the construction of the plant, may have run into delays and cost overruns due to various causes.

(iv) The operation of the plant may have run into problems because of a variety of circumstances either internal or external to the enterprises, such as

- equipment difficult to operate or repair,
- impossibility of entering some export markets,
- economic fluctuations in export markets,
- impossibility of obtaining local inputs in the quantity and quality expected,
- defective quality control,
- low labour productivity,etc.
- delays in obtaining clearance of imported materials,hence stoppages in production and/or increases in material inventories,
- delays in obtaining reimbursement of import duties on imported materials etc.

In most cases of distress or sickness, re-habilitation is desirable. Here are assets which were created with scarce resources with the objective of earning foreign exchange. If these assets can be re-activated, even with some additional investment, in order to fulfil their original purpose then the enterprise will be saved and employment preserved, the lending institutions will be in better position to recover their original loan and receive regular interest payments, the country will ultimately gain the foreign exchange it needs.

In order to devise a rehabilitation programme, a diagnosis must be made of the causes of sickness. These can be found by an evaluation of the enterprise, which will bear on the national environment, the management of the enterprise, the marketing approach,and the export record. Once the problems have been pinpointed, a more detailed enquiry will look in more detail at the elements at fault. Then a re-appraisal of the enterprise's position and future will be performed, taking into account the existing equipment and personnel, and a rehabilitation programme formulated. The programme is destined not only to correct the identified failures but also to prepare the enterprise for a successful future performance.

For the lending institutions, the rehabilitation programme is often viewed as a financial rescue package, but, from an economic standpoint, the rehabilitation programme is to be seen as a new export-oriented project.

4. EXPORT-ORIENTED JOINT VENTURES

a. Forms and advantages

The ITC Thesaurus of International Trade Terms defines a joint venture as "the joining of forces between two or more enterprises, of the same or different countries, for the purpose of carrying out a specific operation (industrial or commercial, investment, production or trade)".

This definition covers a wide range of contractual arrangements. In usual parlance the term "Joint Venture" is used when the contractual arrangements involve commitments of a certain duration. The most typical case is when there is participation by the partners in the equity of a common company.

The Investment Promotion Section of UNIDO has been promoting joint ventures in which the partners are of different nationalities and the common company is located in a developing country. In many cases these joint ventures were established mainly to cater to the domestic market, with a relatively small export component(secured by buy-back arrangements or countertrade) to provide the foreign exchange needed for repaying and servicing a foreign loan, or paying dividends and royalties to the foreign partner. Other joint ventures have had a larger export component or have been export oriented. Actually international joint ventures are a good vehicle for developing export-oriented industriess.

This is so because the partners by bringing complementary resources or skills or by adding together similar resources or skills, may attain the economic size and capability necessary to compete successfully on the international markets.

For the host country, the advantages of export oriented joint ventures are mainly in the foreign exchange thus generated but also in the effects on employment, income, the development of skills and the transfers of technologies. For the partner in the host country, the advantages relate to technology, management, market, or finance, or a combination of these. On the other hand, the foreign partner, who may be from an industrialized country or a developing country, is usually interested in selling technology, entering new markets or securing continuous supplies. A developing country who wants to become a host to export-oriented joint ventures and benefit from the corresponding advantages, will have to create a favourable political, economic and financial climate for foreign investment, and see to it that exports are facilitated.

b. Establishment and operation

The establishment of joint ventures normally go through four stages which are:

- Identification of needs (i.e. a project idea)
- Identification of a suitable partner
- Structuring the joint venture (negotiations)
- Formal establishment procedure

The structuring of the joint ventures is based on what the partners can or are willing to offer and what they want. Such structuring will be an adaptation to each particular case of the standard diagram which is the following:

The foreign partner can/will bring to the common company, either or a combination of,

- Equipment
- Technology or know-how
- Foreign markets (access to)
- Management
- Training

The national partner can/will bring to the common company a combination of,

- Local personnel
- Local Materials
- Land and buildings
- Local services

The common company will generate:

- Export sales
- Local sales

and will pay royalties to the foreign partner and dividends to both partners according to the memorandum of association.

The memorandum of association usually will contain provisions which can be grouped under two headings:

- Company clauses relating to the formation of the common company, distribution of ownership and capital structure, financial policy, organisation of direction and management.

- Partnership clauses relating to the contractual arrangements, the valuation of inputs and assets, the eventual settlement of disputes, and the eventual dissolution of the joint venture.

The memorandum of association is a very important document not only because it establishes the joint venture but also because its clauses must ensure the smooth operation and success of the joint venture, which is in the interest of both partners and also of the host country.

III. POLICY IMPLICATIONS PROMOTION OF EX?ORT-ORIENTED INDUSTRIES

The promotion of export-oriented industries can be carried out at two levels: investment and operation. The promotion at the level of investment is essential for the creation and development of new industries designed for export and the "habilitation" or rehabilitation of existing industries in order to make them fit to export. The promotion of export operations is no less important because export-oriented investment and/or rehabilitation can come to fruition only if actual exports take place. The two aspects of promotion of investment and export operations are therefore interrelated with the consequence that any export policy must consider both if it is be efficient and successful.

Promotion activities will be especially useful to SMIs and should be mainly (through not exclusively) directed to them. This is so because SMIs, on account of their small size and limited resources in finance, skills and personnel, need support in order to develop their export ability, and also because it has been recognized that an export drive cannot rely only on a few large firms but should involve a large number of smaller enterprises. Moreover, in small developing countries there are usually only SMIs;the large companies, foreign or multinational, can be represented occasionally by national subsidiaries.

In what follows the promotional aspects will be examined under four headings: investment climate, financial support (both for investment and operation), export operation facilitation and training for export-oriented enterprises. A last section will recall two success stories in export, that of Mauritius and that of Korea.

1. Investment promotion

a. Investment climate

The investment climate is determined by the political and economic environment, financial incentives, and the laying of a welcome mat for foreign investors. The investment climate is a fundamental consideration for foreign investors but it is also important to the national investor.

If the national climate is not generally conducive to investment, national investment funds will tend to emigrate to more favourable locations though they eventually return with the new label of foreign capital. It is advisable to establish a overall climate favourable to investment in general and in addition provide some special incentives to attract foreign capital.

i. Political and economic environment

The investor will look at the political stability of the country in which the investment will be made, and the security from nationalization or other forms of dispossession. The investor will also look at the economic situation and prospects of the country (exchange control, availability of foreign exchange, development of the economy, health of the industrial sector) since these may have beneficial or harmful effects on the contemplated project. The local market may become an important consideration if the project is not entirely export oriented and needs a solid domestic base to limit the risks,ensure a minimum return, and eventually permit export sales on the basis of managerial cost.

One essential element of the political and economic environment will be the government commitment to a clearly formulated export policy. Such commitment will indicate to the prospective investors (especially the foreign ones) that whatever happens in the economy or the political setup, the government will see to it that the export-oriented industries in the country can remain internationally competitive and will receive all facilities to continue with, and even develop, their export activities.

The existence of a sizeable domestic market is an attractive feature for would-be investors. Locations which allow them to serve export markets while, at the same time, tapping a substantial domestic market in the host country, will be preferred. In this regard large potential markets such as China, Brazil or Mexico are favoured. By contrast, small countries who cannot offer any domestic market and must develop industries totally or almost totally export-oriented in order to industrialize at all, suffer from a serious handicap which they will have to counter by a series of appropriate measures. The SMIs in small developing countries should be the typical recipients of international technical assistance. The constraints of a small or non-existent domestic market are particularly pronounced and best illustrated by the smaller island states of the Caribbean area, as well as other islands such as the Maldives, Cape Verde, Seychelles, and others in the Pacific area.

ii. Industrial infrastructure

The investor is interested in the existing network of industrial products and related services. This concerns areas such as the supply of essential utilities, inputs and spares, the possibilities of sub-contracting for parts or components, maintenance services, and the eventual assistance of specialists to adjust complex machinery so as to accommodate new buyers' requirements. All these industries have been loosely named "Support" industries.

The investor will also consider the availability of skilled labour. Originally, many industrial activities were relocated to, or developed in, places where unskilled labour was abundant and cheap. More recently, a trend has been noticed by which unskilled labour is being replaced by highly sophisticated robots. These robots demand a substantial initial investment, but then they can produce day and night, at operating costs fully competitive with the cheapest labour. For servicing and repair, however, such robots are better located in industrialized countries where specialized engineers are available. Meanwhile, some semi-sophisticated production lines can be profitably established and developed in developing countries provided skilled labour is already available or is made available through adequate training programmes. The availability of such skills was an essential feature of export development in e.g. Mauritius and Korea.

Export Processing Zones (EPZs) are devices designed to attract foreign investment in export-oriented activities in spite of the insufficiencies and constraints of the economic and industrial environment of the host countries. The establishment of EPZs has become a widely applied approach in a number of developing countries. It has been estimated that in 1985 at least 35 countries hosted about 80 EPZs strictly defined plus a hundred industrial estates and free ports enjoying near-EPZ conditions (such as in Hong Kong and Singapore for instance).

Originally EPZs were established to utilize cheap low-skilled labour in simple production processes with output exclusively intended for export markets. Since then, EPZ characteristics have changed to cater for more technologically advanced industries and services and allow more integration of these with the domestic markets of the host countries. In general, however, EPZs should be considered as useful palliatives to poor industrial infrastructures, import-substitution oriented policies, and inward-oriented economic systems (e.g. China). They can generate additional investment into export-oriented industries, but may remain marginal as to their effects on industrialization and employment unless they are made an integrated component of a more comprehensive policy of export orientation and development.

b. Investment incentives

i. Incentive packages

If investment in export-oriented industries is to be stinulated, these industries must be listed among those that will be granted preferential treatment with a corresponding set of incentives. These incentives may be:guaranteed availablity of foreign exchange for imported equipment, spares, technology, and inputs necessary to operation; exemption of custom duties on such purchases provided the equipment is mostly used for the production of exports and the operating inputs are incorporated in one way or another in the exported products; tax holidays or tax rebates on corporate taxable income; reduced interest rates on loans for equipment and working capital, etc.

Foreign capital is a privileged source of finance for export-oriented industries because foreign participation can also supply technology, know-how and foreign market opportunities. The incentives usually offered to foreign investment include: repatriation of principal, payment of dividends, guarantee of exchange rate, guarantee against nationalization. These incentives are modulated according to the industries contemplated. When foreign capital is applied to export-oriented industries the two sets of incentives will combine.

In practice individual incentive packages are derived from standard incentives with the possibility of negotiated amendments which may add or substract from the standard package. When applying standard incentives related to export-oriented industries or negotiating some amendments, the question will arise concerning the definition of export-oriented industries.

The basic rule is that the special incentives for export-oriented industries should apply to the part c /estment and inputs which actually generate exports.

	Any investment	Export-oriented investment
National origin	General investment incentives	Special incentives for export-oriented industries
Foreign origin	Special incentives for foreign capital	Combined incentives for foreign capital applied to export-oriented industries

ii. Investor's Guides

Most countries have produced investor's guides of various formats and coverages. Some of them were produced with the assistance of UNIDO and may serve as standards regarding the typical contents of such guides.

They are mainly issued for the benefit of foreign investors who are presumed to know little about the host country, but they can also be of use to national investors.

A typical list of contents would be as follows:

i. Description of the country

History
System of government
Geography and population
Administrative divisions

ii. Description of the economy

Structure and basic data
Production and consumption
Export-import trade
Budget, finance, balance of payments
Achievements so far, and development prospects

iii. Economic sectors

Agriculture
Mining
Manufacturing(detailed)
Trade
Transportation
Tourism
Telecommunications, etc.

iv. Cost of production factors

Wages and salaries
Electric power and fuels
Transport costs

Building costs and rentals

Custom duties, etc.

v. Operating environment

Formation and registration of business enterprises

Money and banking

Accounting standards

Employment regulations

Industrial sites, estates, EPZs, etc.

vi. Foreign investment

Policy and legal framework

Rules concerning foreign ownership

Areas of investment opportunities

Incentives and guarantees

Administrative formalities

Institution/s dealing with foreign investment

vii. Living conditions

Entry and exit formalities

Climate and dress

Medical care

Educational facilities

Shopping

Driving licences and vehicle registration, Business hours and public holidays, leisure activities, etc.

Annexes

a. Useful addresses

b. Statistical information

c. Excerpts from legal texts

Investor's Guides are usually printed on glossy paper in order to attract the attention of potential investors and provide a good image of the host country. Two kinds of presentations are possible: a booklet easy to read and carry in a brief case, and a loose-leaf working documents in which sections can be easily up-dated (especially statistics and costs of factors). Both presentations can be used for the same guide.

the booklet being designed to "sell" the country, the working document being then distributed to the interested parties that are seriously investigating the possibilities of investing.

The guides should be able to answer most of the questions which potential investors would normally ask. If they are really interested and want more detailed information, they should then be able to direct their queries to an institution which can be called by the generic name of (national) Investment Promotion Agency.

iii. Investment promotion agency

The investment promotion agency (IPA) may be a separate entity or a section within a ministry depending on its size and the organizational set-up. Normally its tasks should be to:

- Issue and update the Investor's guide;
- Issue and update a list of investment opportunities;
- Receive potential investors and answer their queries;
- Assist investors in formalities linked to contemplated investment;
- Assist in establishing contacts and facilitating negotiations leading to joint ventures;
- Prospect for suitable investors abroad.

Even small IPAs can undertake the first 4 tasks. The last two may require additional specialized staff, but the IPAs can be helped by international agencies (Such as UNIDO, ITC, CDI) and eventually some national agencies corresponding to the nationality of the potential investors.

Assisting in formalities is an important function which may do much in bridging the gap between potential interest and actual investment. Some IPAs may give detailed and precise information about the steps to take and their sequence, some others may actually arrange the necessary appointments and assist in filling out forms, finally some others still may accomplish the formalities on behalf of the investors who would deal only with the IPA. This is the so called one-stop shop (guichet unique, taquilla única).

2. Financial Support

a. Role of the banking system

In the highly competitive international market situation prevailing today, exporters must receive adequate support from the financial institutions if they are to perform successfully. Export finance services are among the key elements in effective national trade promotion frameworks in developing countries. It is thus imperative that their banks, if they have not yet done so, study the services needed by the export community and see how they can provide and improve them.

The three types of financial institutions that generally exist in the banking systems of developing countries and are concerned with trade and production,are central banks, development banks and/or development finance corporations, and commercial banks.

Traditionally their functions are considered to be the following:

- Central Banks manage the currency, the public debt and the foreign exchange reserves;
- Development banks and /or DFCs make medium and long-term loans to the industrial sector from funds received primarily through governmental budgetary allocations and international financial institutions;
- Commercial banks collect deposits and make short term loans to individuals and enterprises.

Within these traditional responsibilities, or sometimes in addition to these, the financial institutions have a role to play in the promotion and development of exports.

The central banks should normally:

- co-ordinate and supervise the export credit policy of development banks and commercial banks;
- establish and supervise export credit guarantee and insurance schemes;
- co-ordinate the interest rate policy so as to ensure that the rates charges to exporters do not reduce their competitiveness in exports;

- assist the government in formulating and implementing an exchange rate policy in line with the trade promotion efforts of the country;
- adapt exchange control regulations to the needs of the export sector;
- establish and supervise a foreign exchange revolving fund.

The development banks and/or DFCs should normally:

- devote a larger share of disposable investment funds to export-oriented industries even though these are more risky and may be less profitable from a financial standpoint than import substituting industries;
- carry out national economic evaluation of export-oriented projects in order to show their real contribution to the national economy and thus establish a basis for custom-tailored incentives to individual projects;
- assist the promoters in the study of export-oriented projects especially concerning the selection of target markets and the penetration strategy, using their connections in the said markets;
- assistand finance the re-orientation of existing industries, either from the domestic market to export, or from one export market to another;
- define and provide financing packages and supporting measures for the rehabilitation of export-oriented industries in distress.

The Commercial Banks should normally:

- make the necessary changes in their operational policies and procedural formalities to help their clients attract export business and make their products available at competitive prices abroad;
- adapt the terms and conditions of credit so that financial assistance be provided to exporters in the amount needed,within the necessary time period and on the terms required;
- more specifically, introduce and operate a simple and flexible scheme of pre-shipment (i.e. production) financing for export orders even without letters of credit.

Some countries have thought proper to create export banks (or export - import banks) to cater to the special needs of the export trade. The advantage is to have a specialized staff concentrated in a central location and thus avoid its dispersion among too many commercial banks. The same services could be made available through specialized export departments in a few commercial banks.

b. Export Financing

There are three main types of export financing, which are:

- Long-term financing of export production facilities, i.e. investment in export-oriented projects. This may involve the creation of new export-oriented industries,the establishment of a new production line in an existing plant, the purchase of machinery to adapt existing production lines to new products or imported products, expansion of capacities, modernization and rehabilitation of existing facilities. This is typically the domain of development banks and DFCs, though commercial banks are also dealing with such investments when they are not heavy (e.g. new machinery for a current client) or more medium than long term.
- Medium or Short-term financing of production for export, involving no investment in new facilities but only in working capital. This type of financing,also called pre-shipment financing, can be extended either by commercial banks or DFCs or export banks.
- Export credits proper, usually short-term but sometimes medium term depending on the type of products exported. These credits are typically provided by the commercial banks and/or export banks to finance the export shipments from the time of sale until payment is received, a period that may range from a few weeks to one year or more depending on the nature of the products and the terms offered by competitors on the international market.

c. Guarantees

Guarantees may be required at various stages of export financing. They are issued by commercial banks, export banks, and sometimes by investment banks. They may be needed by:

- contractors when they are submitting quotations for tenders in foreign countries;
- foreign contractors when contracts have been awarded for covering the due performance of contracts by exporters;

- importers abroad as coverage for advance payments they made to exporters;
- customs and tax authorities for clearance of raw materials from bonded warehouses, or payment of various taxes;

Such guarantee facilities should be made easily available to exporters as an element of the overall export promotion efforts of developing countries.

d. Export credit insurance

Export credit insurance schemes are designed to minimize the risk for the national exporters of not being paid for their export shipments. These schemes, therefore, can play a significant role in export promotion, by overcoming the hesitations which would-be exporters experience when contemplating business with unknown or distant buyers in foreign markets.

The risk of non-payment may arise either:

- from a buyer in the importing country, if he is not able to make the required payment in the local currency in his central bank (this is a commercial risk), or
- from the importing country, when the buyer has duly deposited the payment in local currency but the central bank is not able or allowed to convert that amount into convertible currency or the currency of the exporter (this is a country risk)

When an exporter (or his bank) makes an application for export risk coverage, the insurer has to evaluate the risk and make his assessment before underwriting the policy. Because of the country risk involved, it is difficult or expensive to have such risk covered by private insurers. Governments pursuing a policy of export promotion have therefore set up publicly backed schemes operated either by a specialized department of the central bank, the development bank or the export bank or by a specialized agency of its own.

An export credit insurance scheme operated by the public sector has the following advantages:

- country risks can be covered which private insurance firms could not underwrite except with the unlimited support of the government;

- credit research in overseas markets is costly and requires a large research staff, which only a centralized system can afford;
- premiums can be kept low in order to enourage exports which is the principal aim of the exercise,superseding the attempt at recouping costs or making profits even though a self-supporting accounting system should be adopted to try to cover expenses from the premiums.

3. Export Operation facilitation

a. Exporter's needs

Exporters need information and assistance, they even need assistance in getting the information. Besides trade statistics, exporters require information on foreign markets and such information is difficult to locate and retrieve.

Trade statistics provide information on the quantities and values of products which have been exchanged internationally. They are computed by the OECD, the ITC and the United Nations Statistical Office and are easily available. They may be used for making a first selection of target markets. A second selection,to come to a shorter list, can be made on the basis of market indicators and some other summary data which can be found by documentary research.

The problem becomes more serious when detailed and in-depth information is needed. Desk research has to be supplemented by field research which involves organization (visas, hotels, reservations, etc.), expenses, (foreign exchange), language barriers, and difficulties in finding the proper contacts. The exporters would like to have a list of importers for each product contemplated, they also need information on distribution channels, prices and margins. Finally exporters need information, not only on general export procedures, but also on the special import procedures and requirements in the target markets: conditions of access, foreign exchange control, health regulations, etc.

The requirements of exporters have to be met one way or another if exports, and especially profitable exports, are to materialize. In most cases the answer has been found in creating export promotion organizations and trading companies, and in issuing exporter's handbooks.

b. Export Promotion organizations

Various organizations may provide some information and assistance to exporters such as marketing boards, sections in a ministry, export promotion councils, etc., but the best formula seems to be in autonomous export promotion organizations (EPOs) connected with the public sector. Some EPOs started in the form of export promotion units within the ministry of trade but there are some disadvantages in maintaining the unit in this position because:

- it will usually lack the operational autonomy required to carry out its promotional activities; in particular it must follow the traditional bureaucratic procedures with respect to operations and staffing;
- it may prove difficult for the staff of the unit to differentiate the promotional activities from the traditional controlling functions that are common to ministries, and both types of actions may eventually be mixed,often with negative results;
- it may tend to be swallowed by the daily routine of the ministry and lacks the dynamic approach necessary to develop export trade.

By contrast succcessful EPOs can be autonomous with a well defined legal status and even though they remain linked to the public sector they are able to operate almost like business enterprises. The governing body of an autonomous EPO, equivalent to the board of directors of a company, has an important role to play in serving as a close link between the organization and the export community and in guiding the activities of the organization toward the achievement of the common aim of the exporters and the government which is to improve the export performance of the country.

Basically such EPOs have five main functions or departments:

- Trade and market information, starting with trade and other statistics, and ending with almost any kind of information for which the EPOs may act as information brokers. Depending on their staffing, the EPOs may only indicate the sources of information or retrieve it themselves to pass it on to the requesting parties. For this they would develop a network of working relationships with other organizations (national and international), government agencies, data banks, and the like.

- Product and market development, which is a research function, beginning with the search for specialized information, processing of the information, and ending with market studies by products or countries. Some fee would normally be charged for such work.
- Introductions and contacts, on an individual basis, or by organizing trade missions of national exporters going abroad to visit foreign markets or foreign importers visiting the inviting country.
- Organization of fairs and exhibitions within the country or participating in fairs and exhibitions abroad.
- Training activities for the benefit of the export community especially the SMIs and also the staff of the EPOs.

The fact that an EPO has been established and is functioning satisfactorily does not mean that other organizations should have no place. In successful exporting countries, besides EPOs, there exist trading companies and exporters associations and may-be marketing boards for some products, etc. However the EPOs remain the local points for information and assistance in export matters. In particular they use, and re-distribute to the interested exporters, the information received from the country's trade representatives abroad. Though exporters can have direct access to trade representatives,the EPOs usually act as intermediaries since they are in daily contact.

EPOs should, as much as possible, not remain passive, only answering questions submitted by exporters. They should, depending again on their financial and staffing possibilities, take a dynamic role, develop annual or medium-term action programmes in consultation with exporters and the governments and generally act as technical advisers to their governments in shaping export policies.

c. Trading companies

Trading companies are useful instruments for promoting exports from SMIs. There are general trading companies covering many products, and specialized trading companies covering only one line of products. The advantage of the specialized ones is that they are particularly knowledgeable in their field, the drawback is that their clients are direct competitors.

The services rendered by trading companies may range from simple assistance in specific matters to comprehensive support programmes. For the sake of clarification four levels can be distinguished:

- Assistance in international trade procedures and import formalities in the target markets. This assistance is different from that of EPOs because the trading companies would actually do the exporting; as if the goods were their own, on behalf of their clients.
- Assistance in choosing distribution channels, marketing in foreign markets, prospecting, and in price negotiations.
- Taking the lead as exporter, so that their clients become subcontractors. In that case the clients do only indirect exporting since they sell to a domestic exporter, as opposed to direct exporting which is selling to a foreign importer.
- Finally, comprehensive assistance in technical, managerial and financial matters in addition to marketing. In this case the trading companies take care of all the problems of their clients in order to enable them to export.

Trading companies are also active on the import side. They may give assistance in import procurement, price negotiations, prospection for new suppliers, etc. They are usually in a position to group orders and have more weight vis-a-vis foreign suppliers than SMIs acting individually.

In developing countries that control imports and foreign exchange, there are export-import companies belonging to the public sector. In most cases these companies have only been active on the import side, doing import procurement for the government and government-owned companies, and importing also for the private sector which has no other direct access to imports. These export-import companies can be "activated" on the export side to become instrumental within the framework of an overall export promotion policy. This activation would involve developing the export side but also re-orienting the import side (types of products, quality, etc.) in accordance with the needs of the national export-oriented industries.

d. Exporter's handbooks

Exporter's handbooks are usually produced by EPOs. They are intended for the national exporters or would-be exporters and are designed to answer many of their queries concerning export techniques and procedures. However, useful such handbooks may be, they cannot provide specific information by products or foreign markets. Typically the contents of an exporter's handbook would cover the following subjects:

- <u>National export policy</u>

  Background and history
  Export performance
  Export incentives
  Financial support for export
  - types of credits
  - credit guarantees and insurance
  - foreign exchange revolving fund

- <u>Export procedures</u>

  Export regulations in the home country
  (including foreign exchange regulations)
  International trade procedures
  - transportation
  - shipments (incoterms)
  - payments

  International trade documentation
  - types of documents
  - formats and clauses

  Import regulations
  - types of import regulations to be aware of
  - import regulations by monetary zones, common markets, etc.

- <u>Export techniques</u>

  Export market research
  - Trade statistics
  - Contents of typical market study
  - Desk research: sources of information
  - Field research: how to organize it

- Export marketing
  - Product design, quality, packaging for export
  - Access to markets, distribution channels, etc.

- Pricing for export

- Institutional support

  Export promotion organization
  (mandate, internal structure, services offered)

  Exporters' association
  (statutes, services available)

  Export bank
  (financial schemes available)

  Trade representation abroad
  (list of trade representatives)

  International organizations (ITC, UNCTAD, UNIDO, data banks...)

- Annexes

  Formats for trade documents
  Excerpts from legal texts

4. Training for export

a. Scope and forms

Training is a necessary component of any comprehensive export promotion drive. It lays the foundations for the continuous success of the exporting efforts by developing the awareness and skills of

- exporters and their staff
- the staff of the institutions providing assistance,
- about the procedures and techniques of international trade
- and the way to initiate and implement export-oriented projects.

Training in export-oriented projects would cover the establishment of new capacities for export production as well as the restauration of the ability to export. Training in the procedures and techniques of international trade would cover export procedures, marketing, market research, product development, costing and pricing, quality control and packaging. To these, should be added some subject as export promotion, trade information services and trade representation abroad.

Individual or (preferably) group training can be conducted:

- In-plant, i.e. on the spot, within investment promotion agencies, export promotion organizations, import promotion institutions (in the countries which operate such institutions), export banks, etc. either at home or abroad;

- International courses, seminars or workshops, usually organized and/or sponsored by international organizations;

- National courses, seminars or workshops, organized in the home country with possible inputs from foreign agencies and international organizations.

The International Trade Centre in Geneva, which is the focal point within the United Nations System for international trade questions, has been carrying out training activities (especially in the form of seminars) in all the fields mentioned above, and has been also contributing to seminars of other national and international organizations (such as the World Bank) regarding the practical aspects of export development and promotion. In particular ITC has been dealing with the main themes which are indicated in the next section.

b. Typical training themes

Title: Export-oriented investment projects

Main topics covered: Formulation, preparation and evaluation of export-oriented investment projects, with case studies

Target audiences: Staff of investment promotion agencies, planning and industrial development ministries, development banks, export banks, and export promotion organizations.

Title: Rehabilitation of export-oriented industries

Main topics covered: Causes of industrial sickness;financial, marketing and technical aspects;rehabilitation programmes

Target audiences: Staff of development, export and commercial banks, investment promotion agencies and export promotion organizations

Title: Export Financing

Main topics covered: Production finance, shipment finance, guarantees, credit insurance, foreign exchange revolving fund.

Target audiences: Staff of commercial, development, export and central banks and export promotion organizations.

Title: Improving enterprises' ability to export

Main topics covered: Assessing ability to export, strengths and weaknesses, how to use external consultants.

Target audiences: Staff of export promotion organizations, export banks, development banks and investment promotion agencies.

Title: Export promotion

Main topics covered: Exporters' needs, methods of export promotion, organizing for export promotion

Target audiences: Trade promotion officials, staff of export promotion organizations, trade ministries, chambers of commerce and exporters' association.

Title: Trade information services

Main topics covered: Collection, processing and dissemination of trade information, organizing trade information services.

Target audiences: Officials involved in establishing such service, staff operating such service, and more generally staff of export promotion organizations.

Title: Trade representation abroad

Main topics covered: Functions of trade representatives posted abroad, reporting, answering inquiries, assiting visitors and trade missions.

Target audiences: Commercial attaches, trade commissioners, staff of export promotion organizations

Title: Export procedures

Main topics covered: Documentation, transport, price quotations, incoterms payments

Target audiences: Exporters, staff of export promotion organizations and export banks.

Title: Export marketing

Main topics covered: Market selection, field research, product design, pricing policy, distribution channels, communications (advertising, etc.)

Target audiences: Exporters, staff of export promotion organizations.

Title: Export market research

Main topics covered: Desk and field research, market information, market studies.

Target audiences: Exporters, staff of export promotion organizations.

Title: Export product development

Main topics covered: Product idea, designing, testing, licensing; product adaptation and differentiation

Target audiences: Exporters.

Title: Trade fairs and exhibitions

Main topics covered: Selection, preparation, implementation, follow-up, publicity

Target audiences: Staff of export promotion organizations, chambers of commerce and exporters' association

Title: Costing and pricing for export

Main topic: Cost accounting, marginal costing, market pricing, price quotation

Target audiences: Exporters, staff of export promotion organizations and exporters' association.

Title: Quality control for export

Main topics covered: International standards, regulations of importing countries, total quality control.

Target audiences: Exporters, and officials of quality control agencies

Title: Packaging for export

Main topics covered: Standards and regulations, packaging functions, technical and promotional aspects

Target audiences: Exporters, and officials of packaging centres.

Title: Import procurement

Main topics covered: Import procedures, shopping for imports, payments and foreign exchange, draw-backs.

Target audiences: Exporters using imported inputs, importers, staff of chambers of commerce, export promotion organizations, and trade ministries.

5. Examples of export promotion programmes

a. Mauritius

Mauritius is a small country (1,865 sq.km.) with a population of about one million people. It is an island in the Indian Ocean, which previously was entirely dependent on sugar export. Since then the economy has widely diversified, especially over the last ten years, and primarily through the development of export-oriented industries.

i. Industrial exports

Industrial exports have increased tremendously, while sugar exports remained about stationary in volume with variations in value due to fluctuations in the international price of sugar. The bulk of industrial exports originate in the Export Processing Zone, with about two thirds in value going to the European Common Market countries, one fourth to the United States, and the rest to a variety of destinations. Industrial exports have been mainly in textile goods (garments and knitted wear) but others are developing such as optical goods, gems, jewellery, leather goods, sport articles and toys.

Industrialization is also progressing in import substituting industries. Though these are much less important than export-oriented industries, they contribute to develop the industrial network of support industries and services and thus they enhance the attractiveness of Mauritius as a host country for prospective new industries.

A free trade zone for service industries has also been established to favour the creation in Mauritius of enterprises supplying export services, transhipments, management, information processing, engineering and building designs.

ii. Export Processing Zone

It was established in 1970 in recognition of the fact that, because of its small size, the industrialization of the country was bound to be achieved by the development of export-oriented industries. Any export-oriented project is welcome especially if it brings about some benefits in terms of either employment, technology or the use of local materials, besides net foreign exchange receipts.

In the export processing zone, the welcome mat is ready for:

- Labour intensive industries that can use the abundant work force and which were the first to be developed, such as: jewelry, musical instruments, eye-glass frames. artificial flowers, toys, travel goods in leather, sport articles, embroidery and electronic components.

- High technology industries, using the highly skilled manpower available in the island, such as: assembly of electronic components, optical instruments, medical and dental instruments, laboratory equipment, office equipment, telephones, air conditioners, bicycles, automobile parts, household electric appliances, and solar energy equipment.

- Enterprises using local material, such as: pharmaceutical products, perfumes, sugar derivates, coffein extracts, canned fish.

- Enterprises permitting the up-stream integration of industry from garments, such as: textile fibers, and accessories (ribbons, zippers, buttons).

The export-oriented industries are entitled to the following incentives:

- No duty on imported equipment and materials,
- Corporate income tax reduced to 15% for life,
- No tax during 10 years on distributed dividends
- Free repatriation of foreign capital,
- Electric power at preferential rates,
- Bank loans at preferential interest rates,
- Speeded-up depreciation,
- Guarantee against nationalization.,
- Availability of industrial buildings (purchase or rental).

iii. Export Service Zone

The success of the export processing zone prompted the establishment in 1981 of an export service zone, designed to accommodate export-oriented service industries. They will receive about the same incentives as in the EPZ. The contemplated activities are: accounting, international marketing, translations, information processing, management, engineering, architect plans, transhipments, packaging and labelling.

iv. Investor's Guide

Presented as a series of loose leaves, the investor's guide contains a wealth of information about the country, business conditions, the procedure and formalities for establishing an enterprise with foreign capital participation, and financial and economic aspects.

The costs of the production factors are clearly indicated: conditions of employment, wages and salaries, costs of electric power, fuel and water; costs of sea and air freights, and harbour charges, costs of telex, telephone, telefax; and costs related to the incorporation of a new firm.

There is information about the local sources of finance. The Development Bank of Mauritius (founded in 1964) can give long and medium term credits, and grant guarantees. It can lend upto 60% of project costs. The State Investment Corporation can take equity participation in new industrial enterprises. Commercial banks grant pre-shipment (production) and post-shipment (sales) credits which are then guaranteed by the Development Bank. An export credit insurance system, established in 1982, can ensure exporters against risks after shipment, either commercial (unsolvability of buyers or non acceptance of goods by buyers) or political, and that upto 90% of the value of shipments.

The investor's guide, which is edited by the Mauritius Export Development and Investment Authority, mentions twelve good reasons to invest in Mauritius. They are reproduced hereafter because they are a good summary of what a host country should offer to attract investment:

1. A stable political environment: a parliamentary democracy in which all the political parties are in favour of foreign investment and aware of its benefits for the country.

2. As an associate member of the European Common Market under the Lomé Convention, Mauritius can export freely (no quota, no duty) to the other ECM members.

3. Excellent transportation and communication facilities with the whole world.

4. Modern infrastructure in electric power, water supply, harbours, transportation and communications.

5. A highly qualified and adaptable manpower with bilingual ability (English/French).

6. Very competitive manpower costs.

7. A developed and diversified industrial network.

8. A reservoir of dynamic private enterprises ready to go into joint ventures with foreign partners.

9. A guarantee of quality, most industrial products being exported under recognized quality labels.

10. Availability of industrial sites and buildings at moderate cost.

11. Facilities given to foreign technicians for quickly obtaining the desired residence and work permits.

12. A comprehensive package of financial incentives.

b. Korea

i. The growth of industrial exports

The successful export drive of Korea has been fully documented in a book by ITC entitled "The export performance of the Republic of Korea 1961-1982 "(Geneva, 1984). In the 20 years covered by the book the country's gross domestic product increased 27 times and the per capita GNP in 1982 was already higher than that of Turkey and not far from that of Brazil. Since then, Korea largely overtook Brazil and several other industrializing countries in per capita GNP. The industrial sector has been the driving force behind this remarkable growth, with industrialization based on the processing of imported raw materials and semi-finished products into finished goods with a high labour content and more recently with a high technology content.

The basic reason of this success was the creation of an export-oriented industry, which started with the first 5-year economic development plan introduced in 1962 and culminated with the latest plan which terminated in 1987. Exports grew at an astonishing rate and a large number of industrial firms become exporters. The export thrust was supported by political stability, low cost of labour, and the relatively high level of literacy.

In 1962, the country's exports were mainly primary products. Twenty years later, they are mainly manufactured products. Within that group, the shift has been from clothing and fabrics with a large labour content, to heavy industrial products (steel sheets, metal structures, etc.), engineering goods, (ships, automobiles), and more recently electronic equipment of increasing sophistication.

At the same time, the number of trading partners increased from 33 in the early 1960s to practically all the countries of the world in the 1980s. The policy of promoting diversification of the export markets was an important element of the export drive,but it involved an intensive search of new markets and the readiness (and expense) to serve even small-size markets.

The engine of growth was the government. At the early stage of industrialization, just after the 1950-1953 conflict, the control of imports for balance-of-payment purposes favoured the development of import substitution industries. In the first 5-year plan (1962-1967), the government started to promote the exports of labour-intensive manufactures produced for export and, in its industrial strategy, placed emphasis on the development of internationally competitive production units. The strategy took full advantage of a large, low cost labour force which was applied first to traditional products such as taxtiles and then to new export products based on new or more advanced technology. The outward-looking industrialization benefited the domestic market which became larger, more competitive and dynamic, and thus created the appropriate background for the development of other export industries in a kind of snow-ball effect.

The government strategy also involved the development of a pool of highly trained and capable managers,the encouragement of entrepreneurship, the establishment of general trading companies, and the education of manpower.

ii. Export promotion measures

The promotion measures covered financial incentives and various forms of assistance to export-oriented industries. All incentives were provided in the form of indirect subsidies. Direct subsidies were not utilized because it was recognized that they tend to create and perpetuate inefficient industries and are difficult to remove later on. Moreover, incentive benefits were limited to new exports because their purpose was to expand exports and not to be simply an extra bonus for existing exports.

Assistance in the financial field was mainly provided by the Exim bank under the form of export finance and export credit insurance. The export credit insurance system developed the confidence of exporters against any apprehension they may have regarding sudden closing of barriers or possible non-payment by the overseas buyers. Insurance could be used as a security for obtaining bank loans.

Productivity was a key factor in the success of the export drive. Korean exports are competitive on international markets because of their good quality/price ratio. They are produced by skilled and educated workers who are highly productive. Productivity in the industrial sector was promoted by the Korean Productivity Centre established in the late 1950s , which received financial support from the government and technical assistance from ILO and USAID, and is now charging fees for its services.

Quality control was tackled at two levels: i) export inspection which is carried out by several agencies authorized by the Ministry of Commerce and Industry, and(ii) the introduction of comprehensive quality control as part of the production process. SMIs received assistance to set up quality control systems and adopt international standards.

Product design and packaging is another aspect on which great progress was registered: (i) articles distinctly Korean like handicrafts were adapted to the export markets; (ii) mass-produced consumer goods like shirts, shoes, gloves, bicycles, were also re-designed according to the requirements of the markets and to follow fashion trends; (iii) finally, packaging was improved to ensure proper protection and promotion of Korean exported products. Technical assistance was provided by the Design and Packaging Centre.

Other promotion measures included (i) the establishment of the free trade zones which are special tax free areas, designed to attract foreign investors into processing activities on the sites; (ii) organizing fairs and exhibitions in Korea and abroad, and helping Korean producers to participate in other international fairs; (iii) providing market research and trade information mainly through the Korea Trade Promotion Centre (KOTRA).

In the management field, costing and pricing techniques were spread throughout the industry. Originally, many producers had little or no experience in cost accounting and export pricing. They received assistance and training in order to acquire an accurate knowledge of the breakdown of their costs item by item, and to achieve competitive prices.

iii. The institutions involved

- The Korea Trade Promotion Corporation (KOTRA) was established in 1962 as non-profit-making organization financed by the government, whose major objective was to promote Korean exports. Since its creation, KOTRA has expanded in step with the growth of exports, and now it is maintaining field offices throughout the world. The basic activity of KOTRA has been to locate potential buyers for Korean products and match them up with potential suppliers. KOTRA collected information on products, companies and markets, organized visits of potential buyers to Korea, and trade missions to potential importing countries, arranged joint ventures and technology transfers, and more recently encouraged overseas investment in, and imports from, developing countries.

- The Korean Traders' Association (KTA) founded in 1946, is a private non-profit making organization comprising all registered export-import traders in Korea. Its main functions are to send private trade missions abroad, receive missions from other countries, and handle inquiries concerning the possibilities for joint ventures. It also publishes a trade news letter.

- The Korean Chamber of Commerce and Industry (KCCI) is the oldest association (founded in 1910) of Korean businessmen. Its major activities, as far as international trade is concerned, are the promotion of international economic co-operation, the exchange of trade information and trade missions, issuing certificates of origin, sponsoring trade fairs and promoting joint ventures.

- General trading companies are large organizations involved not only in trade but also in manufacturing and finance. They also help SMIs by providing financial support, technical and managerial guidance, and acting as export agents for the SMIs products. There are about 10 of them and they account for about half of Korean exports in value. They have been instrumental in penetrating new markets and diversifying Korean exports into new products.

- Exporters associations by industries (they are about 22) advise on import and export approvals, and allocate to member companies the quotas imposed by foreign countries.

- The Export-Import Bank of Korea (Eximbank) was established in 1969 to provide medium and long term credits for export and import transactions, it also guarantees repayment of loans, and provides export credit insurance.

iv. Conclusion

The Korean experience merits close study on the part of other developing countries. How was the rapid and sustained growth in industrial exports achieved ? The main factors responsible for the successful development of export industries seem to have:

- first, the timely and appropriate choice of export industries which involved the identification of the right products, companies, and markets;

- Secondly, the implementation of a comprehensive set of promotion measures which assisted and encouraged industries to invest for export and facilitated their export operations;

- Thirdly, the drive for competitiveness, research and development, the dedication of management, staff and workers at all levels in all sectors.

IV. CONCLUSIONS AND RECOMMENDATIONS

The main lesson to be learned from the successful exporting countries is that a comprehensive promotion policy is necessary in order to achieve a powerful development of export-oriented industries and a corresponding surge of exports.

This comprehensive policy should cover both the promotion of investment in export-oriented industries and the promotion of exports per se since effective exporting (at profitable prices) condition the viability of export-oriented projects.

In designing and implementing such policy, the developing countries can receive appropriate assistance from the relevant international organizations, primarily UNIDO and ITC.

1. National promotion policies

Developing countries that wish to develop export-oriented industries are advised to take the following steps:

i. The first step should be a government decision and commitment to promote investment in export-oriented industries as part of the overall investment programme.

At that stage the government may consider intervening actively in the search for products and markets, by carrying out an analysis of strengths and weaknesses at three levels.

- Country level - What advantages can the country offer? Geographical position, participation in a free trade area infrastructure, etc. The consideration of disadvantages or weaknesses is no less important because it indicates the constraints which have to be circumscribed or removed by appropriate action such as supportive investment.

- Sector level - What industrial branch or line of products seems more promising?

- Enterprise or company level - Among the existing enterprises, which are the ones that could export (or export more) with some additional investment ?

This survey on the domestic (i.e. supply) side should be completed by information on market opportunities on the demand side. Such opportunities can be found out by an analysis of trade statistics, and the consideration of trends in demand and technology. The enquiries on the market (i.e. demand) side will lead to a selection of products and target markets. A matching of the results of the inquiries on both the supply and the demand sides will indicate what are the exportable products, i.e. the products which can be produced for export.

2. The second step should be a comprehensive approach to the promotion of investment in export-oriented industries, covering also the promotion of export throughthe facilitation of export operations, because the two aspects of investment for export and export operations are complementary.

This comprehensive approach would cover:

- The establishment of a favourable political, economic and financial context or environment, including (among others) improvements in the physical infrastructure (transportation, utilities, support industries, etc.) and the institutional infrastructure (see below). This can be considered a pre-requisite.

- Direct promotional measures such as various incentives for investment in export-oriented industries, availability of credit facilities for such investment and initial working capital, rehabilitation schemes for existing industries,special incentives for foreign capital including guarantees, and the issuance of an investor's guide.

- Facilitation of export operations through assistance in trade information, market studies, export procedures and international marketing, availability of credit for financing export operations and the issuance of an exporters' guide.

- Provisions for training entrepreneurs and the staff of supporting institutions in the preparation of export-oriented investment projects, export techniques, and also in management and entrepreneurship.

- The establishment or activation of supporting institutions, primarily an investment promotion agency for project studies and an export promotion organization for direct assistance to exporters. Establishment of trading companies undertaking exports for SMIs, and of an industrial development corporation participating in equity would re-inforce the institutional support to export-oriented industries.

- The activation of financial institutions, viz. the central bank which has a co-ordinating role in the banking system, investment banks for loans to export-oriented projects, an industrial development corporation for equity participation in new investment projects, the export bank and the commercial banks to provide export finance, guarantees and export credit insurance. The banking system should be encouraged to extend financial facilities to export-oriented industries, through a system of incentives both to the banks and the enterprises, even though export projects and operations are more risky than those designed to cater to the domestic market.

The comprehensive promotion policy thus outlined (see also diagram below) is a general framework and pattern which can then be adapted to each particular country's requirements.

3. The third step is the implementation of the promotion policy. It should be not only well designed but also made fully operational. This is when the national institutions, with international assistance if need be, can be most effective, first by fulfilling their mandate and then by modulating their assistance to exporters according to the changing requirements of international trade.

2. International assistance

In the design and implementation of national promotion policies, the governments can benefit from the assistance of international organizations such as UNIDO and ITC, with UNIDO focussing more on investment in export-oriented industries and ITC more on trade information and export operations but without ignoring the other aspect. UNIDO's assistance should be foremost in: industrial surveys; the technical aspects of production for export such as export product specifications, and the like; and the promotion of investment in export-oriented projects.

In view of the fact that there are too few of these projects and that there is an urgent necessity in developing workable and efficient export-oriented industries, UNIDO could assist by putting more emphasis on export orientation in all its industrial development activities,especially:

i. Investment promotion offices should look for and extend preferential assistance to export-oriented investment projects, especially export-oriented joint ventures. These might involve more work (export outlet studies, product adaptation, etc.) and sometimes more risk for the entrepreneur, but they will do more to meet the problems of developing countries and in particular they will easily repay the initial investment expenses in foreign exchange.

ii. On the occasion of investors' forums and solidarity meetings, UNIDO could assist the participating countries in preparing export-oriented projects. Up to now the proportion of export-oriented projects submitted to such forums or meetings has been dismally low.

iii. UNIDO training activities dealing with the generation and preparation of industrial investment projects should make a larger place to the characteristics of export-oriented projects and in particular how to carry out the export market studies.

iv. UNIDO experts should be briefed about the technical and developmental aspects of export orientation so that they can usefully advise the governments once they are in the field.

v. UNIDO should co=operate with ITC in assisting the member developing countries in developing export-oriented industries. The relations between the two organizations, which are excellent on the diplomatic level, should be extended at the working level of concrete technical assistance activities, taking example of the co-ordination established in Zurich in their joint office for the promotion of joint ventures.

Methodological aspects

DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES

Surveys

Supply possibilities

Analysis of strengths and weaknesses at 3 levels:

Country

Sectors
Companies } Industrial survey

↓

Selection of companies and products

Market opportunities

Analysis of trade statistics

Consideration of demand and technology trends

↓

Selection of products and target markets

↓

Exportable products
(What to produce for export)

↓

Project studies

Project idea

↓

Project concept

↓

Feasibility study

↓

Final report

↓

Implementation (Investment)

Investment promotion

↓

Operation

↓

Results

New export-oriented industries | Industries made fit to export | Rehabilitated export-oriented industries

↓

Export operations facilitated and expanding

↓

Foreign exchange
Employment income
Government income (taxes)
Dividends to shareholders
Earnings retained for expansion
(with technology transfers, competitivity, etc.)

↓

Self sustained industrial development

Policy implications

PROMOTION OF EXPORT-ORIENTED INDUSTRIES

Policy decision

Government commitment to promote investment in export-oriented industries

↓

Policy framework

Comprehensive investment / export promotion policy
1/ Environment and infrastructure (pre-requisites)
2/ Promotional measures
3/ Development of skills and entrepreneurship
4/ Institutional support

↓

Policy

easures

Investment for export	Export operations

Promotional measures

Investment for export

Incentives for investment in export-oriented industries

Availability of credit for investment and initial working capital

(Re)habilitation schemes for existing industries

For foreign capital
- incentives
- guarantees
- Investor's guide

Export operations

Assistance in
- trade information
- market studies
- export procedures
- international marketing

Availability of credit for export operations

Exporter's guide

Development of skills and entrepreneurship

Investment for export

Training in (export) project preparation

Export operations

Training in export techniques, marketing and management

Entrepreneurship development

Institutional support

Non-financial

Investment for export

Investment promotion agency (information and studies)

Industrial estates, etc.

Export operations

Export promotion organization (information and assistance)

Trading companies (assistance)

Export processing / free trade zones, etc.

Financial

Investment for export

Central bank, credit policy

Investment bank(s): loans

Industrial development corporation(s): equity participation.

Export operations

Central bank: exchange regulations foreign exchange revolving fund

Export bank and commercial banks:
- export finance
- export credit guarantees
- export credit insurance

Results