The Role of Support Services in Expanding Manufactured Exports in Developing Countries

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The World Bank
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Paul Hogan (selection 3) would like to express his gratitude to his colleagues in the Trade Development Institute of Ireland (TDI), former colleagues in CTT, and the trade officials and exporters of over forty countries where he was privileged to serve.

This study was carried out using resources from the Trade Policy Division of the Country Economics Department of the World Bank. The views expressed are, however, those of the authors and not of the World Bank or any other organization.
What institutional arrangements, policies, and external assistance can be expected to yield good results in the area of support services for exports? The three papers in this volume address this issue and provide useful, and at times entertaining, answers. The middle paper, especially, supplies innovative recommendations and fresh ideas, while the final paper distills not-so-new recommendations with charm and wisdom.

The usual approach, the authors all agree, has been a failure in developing countries. Practically all these countries have public sector export promotion organizations that try to provide promotional, information, marketing, and other services to help expand exports. Much international technical assistance has been channeled through these organizations. Keesing and Singer in the first of their two papers and Hogan in the third and final paper (written in response) offer sharply negative assessments of these organizations’ practical contributions up to now. With rare exceptions, they contend, the services and assistance provided have been ineffective. Hogan sees the outcomes as caused by mistakes, poor advice, and the like, while the other two authors view this finding as an example of the public sector’s trying to do tasks for which it is poorly suited.

So what should be done instead? In their first paper Keesing and Singer sketch alternative approaches recently developed by international assistance organizations for some of their aid in this field. These approaches typically involve bringing in consultants to work directly with enterprises, usually starting with the technical and supply problems holding exports back.

In their second paper these authors put forward their own recommendations. These focus primarily on getting export businesses to use private services, especially consultants and other private service suppliers from more advanced countries—above all to teach potential export suppliers how to produce what the market wants and needs. In their view, the publicly funded institution most needed in this area in a transition toward outward-oriented policies is a grant fund that gives cost-sharing grants to firms to help them pay for the services they most need to expand their exports. The World Bank has already begun to create such funds, starting in India. The team running the fund (which may be a unit in a financial institution) promotes vigorously to promising firms the use of expert service suppliers to help develop exports. When asked, it helps interested firms draw up export plans and find suitable consultants abroad. At the level of national strategy and policy, Keesing and Singer advise the government of a country in this transition to facilitate and encourage purchases of private services abroad (or from abroad) along with exporters’ travel, and to foster the local development of suitable services in an environment of free trade and wide-open competition in services for exports.

Hogan wants to reform the traditional approach. He argues that trade (export) promotion organizations in developing countries are potentially useful but need to be
drastically changed and differently designed to make them effective. This involves, among
other things, bringing them closer to the private sector in several senses. He gives a lucid
presentation of what is required and what an effective organization would be like: it would
even have its own source of funding from an earmarked tax on exports and would try to
persuade the government to improve policies toward exports. Keesing and Singer
hypothesize in their first paper, less optimistically, that the conditions required to make a
trade promotion organization effective are attainable in practice only after a country gets its
policies right and its growth begins to take off on the basis of success with manufactured
exports.

The papers are complementary and have many points in common, even though the second
and third ones disagree on what is most important, what to emphasize, and what can be
achieved. The effect is to provide a wide-ranging picture of problems and alternative
approaches in this field.
DEVELOPMENT ASSISTANCE GONE WRONG: FAILURES IN SERVICES TO PROMOTE AND SUPPORT MANUFACTURED EXPORTS

Donald B. Keesing and Andrew Singer

Has outside development assistance to institutions that provide export promotion, marketing, and services support to exporters actually been effective in expanding exports? We investigated this question as part of a study on how to improve assistance to support services for manufactured exports in the many developing market economies where the value of such exports has become quite substantial while the policy environment toward them is still only partly satisfactory. The support services we focused on are export promotion, marketing assistance, consultant advice, and provision of export-related information. Selection 2 presents our findings and recommendations on how to achieve much better results from assistance to these services.

The evidence examined indicates that to date, assistance in these services has rarely been effective in systematically expanding exports. Considerable amounts of aid resources have been expended on such assistance during the last 30 years, yet very little direct impact on exports can be demonstrated. However, new approaches just beginning to be introduced hold out some promise of better results in the future.

In addition to reviewing relevant documents we interviewed a large number of people with long experience in this field. They included senior staff of almost all the leading organizations that provide development assistance in this area, as well as officials of national trade promotion organizations in developed market economy countries and newly industrializing economies. We did not visit any developing country trade promotion organizations as part of this research, but between us we have visited more than a dozen of them on other occasions.

Our principal conclusions on the situation up to now are based on an overwhelming preponderance of the views and evidence available to us. The virtual consensus does not extend, however, to historical explanations of how this situation has come about nor what to do about it.

Most developing countries rely on one or more trade promotion organizations (TPOs) within the public sector for export promotion and marketing services. However, in developing countries with no more than partly satisfactory policies toward manufactured exports, organizations manned by public officials have nearly always proved unsatisfactory.

1. Over 30 economies clearly fit this description. They include all the more populous developing market or mixed economies outside Sub-Saharan Africa, apart from those such as the Republic of Korea or Portugal that already have suitable policies in place.

2. Though we did not systematically investigate the effectiveness of promotion and support services in expanding primary exports, almost all the people interviewed were quite negative about the effectiveness of existing approaches in promoting exports in general, not just manufactured exports. Their comments, moreover, almost always applied to all the developing countries they knew, other than the East Asian newly industrializing economies.
in providing practical information, assistance, and support services for expanding manufactured exports. Unable to be as selective or as expert in their advice as the task requires, and poorly suited for providing the production-related assistance and business services exporters need, such organizations readily allow themselves to be deflected into policy, administrative, or regulatory tasks that conflict with the provision of export support services. Many face almost no private competition. This is in sharp contrast to the situation in the developed market economies and the successful East Asian exporters, where many competing private service firms and associations offering relevant services exist.

Shortcomings in the policy framework and level of development have contributed to the poor performance of these organizations, but in addition, the reliance on public TPOs to provide trade information and support services has, in our judgment, proved a misguided means of expanding exports. However, the failure of this approach and, indeed, of most outside assistance in this area, does not mean that trade support services are unimportant for export performance. Rather, East Asian experience and several other indications suggest that in favorable circumstances the impact of support services on exports can be substantial (see Keesing 1988 for a discussion of the leading East Asian trade promotion organizations).

**Why Support Services in Developing Countries Are Ineffective**

Our findings suggest that a combination of four primary reasons explains the general ineffectiveness of external assistance to support services for manufactured exports:

1. The legacy of import substitution in developing countries has increased the complexity of the effort required, particularly in changing deep-rooted attitudes and motivations that work against exports.

2. External assistance for support services has rarely been directed toward helping exporting firms overcome their production problems, improve their supply capabilities, or adapt what they supply to the requirements of the target market. Yet these supply aspects of exporting are central to export success and tend to be the most difficult tasks for developing country exporters.

3. The donor agencies that provide funding and advice in this field have not been sufficiently concerned with the impact of their funds in expanding exports, and have generally lacked the power or the determination needed to insist that a strong positive impact be achieved.

4. Support and assistance for the marketing of manufactured exports have usually been provided through an inappropriate delivery mechanism in the form of a single public service supplier, which is also involved in other activities, that delivers nearly all services free of charge. This delivery mechanism has not proved effective in developing countries with policies not yet strongly supportive of manufactured exports.

These four influences and the difficulties they create are the focus of most of this paper. Recent changes and promising experiments in donor programs are described toward the end of the paper. Selection 2 focuses on how to improve the situation.

**The Legacy from Import Substitution**

Until recently, import substitution policies have prevailed in almost all developing countries. These policies have led to the imposition of tight restrictions on imports and to many other controls. As a result, overall growth performance has deteriorated amidst shortages of foreign exchange and other resources. Another usual outcome has been a lack of competition in domestic industries and the emergence of soft sellers' markets riddled with shortages. Deficiencies have become or remained severe in areas important for export success, such as packaging skills, modern production technologies, and support services for exports.

The legacy of these policies has also been detrimental to manufactured exports in other important areas as discussed below.
THE WRONG SKILLS, THE WRONG ATTITUDES. Business success under an import substitution regime depends primarily on the ability to obtain from government regulators whatever is most needed to make profits: exclusive access to scarce imports, duty exemptions on imported inputs, high rates of protection, and so on. Thus business people have become skilled at "rent-seeking." Public officials have responded by further regulating supply and setting up ubiquitous controls. Meanwhile business skills relating to innovation, responsiveness to buyer preferences, marketing, quality control, tight cost control, and production efficiency have generally been neglected. Business people have become insensitive to buyers' preferences, so that teaching them how to export calls for reversing their basic business attitudes. These wrong attitudes become an enormous obstacle to export success when policies begin to move toward an outward orientation.

THE WRONG PRODUCTION BASE. Import substitution policies encourage the production of copycat products, usually at well below an efficient scale in plants using outdated or inferior technologies. In a soft, easy market with mounting scarcities, product quality often deteriorates. By the time policies begin to change in an export-oriented direction, prices are generally high, the quality of products is low, and the quality of service to buyers is poor or nonexistent.

RESPONSIVENESS SLOWED BY REGULATION. Import substitution policies typically leave developing countries with rigid bureaucratic controls on many of the aspects of business activity that are critical to success in exporting. When far-sighted entrepreneurs do try to export, controls on investment, restrictions on imports, exchange controls, other regulatory controls, and credit rationing impede adjustment of their production facilities. Controls obstruct their efforts to obtain needed inputs and services and to sell their products and production capabilities.

LACK OF EXPORT KNOW-HOW. Unfavorable policies have deprived local businesses of know-how in manufacturing for export. Manufactured products for export to developed countries are generally quite different from anything produced for local markets. Exports nearly always have to be shipped as complete packages, ready for the end user. Thus they must meet all buyer specifications concerning packaging requirements (for example, labels, printed instructions, exterior printing, and packing materials), as well as those related to raw materials, color, finish, styling, and technical features. For many products, designs and specifications change rapidly. Developing country exporters thus have to organize many unfamiliar tasks and meet many demanding criteria at once. Examples of the criteria they must meet are presented in table 1, which is based on answers to a questionnaire sent to a cross-section of U.S. importers buying exports from developing countries. Experience in a highly protected developing country market does not prepare firms to meet these criteria.

Moreover, lack of experience is in itself a serious handicap. Most buyers prefer to place orders with suppliers who already have considerable export experience and know-how and who can be expected to perform everything that is required reliably (see Keesing and Lall forthcoming; Keesing 1983).

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3. According to CBI, the Netherlands organization promoting imports from developing countries, the most common complaints from Dutch importers doing business with developing countries are (a) delays in replying or inability to contact suppliers; (b) inconsistent quality, especially "finish"; and (c) late, irregular, or incomplete deliveries. Such complaints, echoed by importers elsewhere, are the legacy of soft domestic sellers' markets.
Table 1. Relative Importance of Purchase Criteria for Imports from Developing Countries as Viewed by U.S. Buyers and Importers

<table>
<thead>
<tr>
<th>Purchase criterion</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Unimportant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivers goods by the date promised</td>
<td>95</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Product is marketable in the U.S.</td>
<td>95</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Meets product workmanship standards</td>
<td>89</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Shipping from supplier country to U.S. is reliable</td>
<td>88</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Meets product styling specifications</td>
<td>87</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Prices</td>
<td>78</td>
<td>22</td>
<td>0</td>
</tr>
<tr>
<td>Can produce in the required quantity</td>
<td>74</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>Meets product packaging material requirements</td>
<td>69</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Has up-to-date quality control facilities</td>
<td>68</td>
<td>29</td>
<td>3</td>
</tr>
<tr>
<td>Meets product technical design specifications</td>
<td>67</td>
<td>26</td>
<td>7</td>
</tr>
<tr>
<td>Meets packaging style requirements</td>
<td>65</td>
<td>31</td>
<td>4</td>
</tr>
<tr>
<td>Has good management control over production</td>
<td>65</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Fills reorders</td>
<td>63</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Has demonstrated experience in making the product</td>
<td>60</td>
<td>39</td>
<td>1</td>
</tr>
<tr>
<td>Has capable engineers to build up production/service</td>
<td>51</td>
<td>38</td>
<td>11</td>
</tr>
<tr>
<td>Has a short lead time from order to delivery</td>
<td>50</td>
<td>47</td>
<td>3</td>
</tr>
<tr>
<td>Is known for expertise in the industry</td>
<td>44</td>
<td>50</td>
<td>6</td>
</tr>
<tr>
<td>Has up-to-date production facilities</td>
<td>34</td>
<td>57</td>
<td>9</td>
</tr>
</tbody>
</table>

Note: The underlying questionnaire survey used a Likert 7-point scale: 6 or 7 is very important; 3, 4, or 5 is somewhat important, and 1 or 2 is unimportant. Only criteria relating to the supplier and product are shown. Answers were received from 213 of the 350 firms to whom the questionnaire was sent.


Neglect of Supply Aspects of Exporting

Nearly all external assistance to developing country support services for export expansion has shared a central deficiency. This deficiency is a systematic neglect of firms' need for expert advice on production for export, and the closely related tasks of upgrading firms' supply capabilities and adjusting what is supplied to the requirements of the target market or markets. Advice on production, other supply tasks, and associated management tasks has rarely been systematically provided by official trade promotion organizations, either directly or through consultants. Recent innovations in donor assistance in this field consist mainly of ways to supply these missing services, which have turned out to be what is most wanted (and needed) to expand exports at the enterprise level. Nearly always the service suppliers have to be brought in from more advanced economies.

4. A few TPOs have taken a more inclusive view of their marketing responsibilities and have become involved in design and packaging. However, effective programs in design and related areas appear almost entirely limited to TPOs in fairly advanced, industrializing economies, such as Ireland, Singapore, and Taiwan, China.
In exceptional economies with fully satisfactory policies toward manufactured exports, particularly the Republic of Korea, Singapore, and Taiwan, China, public service institutions that have been set up to help industry in such areas as productivity, technology, standards, and overall development have actively contributed to export expansion by helping exporters with their supply tasks. This is not the case with analogous institutions in countries with less than fully satisfactory policies toward manufactured exports.\(^5\)

The importance of upgrading supply is obvious. In a market economy, a manufacturing business must maintain a very close relationship between marketing and production. Supply must be adjusted to what the market is looking for, while sales must be based on what the business can reliably supply. The firm must update and improve its production methods to keep up with the competition.

For developing country firms looking for export orders from buyers (importers) from major developed country markets, what counts in marketing is the buyer’s perception of the exporting firm’s supply capabilities and its readiness to fulfill all aspects of the order. The buyer will also be concerned with the firm’s reliability as a supplier, taking into account its location and the country’s policies. While the specifications of what is to be produced are likely to vary from one order to another, each order is inflexible in its requirements regarding quality, price, and on-time delivery. Inability to meet any aspect of the very detailed specifications disqualifies a manufacturer (or industry or country) as a source of supply (see, for example, Egan and Mody 1990; Keesing 1983).

Supply performance is always crucial in exporting manufactured products to developed country markets. Each firm must reach high standards close to international best practice for its range of products and its segments of the market. In this situation, advice from first-rate consultants can make an enormous difference and is often what is most needed to expand exports. This advice complements policy improvements that make exports feasible and potentially profitable.

Exporters must also learn how to convince buyers of their strengths and supply capabilities, and they must develop a marketing strategy and learn which orders to seek and accept. But as a rule, challenges such as these are not as difficult as acquiring the requisite supply capabilities.

In developing countries, neglect of the supply aspects of exporting arises partly because they set up trade promotion organizations in imitation of those that already existed elsewhere. Disregard for the production-related aspects of exports has been pervasive in trade promotion efforts in developed countries throughout the 20th century. The implicit strategy has been to leave supply to the private sector. Neglect also stems from the way governments are organized. Most draw a sharp division between export marketing, which they view as part of international trade, and export production, which they see as an activity within industry. Helping businesses sell exports is viewed as a concern of trade officials, but industrial production is not.

By the time the International Trade Centre (ITC) was created in Geneva in 1964, with trade promotion in developing countries as its area of concern, this approach was firmly entrenched.\(^6,7\)

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5. This can be inferred from research findings by Carl Dahlman and others, both inside and outside the World Bank, on technology development and institutions concerned with technology diffusion in various industrializing countries. Institutional arrangements involved in this assistance varied enormously among the three economies named. However, each of the three has evidently been able to find and enlist consultants who have the requisite know-how. In economies with Chinese populations, many of these experts were drawn from industries of pre-1949 Shanghai, Hong Kong, and the developed countries.

6. ITC, headquartered in Geneva, has since 1968 been a joint subsidiary organ of the General Agreement of Tariffs and Trade (GATT) and the United Nations acting through the United Nations Conference on Trade and Development (UNCTAD).

7. Most of the industrialized countries set up public sector organizations or government units to promote exports between the 1920s and the early 1950s. TPOs then spread to intermediate economies such as Ireland (1952) and Israel (1958) and also began to spread to developing countries.
Donor Lack of Leverage and Acceptance of Low Impact

Donors and international organizations that provide export marketing assistance to developing countries almost never insist on results, or even require that progress be monitored in terms of exports achieved. Rarely do they insist that their assistance be concentrated in areas where it will have a significant impact on overcoming the major constraints to export expansion, nor do they make assistance conditional on improvements in policies or policy implementation. Rather, they tend to offer grant assistance for purposes not dependably connected with export results: for establishing permanent export promotion institutions, funding some of their activities and programs, training their staff, strengthening their information systems, or supporting the country's participation in trade fairs. Too often the donors and agencies treat such actions as ends in themselves, independent of the exports that may result from them.

This mode of operation is partly a consequence of the International Trade Centre's influence. Assistance to export promotion and related services in developing countries is ITC's principal mandate. However, ITC and certain other leading organizations that provide such assistance have only limited powers and instruments, which give them little leverage over developing countries' export policies. These international TPOs are not supposed to recommend policies to developing countries, nor are they free to choose the countries and policy environments in which they provide assistance. Rather, they are supposed to respond to requests from developing countries. Thus the recipients soon learn that they can determine which of their institutions will receive assistance, for what purposes, and in what policy environment.

Lack of leverage in influencing its own programs is in our view particularly serious in ITC. It has also been a problem in Directorate General VIII - Development (DG8) of the European Commission in Brussels, which administers aid to African, Caribbean, and Pacific countries under the Lomé Conventions, and in the Commonwealth Secretariat, which administers the Commonwealth Fund for Technical Cooperation.

Meanwhile other donors and executing agencies, including the World Bank and bilateral assistance agencies, that do have some latitude to require major reforms or exports results as a condition of their assistance in this area, sometimes lack the determination to do so. Moreover, at times their staff and consultants have simply applied the traditional approaches that the major providers of international assistance in this field have shaped. The World Bank has pushed for policy reforms in most of its recent loans that have included assistance to services, but in the project components relating to services, it has resorted fairly often to traditional public service approaches.

One reason donors lack determination and do not demand reforms is that several donors are trying to give away money in this area, so recipient countries often play them off against each other to get what they want. Too many donor agencies with too much money to give away are chasing too few good project opportunities. The result is a sort of grant recipients' market that some refer to as "aid pollution." One person interviewed cited the case of a developing country that was being offered advice and aid relating to export expansion from 14 separate agencies.

Nearly two-thirds of ITC funds for assistance projects in developing countries come from United Nations Development Programme (UNDP) allocations, which are made in advance based on a formula that reflects population and poverty. For the recipient country these grant allocations serve, in effect, as an entitlement, allowing it to obtain assistance from its choice of operating agencies in the U.N. system (ITC, U.N. Industrial Development Organization, U.N. Educational Scientific and Cultural Organization, World Health Organization, and others).

If a country chooses to use its UNDP funds for trade promotion, ITC normally serves as the implementing agency. As a result, ITC is not in a good position to reject a request for an unpromising use of UNDP funds. If the recipient country wishes to spend some or all of its allocation on totally ineffective activities, for instance, futile trade missions to impossible
markets or useless tours for senior trade officials, ITC can try to persuade the country to do something else, but is virtually obliged to support the requested activities if the recipient government insists. Similarly, funds administered for trade development by DG8 of the European Community are allocated in advance and treated as entitlements, usable in this area or in others.

One result of this institutional arrangement is that external assistance agencies have built up a tolerance of projects that are attractive to the recipient government and its public servants, but ineffective as a means of achieving export expansion.

Donor agencies often continue to fund technical assistance year after year in countries where the policy environment remains strongly biased against export. They sometimes claim that a sustained aid relationship allows external advisers to make a systematic effort to persuade the country to change its policies, but this has been a feeble way to try to influence policies.

Another serious consequence of this arrangement is that donor agencies have seldom succeeded in extending their influence and impact beyond government, and into the business community. This is especially the case where business people generally mistrust the government and view its controls and interventions negatively.

A further consequence is that donor agencies are forced to go along with projects with mixed objectives. In much of Africa and parts of Southeast Asia, indigenization of business (replacing ethnic minorities) can be as important a goal to the recipient government as export expansion. Governments also expect to blend other objectives in with export expansion, such as rural employment in cottage industries, dispersion of industry away from the capital, and issues of regional equity. The usual effect of such mixed objectives is to weaken the impact on exports still further, or even to make it negative.

An Ineffective Service Delivery Mechanism

A further important influence on export promotion activities has been the strong commitment of important donors to a strategy of institution building. The basic concept is that technical assistance should not confine itself to a short-term injection of foreign advice and expertise, but some of this expertise should be left behind in the recipient country so that the effect is sustained rather than transitory. The UNDP’s commitment to institution building is particularly strong, but it is shared in varying degrees by ITC and some other donor agencies.

In our view, the institutions created early on are not what a country needs later, and donors can create better institutional results as a side benefit of pursuing exports as the primary objective. Moreover, the institution building principle detracts from the primacy of the objective of helping the developing country achieve export expansion and structural adjustment.\footnote{One way agencies have implemented institution building is to designate a local “counterpart,” nominated by the recipient government, for nearly every external adviser. This approach has biased technical assistance toward public service institutions, regardless of their suitability for specific tasks. Since overseas travel is typically a government-rationed luxury, the job of counterpart tends to be highly valued, thus the selection process tends to be influenced by political and other extraneous concerns. Counterparts chosen in this way often have no intention of using directly the experience gained. Much promotion activity is therefore burdened with unsuitable counterparts, lacking any real commitment to the task. This diverts the attention of the foreign consultant and increases the cynicism of the business participants.}

A particularly serious problem has been the widespread assumption by donors and recipients alike that institution building means, in practice, the building of permanent institutions within the public sector.\footnote{When suggestions are made about relying heavily on private sector services, senior staff in international organizations such as ITC often respond with doubts. Issues raised include whether private chambers and associations can obtain money on the scale needed for export promotion, since} Thus, for example, ITC’s promotional literature
describes its second most important activity, after establishing a national trade promotion strategy, as "establishing appropriate government institutions and services." This activity has led to the widespread creation of official trade promotion organizations that are ineffective and unsuited to developing countries' future needs.

In most cases these permanent organizations were set up during early stages in the country's development, when the legacy from import substitution was still predominant. Faced with the huge task of transforming this legacy to an outward orientation emphasizing exports, most developing country governments did not carry out the required reforms, especially when reforms would operate against the self-interest of powerful political constituencies. Even in subsequent years, reforms have tended to be only partial and selective, and not nearly sufficient to create an economic environment truly favorable for exports.

Difficulties in exporting usually remained formidable in the early years of policy adjustment. Access to imported inputs was highly unsatisfactory, while many domestically produced inputs were prohibitively expensive or of unacceptable quality. Exporters had to expend considerable effort obtaining permissions, circumventing restrictions and controls, and contending with shortages, slow and unreliable delivery, poor service, deficient quality of raw materials, unsuitable attitudes and training of employees, and other assorted problems characteristic of a heavily controlled, disequilibrium economy. Access to services and consultants from abroad was generally blocked as well. Thus for most entrepreneurs, exports were still unattractive. Yet it was at this stage or even earlier, before any substantial transformation of import substitution policies had occurred, that most developing countries began to receive external assistance for services to support export expansion, and were encouraged to set up TPOs as permanent institutions to promote exports.

In a market economy, sustained export expansion requires a policy environment that has at least begun to make a substantial number of exporting activities relatively profitable and attractive, compared to other business opportunities. Another important influence on export expansion during a policy transition is the credibility of the policy changes, that is, whether the government gives clear and consistent signals of its long-term commitment to manufactured export development and an outward orientation. Only when the business community realizes that its longer-term profitability depends on successful adjustment to this new reality will it start to take seriously the difficult task of changing its ways. Pushing the policy transition at least to that point appears to be the fundamental precondition for assistance to exporters through support services to have any possibility of being effective. This situation was not widely understood in countries that very early on set up permanent public sector institutions in support of exports—usually trade promotion organizations—in hopes of increasing their nontraditional exports.

Experts on export promotion are divided in their opinions on the extent to which the creation of official TPOs in the early stages of transition from import substitution was justified at the time, typically in the 1960s or 1970s, and to what extent (if any) some of the new organizations proved useful in their early years. On balance the results appear to have been at best slight and mixed.

In some countries systematic assistance to export marketing has been worse than ineffective, since it has diverted attention from the fundamental need for policy reform, tempting the government to believe that promotion could work the magic of structural adjustment without the need for difficult policy changes and much sustained hard work.

they tend to be weak financially; whether local export firms can be persuaded to seek paid private services; and whether local consultants know enough about exports to be worth hiring. These are important problems that do influence what can be done. (ITC does assist private chambers of commerce in providing their members with export-related information and training in how to export in countries where the government asks for such assistance.)
Further unfortunate consequences of starting so soon have been that most TPOs learned the wrong skills; concentrated on selling products already being produced, particularly products based on local natural resources; and became discouraged and perfunctory in their marketing-related tasks. They were diverted to other activities, lost promising staff, suffered cuts and uncertainties in funding, learned to fake the effectiveness of what they were doing, and never gained the support of the business community. At the same time, they learned to fight for their survival and their bureaucratic turf.

As policy environments have improved and governments have become committed to somewhat more outward-looking policies, the organizations created early on have proved unsuitable for the needs that have emerged and have become an obstacle to the creation of new and better support services. In practice, existing TPOs are almost impervious to efforts to reform them into effective institutions. For example, we know of no instance in which World Bank assistance for this purpose has had the desired lasting effect, although in recent years attempts have been made in at least a dozen countries.

What developing countries need most to support exports at the firm level is for firms to have access to services that can compensate for their own limited expertise. This is true not only for selling exports, but also for adapting production so that firms supply what foreign buyers want. However, nearly all developing countries have opted for a service delivery mechanism that is fundamentally inappropriate for achieving these requirements.

Most developing countries seem to believe that export promotion—not only the task of persuading firms to export, but also the provision of services to support export marketing—is inherently a task for government. The predominant pattern has been to set up a public sector TPO as the sole of main suppliers of most or all services in support of export marketing, and to offer these services free of charge.\(^\text{10}\)

**Some Characteristics of Public Service Trade Promotion Organizations**

Public sector TPOs are now the rule in developing countries. In building their TPOs on this public sector model, many countries appear to have been strongly influenced by donor agencies and their consultants, as well as by existing TPOs in industrial countries. Beyond this, both the donor agencies and the newly independent recipient countries have had strong statist predilections.

Almost all the developing countries' present TPOs obtain their funding from the government, supplemented here or there by foreign aid or by charges for regulatory documents. Three are funded directly by taxpayers through levies on imports (Colombia, Costa Rica, and Sri Lanka). Only three receive membership fees or contributions from the private sector (India, Thailand, and Turkey) (ITC 1988). Zimbabwe is now introducing a surcharge on exports and imports for a similar purpose.

**Problems with the Basic Concept of TPOs**

Our search for successful examples of export promotion and marketing organizations and our interview findings on what has gone wrong show that negative experiences have been very much the rule. Despite this, most experts interviewed believe that developing country trade promotion organizations can be, and sometimes are, effective both in providing marketing assistance and in pressing for needed policy improvements, particularly when (or if) they can achieve four crucial conditions, namely, they: enjoy the support of the business community, are adequately funded, are staffed with qualified people who are paid

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10. A few countries, such as Brazil, India, and the Philippines, have set up more than one major public sector supplier of these services. Those developing countries most inclined to rely on private businesses and the operation of free markets have generally allowed the simultaneous development of private services relating to exports and have encouraged the emergence of private associations and chambers of commerce and industry offering some services of their own.
commercially competitive salaries, and are somewhat independent of government. Advocates of TPOs are almost always striving to achieve these conditions.

However, TPOs meeting these conditions are virtually nonexistent in practice except in countries with excellent policies and a strong policy commitment to expand manufactured exports. Sustained business support depends on effectiveness and results, which are hard to achieve where policies are only partly satisfactory. Adequate funding, creation of a qualified staff compensated by suitable, commercially competitive salaries, and independence from government all depend on discerning support from the government and some support from the business community as well. These conditions are also almost impossible to achieve in a policy environment in which exports do not receive dependable attention and support. Along with the debilitating effects of not meeting these conditions, TPOs are weakened by confusion and out-of-date notions about their role.

The function of support service supply to exporters has been confused with another function important in developing exports, that of ensuring a continuing dialogue between policy formulators and those most affected by policy changes: the business community. In successful exporting nations, feedback is channeled through a well-developed structure of representative associations or chambers that continuously and aggressively promote the business community's viewpoint to the government. Many developing countries, however, have used this need for feedback from business as an argument for a specialized public sector agency to promote both the cause of exports and the needs of exporters.

Our research suggests that a public service organization is not well suited to serve as a mechanism for providing feedback from exporters on policy formulation. Unlike business people, public servants are rarely willing to speak out against bad policies or to criticize policymakers in the ministry they are affiliated with. Moreover, in the early stages of a policy transition, when feedback is vital, issues related to advice on policy tend to dominate the TPO's concerns, to the detriment of its ability to supply useful services. A further consequence of taking a position midway between government and exporters is that either party to the dialogue is unlikely to trust the TPO.

Another line of reasoning that has contributed to the persistence of public service TPOs in developed and developing countries alike, starts by noting that the core services provided by most TPOs are "information services." It then contends that the public sector ought to provide information services free of charge on a single-supplier basis, as if information for exporters were merely an extension of the public library's function.

However, the free, centralized provision of information services has not served the interests of export expansion. This approach has starved these services of money, hindered private service providers from entering the market, and retarded the exploitation of new information technologies by discouraging commercial information services. New information technologies, such as on-line date bases, mean that much of the information required for exporting can now be obtained on a pay-as-you-go basis, without the need for large, fixed investments in hard copy library materials. Setting up special libraries is thus no longer the most cost-effective route for providing information for exporters.

Another argument for the state's continuing role in information services is that its diplomatic posts provide privileged access to commercially useful information from foreign governments. However, this does not justify having a public sector TPO operating as a sole supplier of this information. Even this privileged information can readily be disseminated through commercial suppliers that may charge for its use.

**Relative Effectiveness of Official TPOs**

Our findings for the developing countries with policies less than fully favorable for manufactured exports contrast with what we have learned about TPOs and their support services in the successful newly industrializing East Asian economies. TPOs in these countries are effective and cost-effective.
Three of these organizations were started more than a decade after their countries achieved fully satisfactory policies toward exports, while the fourth (in Korea) seems to have been ineffective until many years after the country attained fully satisfactory policies. Thus, these organizations do not really provide a model for developing countries in policy transition to follow. Indeed, successful organizations were only achieved after a long build-up of experience by private service suppliers, private associations, and small units of government officials concerned with trade (Keesing 1988).

We have also investigated the effectiveness of trade promotion organizations in developed market economies (Seringhaus and Rossen 1990, chapter 2; Singer 1990). Almost all OECD countries have policies that are favorable to manufactured exports and trade promotion organizations, most of which are official. Typically, their central function is to provide trade-related information. In general, their impact on exports seems to be only modest.

Both the successful East Asian economies and the OECD countries encourage private sources of information and specialized assistance that offer services that overlap with those the TPOs provide. Membership associations and chambers of commerce provide advice, training, and information to exporters, as do a wide variety of private service and financial firms.

By contrast, in more than 40 interviews with advisers to developing countries in this field who we asked to cite examples of particularly effective national systems of export development in developing countries, other than the four successful exceptions of East Asia, only three TPOs were mentioned, typically with only faint praise, by more than two respondents: those of Thailand and Sri Lanka and one of those in the Philippines.\footnote{The one in Thailand is the Department of Export Promotion in the Ministry of Commerce, which has a staff of 517 and gets its officers on rotation from the civil service; that in Sri Lanka is the Export Development Board, with a staff of 229; and the one in the Philippines is the Center for International Trade Exhibitions and Missions, a somewhat smaller organization in competition with other public sector TPOs in the Philippines, with a strong program of design assistance to firms to help them prepare for trade shows. All three benefit from continuing foreign assistance. Many experts consider even these organizations to be weak and their services of dubious value.}

As for other developing countries, some of the organizations mentioned no more than once or twice are primarily investment promotion units, such as the Mauritius Export Development and Investment Authority (MEDIA). Or else, like Chile’s PROCHILE, they have tended to focus on primary exports. Often the praise was strictly relative or applied only to a brief era in the past.

The Public Service Model in Practice

Not only is the public service model fundamentally inappropriate, but our research provides abundant evidence that the developing countries' experience with this model has been almost uniformly negative.

Policies impeding and neglecting the development of commercial services are a significant cause of the difficulties experienced by developing countries that are trying to expand exports. Reliance on a public sector TPO for services that are better carried out by private commercial enterprises has contributed to this neglect. Thus, for the reasons given here, we conclude that entrusting the public service with primary responsibility for providing support services to exporters is misguided.

Figure 1 presents a sample of the typical negative characteristics of the worst TPOs as culled from the literature and from interviews. Although characteristics are typical of the worst TPOs, they are extremely common in others as well. In our estimation, over half these characteristics are found in the great majority of developing country trade promotion organizations.
Figure 1. Characteristics of Ineffective Trade Promotion Organizations

**Origins**
- Set up initially on donor agency advice and with donor funding, not as a result of demand from exporters

**Planning and Objectives**
- No corporate planning, individual targets, or measurable departmental objectives
- "Planning" starts with the amount of funds the government will allocate, from which the trade promotion organization then derives its program
- Its role is viewed as carrying out the "national export strategy,” policy advice, administrative tasks, and so on rather than being responsible for export expansion
- No consistency in focus: this year it is handicrafts, last year it was spices
- Has never conducted, using its own resources, competent, formal, subsector studies of industries with export potential

**Relationship to Government**
- Government has no faith in trade promotion organization, but refuses to abolish it
- Organization is seriously underfunded, so little or no funds are available for direct assistance to exporters

**Relationship with Business Community**
- Strong cultural divide exists between public servants and the business community, sometimes based on ethnic or caste differences, sometimes merely on lifestyle and attitudes
- Business community needs coaxing to take part in any trade promotion organization activities and is solicited using financial inducements such as free travel
- Instead of immediately distributing useful information widely to exporters, the trade promotion organization retains it as a bargaining chip
- More services are provided to government than to exporters

**Missions and Trade Fairs**
- Missions and trade fairs represent the only significant impact of the trade promotion organization on the business community
- At least one-third of missions consist of trade promotion organization staff or other public servants
- Other participants are selected partly on the basis of noncommercial considerations, such as maintaining regional balance, favoring indigenous entrepreneurs, giving everyone a turn, or by drawing lots
- Missions spend at least one-third of their time overseas meeting government officials and other functionaries
- Missions are mostly "exploratory,” and rarely generate orders
- There is no effective follow-up to assess impact

**Relationship to Donor Agencies**
- Organization has been the subject of at least two expert reports proposing major reforms
- Organization has been effective at resisting major reform proposals
- Organization is effective at playing donor agencies off against each other to obtain funding for its favored projects, such as overseas training for its staff, computers for trade information systems, and trade missions and trade fairs to attractive destinations

**Management**
- Chief executive officer is appointed by a ministry and not by independent board, and while some managers may be effective, others are political appointees and useless
- Most top managers have no commercial experience
- Organization has no effective managerial control over overseas commercial posts (for example, those in the diplomatic service may be controlled by the foreign ministry)

**Staff**
- Public servants are paid so badly that many have second jobs
- Many spend 80 percent of their time at their desks and rarely do "cold" calls on firms to promote exporting or their services
- Organization is overloaded with unmotivated clerical staff who spend most of their time reading papers, chatting, or dozing at their desks
- Senior staff are actively looking for a way out, preferably a highly paid position with a donor agency in an attractive location
Six factors, in particular, have contributed to the ineffectiveness of the public service TPO model: the unsuitability of government employees to the task, the inflexibility of government procedures in regard to expenditures and staffing, the confusion of purpose resulting from the assumption of regulatory and administrative roles, the perpetuation of wrong attitudes and strategies, misguided evenhandedness, and the neglect of the development of commercial services.

**Unsuitability of Government Employees.** Public servants adapt badly to the tasks of supplying services to commercial enterprises and promoting business. They are generally not recruited or trained for such tasks. Their fundamental attitudes are geared toward administration, not commercial success, and their interests tend to lie in regulatory tasks and policy design.

The problem of basic attitudes goes even deeper in those developing countries with a strong cultural divide between government officials and the trading community. This divide further reduces the capacity of the public service to gain the business community's confidence. In many developing countries, the public service is considered inherently suspect. The business community has come to expect that officials will exploit their regulatory powers in a negative way.

The low status of work on trade and industry within the government service in many developing countries also makes attracting able staff to trade promotion organizations difficult. The quality of staff is further depressed in many countries by pay freezes, which lead to low and declining salaries in real terms. Commonly the TPO is staffed by officials from the regular government service who are rotated to other jobs within three or four years. Thus they have little incentive to build up specialized knowledge and skills relating to export expansion, let alone skills in providing business services to exporters. Whatever they do learn is lost to the TPO when they leave.

Even in developed nations, entrepreneurs doubt the usefulness of public servants as sources of advisory services. In three studies quoted by Seringhaus, three-quarters of the respondents had a negative opinion of the government's ability to assist them in exporting (Seringhaus 1986 pp. 59-60). In the other four studies he cites, about half of the respondent firms had a favorable perception of government assistance.12

**Inflexibility of Government Procedures.** In most governments in developing countries, expenditures by nearly all public sector agencies are subject to detailed scrutiny based on rigid bureaucratic procedures. For example, detailed travel requests may have to be submitted and justified many months in advance, often as part of the annual budget. Payment for services may only be allowed on presentation of an invoice after completion of the service. Hiring anyone, even temporarily, can be incredibly difficult.

These types of procedures and rules may not be limited to government agencies, but may apply within any not-for-profit institution the state funds. Procedures such as these often make operating a responsive service and promotion organization within the government, or even within the public sector, impractical. Rigid bureaucratic procedures can all too easily waste much of the staff's time and energy and thwart any change of the organization being effective.

**Confusion of Purpose.** The business community's mistrust of TPOs is deepened in countries where trade promotion organizations are responsible for regulatory tasks. These tasks commonly involve such activities as handling compulsory registration of exporters, providing documents needed to obtain import licenses, and certifying exporters as eligible for export incentives. Exporters who are required to deal with TPOs as regulators are rarely inclined to trust them as a source of information or marketing-related services.

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12. For a more general view of this subject see Seringhaus and Rosson (1990).
Even the involvement of a TPO in an administrative role helpful to exporters has a mixed effect on the relationship. Thus, Colombia's PROEXPO provides preshipment export credit for working capital and other financing of exports, while Sri Lanka's Export Development Board administers a wide range of financial incentive programs for exporters. By comparison with this assistance the TPO's role in providing information services is of little concern to exporting firms.

**Perpetuation of the Wrong Attitudes and Strategies.** Most developing country TPOs have been reactive and poorly informed in their approach to manufactured exports. They have perpetuated the tendency of local firms to underestimate the challenge of moving from domestic to export markets, not least by encouraging the misguided belief that export success requires only a few good business contacts.

In general, the TPOs have concentrated on the final stage of the marketing process, namely, the active selling stage, by emphasizing trade fair participation, sales missions, and the like. Thus they have tended to bypass the vital preparatory stages of researching and exploring the market and encouraging firms to adapt what they supply to the market's needs. Indeed, seeing themselves as primarily answerable to a ministry, they have also tended to concentrate on large visible group events that get plenty of local press coverage for the TPO and the trade minister, but may do little for export expansion.

**Misguided Evenhandedness.** As international markets are in the main extreme buyers' markets, they are highly discriminatory. In each transaction the buyer is usually able to choose a supplier from among hundreds of very willing candidates. Over time, the market will inevitably reject large numbers of would-be market entrants from developing countries.

Public service TPOs are uncomfortable with this characteristic of the market. A general public service tradition holds that the service should not be seen to favor any particular commercial firm. The result is that nearly all public sector TPOs dislike and resist the notion of selecting particular firms for assistance. Instead, they maintain an attitude of evenhandedness and nondiscrimination. At each step, the quest for the appearance of impartiality leads most TPOs to a diluted and diffused effort, and so to a more passive and reactive relationship with firms than is compatible with good results.

Misguided evenhandedness is particularly prevalent in the selection of industries and products for assistance. It is especially pernicious in its effect when only a few industries are even close to being ready to export, or enjoy anything close to a suitable policy environment. The experience of the Trade Development Authority (TDA) in India provides an example of how nondiscrimination has hampered effective export promotion. TDA was set up in 1970 to provide export assistance on a highly selective basis. Initially it confined itself to a few key products, with only ten clients per product, and only assisted its clients in the demanding markets of Western Europe and North America. As a public service organization, however, it soon found itself under heavy pressure from firms and industries it had not selected, which were complaining that public money was being spent to favor a few selected firms. TDA was unable or unwilling to resist this pressure. As a result, when last visited it had 1,200 members, covered 34 product groups, and extended assistance to exports to 54 countries.

Another area in which misguided evenhandedness can be especially harmful is in the provision of information to potential buyers or importers about potential suppliers. The information that buyers most value about suppliers is how they have performed as exporters, both by absolute standards and relative to other suppliers. Guiding buyers to suitable and dependable suppliers is strongly desirable in the interest of export expansion. Among other advantages, it helps to avoid disastrous failures early on, which can ruin the reputation of the entire country as a source of supply.

The official TPOs in the newly industrializing East Asian economies (Korea, Hong Kong, Singapore, and Taiwan, China) have found ways to give buyers this information. Yet we
know of no TPO in a developing country with policies that are less than fully satisfactory for exports that is willing to provide such information.

**Neglect of the Development of Commercial Services.** Since TPOs typically perform service tasks badly, the fact that they offer services free of charge does not in itself prevent (although it may slow) the emergence of a private market in commercial services.

What does seriously impede this emergence is the prevalence of developing country policies that discourage competition in services and prevent foreign entrants and foreign investments. Where foreign firms are allowed to operate in services, they are often the information sources most sought out by exporters as well as visiting foreign buyers. All too frequently, however, policies toward private commercial service firms, especially foreign ones, are negative.

Probably even worse in terms of immediate effects on exports, the policies of developing countries frequently limit local firms' access to commercial service suppliers based in more advanced countries. These are potentially a crucial source of first-rate consultant assistance, marketing advice, information, and practical services for exporters, but until a country's currency becomes convertible, access to these services is generally impeded by tortuous procedures for obtaining foreign exchange. Travel visas may also be inordinately difficult to get. The neglect of commercial services in each of these contexts is typically based on a distorted view of what the public sector is able to provide, as well as on a low regard for the economic importance of providing services compared to producing goods.

**The Beginnings of Change: New Approaches in Outside Assistance**

Some of the assistance providers in the export promotion field have been influenced in recent years by new approaches and experiments, as well as by severe criticism of previous approaches. These new approaches include giving aid to and through the private sector; helping exporting enterprises directly, not least by providing supply-related assistance; and offering matching grants to exporting firms to help them pay for services. The result has been a noticeable modification of the approaches pursued in a majority of the organizations visited, including for example, the Center for the Promotion of Imports from Developing Countries (CBI) in the Netherlands, the Developing Country Trade Agency (DeCTA) in the United Kingdom, the Irish Export Board/Coras Tráchála in Ireland, and the U.S. Agency for International Development. However, change has been slow and the old approaches still predominate overall.

**Increased Attention to Integrated Projects and Supply Issues**

A particularly dramatic change has taken place in the assistance programs of the European Community (EC), especially its Directorate General I - External Relations (DG1), which administers EC assistance to developing countries in Asia, Latin America, and the Mediterranean region. The EC rivals ITC in the size of its project expenditures relating to trade promotion, but has only a tiny staff in this area. Thus it relies heavily on consultant firms to run its projects. The big change came about primarily as a result of self-evaluation, assisted by an evaluation study on the EC's trade promotion program undertaken between 1983 and 1985 by the Irish Export Board and a German consulting firm, MPR Braunschweig. Their report was strongly critical, as these excerpts from the summary of findings demonstrate:

- There was no direct relationship between the trade promotion activities themselves. They were treated as separate items...not...a unified coherent package with a distinct and discernible objective. As a result the programmes had limited effect.
- It could not be said that the programme noticeably strengthened the institutions or enhanced their role to a discernible extent.
• There was little or no follow-up to the activities financed. Each activity was in effect an independent isolated event.

• There was little indication of long-term impact on the self-sustaining trade capability of the countries.

Other major points were equally telling: there seemed to be no overall strategy; nothing was being done to address constraints relating to supply capabilities; actions did not come together to create a coordinated effort addressing particular products and markets, and measures were actually in conflict sometimes; and too little intermediate and follow-up evaluation was done in the course of implementing projects.

Reevaluation of the existing programs led the EC to a decision in April 1986 that helped transform DG1's approach and also influenced what was done in DG8's program for the African, Caribbean, and Pacific countries. The new approach aimed at the "development of trade in goods and services" based on action from the production stage up to final distribution. It emphasized integrated (and by implication realistic and coherent) policy, specific objectives, practical evaluation, and coordinated action, above all in production and marketing. Among its features, this new approach has been characterized in practice by an unwillingness to assist sales promotion measures without prior efforts to address supply constraints; by integrated major projects lasting three to five years, usually dealing with specific product groups and services and emphasizing an early concentration on supply issues; and by regular intermediate evaluation to adjust projects to new circumstances and new information.

Officials of developing countries' TPOs assisted in this new way have responded favorably and are taking their own involvement more seriously. The approach has also focused new attention on constraints that must be overcome in the policy environment of the recipient country.

The report and the EC's turnaround have had less influence in other assistance organizations to which much the same criticisms would apply. Most cannot turn their programs around as readily because of their reactive relationship to the recipient countries, the role of budget entitlements in their programs, and their responsibility to so many countries at once.

ITC, however, has begun a significant initiative of its own, called "the enterprise-oriented approach." First introduced experimentally and now receiving broader application, this approach directs consultancy and marketing assistance to selected enterprises in selected industries. The enterprise-oriented approach has many elements in common with DG1's new integrated projects, which start by providing supply-related assistance. It also has much in common with DeCTA's integrated project currently being implemented in India, which provides assistance starting with production and related aspects of supply to promising firms making a few selected export products. However, unlike DeCTA, ITC does not charge for any of its assistance to enterprises. (Thus selection of firms and industries to be assisted tends to be more arbitrary.) Some USAID projects also provide supply-oriented assistance to firms, for instance, in Honduras in support of a private export promotion organization (FIDE), part of USAID's worldwide effort to strengthen and promote the private sector in industry and exports.

ITC's enterprise approach grew largely out of experience in multicity country projects in Asia that included some advice on practical supply-related problems, both in individual firms and on a product-group basis. ITC launched its first enterprise-oriented projects in 1986 in China and Honduras. In China, consultants have been working with four firms in the

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13. Expert consulting advice that gives systematic attention to the supply aspects of exporting is by no means a new element in technical assistance projects in this field. Some of USAID's assistance projects in the 1960s were enlightened in this respect. As an example, technical assistance to firms in the shoe industry in Spain, provided for USAID by a retired shoe buyer (Lou Feeman) from a large U.S. retail chain, almost single-handedly launched that country's shoe exports, which are now among the world's largest.
furniture industry and three in the silk garment industry, as well as the state trading firms that market their products. Customers from Western markets place the orders and supply the designs, while the consultants teach the firms to reorganize production and management to meet the orders and to get new orders. In Honduras, the project approach resulted from Switzerland's insistence that its trust funds not be used there to help the government or expand food exports.

Today, more than 100 enterprises are receiving direct assistance from ITC in about 20 export-oriented projects worldwide. In each country, the approach has proved intensive in consultant time, but promising in its results. To what extent other enterprises not directly assisted will acquire the skills and know-how imparted is one of the questions that will determine the level of benefits.

The World Bank has been a particularly significant pioneer in introducing new methods and taking aim squarely at exporters' supply problems. Two grant funds set up in India under a 1986 export development project—the Productivity Fund, managed by an industrial development bank (ICICI), and the Export Marketing Fund, managed by the Export-Import Bank of India—have largely completed the task of giving out US$10 million each in matching grants to firms, in large part for supply-related consultant services. Now under a 1989 project, four new export development funds are being launched in India to provide similar grant assistance. A new project component in the Philippines will emphasize supply-related assistance to firms, as will the export support fund already in operation in Indonesia. However, these project components are exceptions. Old methods have persisted in technical assistance to manufactured exports in other countries.

The Trend Toward Cost Sharing

In trade promotion organizations in developed countries, perhaps the most striking trend has been toward charging for services, that is, cost sharing by service recipients. This practice has become widespread in Western Europe, is also becoming important in Australia and New Zealand, and is now being started in the United States. The change is being introduced in part as a response to tightening budget constraints as well as skepticism about the appropriateness of providing free official services in this area. Service charges are seen as a way of improving both the TPOs' responsiveness and their allocation of resources, while also serving to validate the usefulness of the services to business. In recent years charges for services covered 63 percent of TPO expenditures in Switzerland, 40 percent in Finland, 33 percent in Sweden, 20 percent in France, and 17 percent in Norway (ITC 1988). In the United Kingdom and elsewhere, information services are offered on a subscription basis.

In the case of assistance to developing countries, cost sharing is now an option in the EC's DG1 and DG8 programs, and it is a key feature of DeCTA's integrated project in India and of some of CBI's assistance. However, ITC has been slow to try cost sharing, even for enterprise-oriented assistance, and the U.N. system has no provision to enable participating firms to contribute to the costs of technical assistance. A proposal to introduce service charges as a potential option has been put before ITC's governing body.

Conclusions

This study shows that in developing countries with no more than partly favorable policies toward manufactured exports, outside assistance to services that promote and support manufactured exports has had little discernible impact on exports and has rarely been effective in expanding them. The principal reasons for this lack of impact appear to be aftereffects of inward-looking development policies, neglect of assistance to enterprises in the production and supply aspects of exporting, insufficient donor concern about the direct impact of their assistance on exports, and reliance on an inappropriate delivery mechanism.

We explain our recommendations on how to break out of this unhappy state of affairs in selection 3. It suggests new guidelines for donor assistance, project components based on one or
more of the new methods as they are now evolving, and new country policies that emphasize attention to services for exports.
Assisting Manufactured Exports Through Services: New Methods and Improved Policies

Donald B. Keesing and Andrew Singer

Assistance to support services for exports has almost never proved effective in systematically expanding manufactured exports from developing countries that have less than fully satisfactory policies toward such exports. This conclusion applies particularly to services that involve consultant advice, export promotion, marketing assistance, and provision to enterprises of export-related information (see selection 1). Despite this disappointing conclusion, we are fully convinced that assistance to these and related support services can be an effective instrument for expanding manufactured exports in countries with partly satisfactory policies toward exports if countries make bold, imaginative use of new instruments and techniques.

This chapter discusses effective methods of assistance and puts forward recommendations for policy as well as external assistance in this area. These are intended above all for World Bank operations, but also for other organizations providing assistance in this field and for the developing countries themselves. To go with these recommendations, we present suggestions concerning key details of the design of projects or project components using the new techniques.

We do not want to exaggerate what can be achieved. At best, support services have much less impact on a developing country's manufactured exports than its policy and physical environment. Suitable services cannot compensate for unsatisfactory policies. Indeed, services for exports yield no return unless the exports assisted can soon be made profitable. Appropriate services are thus a complement and not a substitute for suitable policies, resources, infrastructure, and all the other facilities that manufactured exports require. However, with help from consultants or other experts working directly with enterprises, developing countries can overcome a wide range of difficulties in exporting. We have four main recommendations:

1. Emphasize support services that overcome supply difficulties holding back otherwise potentially profitable exports. Provide consultant assistance to promising firms in products with strong export prospects to help them improve their supply capabilities and performance.

2. Provide exporters with ready access to commercial service suppliers abroad. As exports develop, systematically favor the development within the national economy of a number of competing service suppliers, primarily in the private sector. Facilitate and encourage the establishment of local branches or affiliates of multinational service firms.

3. Rely on specific, time-bound projects or project components involving temporary injections of resources to channel external assistance to services supporting the
expansion of manufactured exports. Direct each project component specifically toward the one overriding objective of expanding exports within the project's time frame, avoiding premature and unrealistic institution building.

4. Create packages of assistance built around one or more grant funds. By means of these funds provide cost sharing grants to firms to help pay the costs of services from suppliers of their choice.

Inexperienced exporters have a pressing need for assistance from experienced service suppliers. Thus, fostering support services in the ways discussed here is especially crucial for developing countries that expect to rely primarily on exports by local firms with little previous export experience.

Alternatively, small developing countries may choose to develop manufactured exports primarily through investment promotion that encourages existing manufacturer exporters from abroad to set up satellite production units inside the country. Because the foreign firm already has the marketing links, know-how, and experience to make such a unit a success, investment promotion aimed at such firms can greatly reduce the need for the support services discussed here. This has been the main route followed in such small countries as Ireland, Malta, Mauritius, and Singapore.

In larger economies, investment promotion can contribute to export development, but it is not a substitute for the services discussed here. Even if foreign investment on a large scale is politically acceptable, promotion of foreign investment is likely to prove a good way to get started only in exceptional export industries. For all developing countries taken together, exports by firms owned by the countries' nationals are several times larger in value than those by foreign owned firms, and in most industries, foreign owned firms have no lasting advantage. Thus, the services discussed here are likely to be crucial for accelerating the growth of manufactured exports in large or medium-sized economies.

Primary Emphasis on Supply

Once governments have reformed policies sufficiently to make at least some manufactured exports feasible and potentially profitable, experience shows that supply difficulties are generally the most important obstacle to expanding promising manufactured exports. Indeed, the marketing difficulties of developing country exporters are generally rooted in unsatisfactory supply capabilities, typically combined with unfamiliarity with what distant target markets require. These deficiencies are aggravated by a lack of service suppliers to perform, supervise, or advise on the various steps of the export supply process. In advanced economies, exporters have access to a wide range of suitable consultants and other service suppliers, but these are rarely available in a developing country in transition toward satisfactory policies for exports, except in products that have already been exported successfully for many years.

Thus, within a project seeking to expand manufactured exports, a particularly effective method of assistance is to offer promising firms expert consultant assistance and advice centered on supply-related tasks in product groups with strong export potential. This assistance will often include guidance on what is required or in demand in the target market.

The Underlying Challenge

Export marketing is a three-stage process. The first stage is selecting an export market (or markets) on which to concentrate, and exploring those markets to find out what they require. The second stage is adapting the supply package (and the various links in the supply chain) to suit the target market's preferences. The third stage is actively finding (or attracting) customers and getting orders; in other words, selling exports to the target market.

In the typical case, a locally owned enterprise in a developing country exports to buyers' orders and detailed specifications. The firm receives orders principally on the basis of its production capabilities. Learning to market these capabilities better is one way to improve
results. Even more effective is to improve and broaden the supply capabilities themselves. Poor supply performance can quickly undo the entire export marketing effort. Supply is always crucial.

Buyers and customers usually provide developing country export manufacturers with some advice on the details of their supply tasks. Export manufacturers typically learn a lot this way, but buyers only provide thorough, systematic assistance in a sustained relationship, and then only if, in return, they are able to buy the product at very low prices. Moreover, buyers are always eager to find suppliers already competent to handle all or most tasks unassisted. While a few buyers specialize in finding and teaching new suppliers in return for low prices, most buyers shun would-be suppliers that need a lot of instruction and assistance.

A firm producing to order must learn to make exports according to the designs, materials, stylings, and specifications called for, suitably documented, labeled, packaged, and ready for shipment to the ultimate customer. The firm has to adapt and modify its production and associated processes, as well as its management and training methods, to meet specific but frequently changing product specifications. The firm must also continually improve its production methods to reduce costs, increase product reliability, and achieve strict quality control, and it must learn to deliver exports dependably on schedule. Exporting on the basis of the firm's own designs and distribution usually calls for even greater supply capabilities.

Advice from expert consultants, with know-how and experience comparable to that of the best informed buyers, can substitute for learning from buyers, and may even be better in some ways. By accelerating and reinforcing the learning process, such assistance makes the firm more attractive to buyers. Prior instruction from consultants holds down buyers' risks and costs. This leads them to place more orders and to pay higher prices. To be effective for these purposes, however, consultant advice has to be customized to the firm's production equipment and methods, technical capabilities, and management practices.

**The Supply Gap and Consultant Advice**

Most manufacturing enterprises in developing countries are unaware of how far they lag behind the best current practices in advanced countries in systems engineering, productivity, quality control, and other aspects of production management. Only after policies become favorable for exports do they begin to learn, as the buyers show them how to reorganize their production or as they begin to use international consultants.

The amount of catching up required is generally enormous. Developing country plants are typically badly out of date, not only in their more obvious visible features, such as their equipment, but also in less obvious areas, for instance, the way this equipment is arranged, how they measure quality, and production practices. In richer countries, output attainable from a given plant and equipment has often increased enormously in recent years through advances in management practices in such areas as plant layout, machine arrangement, work flow, inventory management, and quality control. These changes have greatly reduced the work force required and the costs of production. Large gains have also taken place in the output attained from a given input of raw materials. At the same time, product quality, production scheduling, and the product options offered to buyers have all improved.

This is graphically illustrated by the findings from follow-up interviews with Indian firms to determine the impact of and returns from matching grant assistance provided by the Productivity Fund and Export Marketing Fund, which were set up in 1986 under a World Bank export development loan. The firms that benefited were mainly private firms in engineering industries. Most were already well managed, competitive, and rather large by Indian standards. A number already had significant export experience.

One firm, with a large output even by world standards, was surprised when after an introductory plant visit, a foreign consultant said that he could guarantee a 50 percent increase in output from the existing plant and equipment within one year with almost no new investment. During the eight months it took to finalize the consultancy arrangement, the firm's head challenged its managers to increase productivity in every way they could. By
the time the consultant returned, the firm had achieved a 15 to 20 percent increase in output. After taking a more careful look at how production was organized, the consultant said to the head of the firm, “Make that 100 percent.” By reorganizing production methods, the machinery layout, work flow, and other systems engineering aspects of production, he guaranteed that output would double within a year.

In another enterprise with insufficient output to meet domestic demand and only a small volume of exports, a consultant zeroed in on the 20 to 25 percent rejection rate in the foundry, which was the first stage in the production process. With the consultant’s help, the rejection rate was reduced to 5 to 6 percent. This translated to a 20 percent increase in final output and resulted in a large saving in materials. The result was a dramatic reduction in the unit costs of production, making exports more competitive. Now the firm is meeting all its domestic demand and exporting half its output, compared to 3 percent two years earlier. The firm now intends to establish a second production line exclusively for exports. (In this instance, the cost to the Productivity Fund of the Japanese consultant was less than US$25,000.)

These examples illustrate a general principle. When a developing country has for years been cut off from international best practice, the returns from outside consultancy assistance can be dramatic.

Growing Recognition of the Importance of Supply Assistance

Until very recently, most outside assistance for export promotion and marketing support had neglected supply problems. However, donors have now begun to rectify this neglect, with promising results. Several external donors have started to provide supply-related assistance to firms before or along with final-stage marketing assistance.

The International Trade Centre (ITC) of UNCTAD and GATT, the largest provider of assistance and advice in this area, has begun to experiment with what it calls the “enterprise oriented approach,” which involves providing individual firms with systematic consultant advice.

The European Community (EC) in its assistance in this area to nonassociated developing countries, which is the second largest program in this field after ITC’s, has recently begun to include supply-related assistance to firms in its major export promotion and marketing projects. The EC now generally undertakes integrated projects lasting three to five years focused on specific product groups. It conducts regular intermediate evaluations to guide the adjustment of projects to new circumstances and information.

Assistance to firms in adapting their supply capabilities has also become an important element in some projects by other agencies: the Developing Country Trade Agency (DeCTA) of the United Kingdom, the Center for the Promotion of Imports from Developing Countries (CBI) in the Netherlands, and the U.S. Agency for International Development (USAID). The World Bank has been one of the leading pioneers in assistance in this area and is believed to be the only donor to set up grant funds (see selection 1 for more details). The World Bank has given supply-related assistance through the Export Marketing Fund and Productivity Fund in India, as well as technical assistance in design in the Philippines. Four new export development funds have been created in India and an export support fund has begun to help exporters in Indonesia.

Access to Services

In any developing country just beginning to export manufactured products, the support services most needed will come primarily from abroad, from economies that already have well-developed and up-to-date versions of the industries and exports that are beginning to emerge. To make use of service suppliers overseas, exporters require ready access to foreign exchange, as well as to government approvals, such as travel visas needed to import services. Access to services abroad is generally blocked or uncertain until the country attains a convertible currency or, like India or Morocco, facilitates exports by giving exporters the
right to foreign exchange up to the equivalent of the value of the specified small percentage of their exports in the previous year, usable for a wide range of service transactions, and eases its restrictions on business-related travel. Actions to facilitate the use of services abroad deserve priority attention.

The development within the country of support services for manufactured exports tends to come about later, following export successes made possible by a promising policy framework and industrial capacity, at least for some export products. When exports first emerge, local service suppliers understand little of what exporters need. Only as experience is acquired by all concerned does the situation become ripe for developing suitable service suppliers within the country.

The government’s overall objective at each stage ought to be to expand exports rapidly by making available to exporters high-quality services that reflect the best advice and knowledge available internationally. This calls for facilitating access to service suppliers abroad, then as experience cumulates, fostering the development within the country of a number of competing service suppliers, some of them foreign owned, predominantly in the private sector. Vigorous competition in services will then ensure that service suppliers respond to exporters’ needs and that the country gradually develops a full array of local services.

Actions to further the objective described should be supported by external assistance and advice. For example, every World Bank loan or credit aimed at expanding manufactured exports should consider such actions.

Policies Toward Private Services Suppliers

The actions required are likely to involve new or revised legislation and regulations together with new procedures for administering existing laws and regulations. Services to support export expansion deserve a high priority wherever resources (such as foreign exchange) are rationed. New tax breaks, temporary subsidies, or other inducements may be required to foster the provision of services, not only by private firms, but also by organizations such as exporters’ associations and chambers of commerce.

Governments should abolish protection and monopolies in services for exporters and avoid restrictions on imports of services and on the use of service suppliers abroad. Entry and exit (closing down or bankruptcy) of service firms need to be facilitated.

Services for exporters are among the activities in which foreign participation deserves to be welcomed and encouraged. A foreign ownership presence in these services may be essential for eliciting a strong performance by locally owned firms. Multinational service firms, after all, have a wealth of experience and are strongly influenced by international best practice in services.

These recommendations are based in large part on the favorable results of lively competition in services in nearly all developed market economies and in leading East Asian industrializing economies. Typically this competition includes numerous foreign owned firms, including both subsidiaries within the country and services supplied from abroad.

In the long run, the vigorous expansion of manufactured exports, with all the learning that it engenders, will be infinitely more valuable than any initial loss of business or local control in services to foreigners. Moreover, a foreign owned services firm will be strongly motivated to train local nationals to take over key jobs in its local branch offices, since local nationals can learn to do the work just as well as people from developed countries, but typically require much lower salaries and rewards. The long-run result is that many of these local managers will later set up their own service firms or acquire full or part ownership of the branch offices, thus eventually indigenizing the services.
The Role of Public Sector Service Suppliers

In contending that export-related service suppliers should be predominantly private, we do not rule out service organizations funded largely by government, but in which the private sector plays a large role in direction and decisionmaking. Nor do we rule out all service provision in this area by public sector organizations. We do recommend, however, that as a rule, publicly funded service organizations charge commercial prices for services and face private competitors.

The positive influence that charging for services has in improving the services and expanding the resources available has recently become widely recognized in export promotion in industrial countries. As one respondent in a Western European, governmental service supplier put it, "Charging is the only way to justify our services." Australia's trade promotion organization, AUSTRADE, introduced general charges for services in 1986 as a means to test the relevance and quality of services, and to put its resources to the best use.

Whether service suppliers are actually privately owned probably matters less than whether they are in a competitive situation and act much like private firms. What is important is that these entities provide the services in a helpful manner similar to that of private suppliers in a competitive buyers' market. The government can try to achieve this environment through the composition of the organization's governing board and its legal status, salary scale, recruitment efforts, and working style, but this may be impossible in an economy afflicted by vast excess aggregate demand that is reflected in high inflation or widespread shortages. It may also be difficult to achieve in an economy in which private enterprise does not play a predominant role overall.

Multiple Suppliers of First- and Third-Stage Marketing Assistance

Assistance in the supply aspects of exporting includes help in the second stage of marketing: adapting supply to the target market's preferences and requirements. A useful complement to assistance in strengthening supply is helping enterprises in the first and third stages of export marketing.

Firms and nascent industries may well need help in the first stage, namely, selecting and exploring the most promising markets for their exports and identifying suitable products. This may call for travel to these markets. It may also extend to detailed market research with the help of service suppliers located in the target market.

For the third stage of marketing, that is, actually selling exports, firms often look for outside help in finding buyers and customers, countertrade or buyback partners, agents, representatives, or distributors. A consultant who specializes in a particular product may help a firm to adapt its supply package by making introductions and lining up visits to appropriate firms abroad. Exporting firms also often require advice on how to support sales with brochures, advertising, point-of-sale material, samples, and other evidence of their capabilities.

Assistance in third-stage marketing is most effective when combined with advice relating to supply and geared to the supply capabilities, orders already received, and learning stage of each individual firm. A high payoff is likely if marketing assistance is concentrated on firms with strong or much-improved export supply capabilities that are not yet reflected in their exports.

1. Tasks relating to export marketing that may well deserve subsidies, if not direct government support, include (a) providing commercial representatives abroad to help local nationals transact business abroad and to gather economic information; (b) publishing and disseminating trade statistics and other relevant information on the country's economy; (c) gathering and disseminating information that is useful to exporters and not readily available from alternative sources about the situation in other countries; and (d) helping to arrange for local exporters to participate in trade fairs, particularly when trade fair participants are grouped by country. One corresponding task relating to supply is setting uniform industrial standards and measurements in consultation with the relevant industries.
Meeting Exporters’ and Buyers’ Information Needs

A useful supplement to consultant advice to exporting firms is facilities to meet exporters’ information needs. However, exporters’ information needs are extremely diverse and quickly become very specific. Usually even a good library is insufficient, as is the typical official trade promotion organization (TPO).

Exporting firms require information on markets, in much comparative detail; on the supply package required in a selected market and how to supply it; on competitors’ technologies, equipment, and management systems; on potential buyers, what they generally buy, and details of their businesses; and much else. But while one entrepreneur is trying to learn about the U.S. market for men’s leather shoes, another is trying to learn about the German and British markets for ladies’ blouses, and a third is looking at export prospects in smaller countries for hand-operated pumps. One is searching for information on product designs and the supply package required, another wants to know about details of documentation and nontariff barriers, and a third is looking for distributors and potential customers. Every exporter wants different details, most of them specific to narrow product groups.

Meeting these varied information needs in a timely fashion is not a task suitable for a public monopoly supplier of information. What is needed is a large number of competing information suppliers, each with telephone access to many on-line data bases and other commercial information sources abroad, and many of them experienced and active in providing similar types of information in many different countries and settings. Thus, private suppliers are likely to form the backbone of successful information services in this area.

Foreign buyers looking for local suppliers require much more than an up-to-date list of firms in each product group and information on how to reach them. They seek extensive information on each firm, including its experience and past performance, production capacity, supply capabilities, finances, creditworthiness, and the ambitions and motivations of the people who own and run it. To start with they need enough information to focus quickly on firms of appropriate size and experience for their needs or a reliable short-list of two or three firms most suitable for them, with poor performers omitted.

A developing country has a strong interest in pointing buyers in the right direction, both to facilitate their finding a suitable supplier in the country rather than elsewhere, and to reduce the risk of a bad outcome that would harm the reputation of the whole country and the industry as a source of supply. This calls for liberal disclosure of very basic relevant information, for example, numbers of workers employed in each firm; the value of its sales, turnover, or shipments; the value of its exports in each year; and a precise description of the products it manufactures or exports. However, because data about individual firms is usually considered confidential and because governments are reluctant to appear to be favoring individual companies or supplying negative information about particular firms, they will typically provide only lists of firms that claim to be qualified.

A publicly funded body or, for that matter, a membership organization, faces considerable difficulties in providing information that fully reflects the greater suitability of one exporter over another for a particular buyer’s purposes. This can be done verbally in some circumstances, particularly if the organization offers buyers face-to-face advice in this area. Yet many of the weaker firms will likely resist the collection and maintenance of information and its use as the basis of recommendations. Vigorous competition among independent private information suppliers can, however, fill this need.

Support services important for exports are numerous. A list of private service suppliers within a country that are potentially valuable for expanding manufactured exports follows. Many of these suppliers can provide important export-related information as well as necessary services. An asterisk marks service categories in which foreign or multinational firms can make a major contribution because of their wide experience and connections compared to the typical local enterprise.
The information, know-how, and advice these suppliers and others, for instance, exporters' associations and chambers, provide frequently overlaps. However, as long as inward-looking policies predominate, many of these private service suppliers remain concerned almost exclusively with the country's domestic market. Only after policies change decisively do they invest in developing services and training staff to meet the needs of export-oriented manufacturing industries. Thus improvements in policies toward manufactured exports are generally essential for the development of suitable support services.

Following policy improvements, a program designed to facilitate and speed the development of export-oriented private services can accelerate export expansion. How best to implement such a program under different circumstances is a matter for surmise and experimentation. The government might be able to justify subsidies of one kind or another to key categories of private service suppliers who would offer export-oriented services within a framework of vigorous competition. As far as we know, however, experience in actually doing this is still practically nonexistent.

**Assistance Through Time-Bound Projects or Project Components**

In proposing that aid be given through time-bound project components, we reject the alternative assumption that has thus far dominated development thinking in this area, namely, that support for export expansion is a matter of establishing, supporting, or reforming permanent public sector institutions devoted to and in control of the various aspects of this support.

Building institutions to support export expansion is not like building an electric power company or a central bank that will be organized and operated in much the same way throughout the country's development. Rather, experience in this area shows that institutions created in the early stages of a policy transition remain unsatisfactory and start to hinder export development as the country's policies toward manufactured exports improve. Only by staying flexible during a policy transition can a developing country hope to make the most of its export opportunities and attain suitable institutions in the longer run.

Because of this, we favor a temporary infusion of specialized resources when and where they are most needed to achieve rapid increases in exports. While the need is unlikely to be
fully met through one such infusion, it could be met through a sequence of infusions, each somewhat different from its predecessors.

A project component directed at assisting export expansion through support services needs to address three interrelated tasks: (a) correcting exporters' weaknesses, particularly in supply; (b) fostering a variety of service suppliers to meet a wide range of export-related needs, including assistance required within the time-bound project component; and (c) instigating a promotion campaign to “sell” exporting to local business people.

Who to Subsidize and How

Success in fulfilling the three tasks outlined above usually depends on finding appropriate ways to subsidize the crucial services required. The leading alternatives are subsidizing or paying selected service suppliers directly or—generally preferable—giving cost sharing grants to exporters to help them pay for the services they need most. Box 1 presents practical and theoretical justifications for subsidizing support services to help enterprises expand manufactured exports.

Box 1. Justifications for Subsidizing Support Services for Manufactured Exports

Subsidizing services valuable for expanding manufactured exports can be justified in terms of economic theory as well as in practical terms, particularly if it is undertaken only for a limited period of time. Subsidies to services in support of exports are an internationally permitted means (and there are very few) of subsidizing manufactured exports that have powerful spillover or side benefits (what economists call positive externalities) for the overall economy. Side benefits can also be expected from the development of support services. The use of imported services appears, moreover, to have much larger positive results than most enterprises expect.

In a developing country, the export of manufactured goods leads to huge potential external benefits that cannot be internalized in the earnings of the exporting firm or those of the service suppliers helping this firm. These benefits involve, above all, technology acquisition, learning, and training. For example, people who gain experience in an exporting firm and then go to work for another firm or set up their own firm take with them the know-how and technology they have acquired. External benefits also come as a result of buyers' and customers' learning; imitation of successful firms; economies and agglomeration, including a more suitable division of labor; and improvements of products and technology in the domestic economy. Despite these large and numerous positive externalities, direct subsidies to manufactured exports are against the rules of international trade.

A pioneer service supplier may generate spillover benefits not only by expanding exports, but also by contributing to the emergence of desirable service activities and know-how benefiting the economy as a whole. Many of the eventual returns from the pioneer firm's efforts inevitably spill over to competitors and imitators and to firms in other activities, so its pioneer role may be thoroughly unprofitable without subsidies.

A different justification for subsidies is that exports (and hence services assisting them) are seriously underrewarded in developing countries that have only partially satisfactory policies toward manufactured exports. In particular, protection, exchange controls, depressed investment, and slow growth keep the exchange rate much less attractive for exports than would otherwise be the case. This justification disappears when policies and exchange rates become fully suitable for rapid expansion of exports, high growth, high investment, currency convertibility, and reduced protection.

Firms with substantial capacity and export potential, but still at a learning stage, often derive very large benefits—many times what they pay for the services, even at the full market rate—from effective support services of international quality. A further justification of subsidizing some services is that these services tend to be inadequately valued by potential exporters, while yielding benefits far exceeding what users are at first ready to pay. Providing subsidies to reduce the cost of these services may be essential to persuade exporters to use them and learn their value.
What forms of subsidy or equivalent assistance are cost-effective in promoting these export-related services in the early years of export development is an empirical and administrative question and a central issue for this study. Subsidies that promote competition within services and do not distort the pattern of services provided are obviously preferable.

Cost sharing assistance to service users appears to be particularly suitable. Temporary direct subsidies to two or more pioneer firms (perhaps local branches of experienced international firms) to allow them to demonstrate the feasibility and value of a new service activity may be justified, but subsidizing only one demonstration service firm would be difficult to justify.

**Importance of a Strong Promotional Package**

Several studies in industrial economies illustrate the differences between firms that export and those that do not. Particularly useful is one by Bannock and his colleagues (1987) that highlights the following differences between active exporters and passive exporters or nonexporters (see also Schwarking 1982; Cavusgil 1981):

- Active exporters view exporting as contributing significantly to overall profitability; the others do not.
- Top management in active exporters has a strong commitment to exporting and persists despite obstacles; exporting is seen as a board-level responsibility.
- In all active exporting firms, a board director spends several months each year overseas.
- Passive exporters and nonexporters are daunted by the added complexity of exporting; active exporters use service suppliers liberally at the start of their exporting experience.
- Only passive exporters and nonexporters see language as a problem.
- Of nonexporters, 55 percent have never tried to export.

These findings have important implications for external assistance for export development, since increasing the ranks of active exporters is one key to the systematic expansion of manufactured exports. Any project to expand exports should include specific promotion measures directed at turning passive exporters and nonexporters into active exporters. Thus a project generally requires a promotion campaign that will reach the top management of firms in the product groups the project is targeting or those considered most promising. It may also reach out to entrepreneurs in all industries.

Top management needs to be convinced that exporting can contribute significantly to overall company profitability, even if unit price realizations may be lower than in the domestic market. The promotion effort should also show management that the added complexity of exporting need not be daunting, and that using service suppliers liberally at the start of the process is the way to handle this complexity. Management needs to be made aware that the government and the team managing the promotion are making active efforts to make the support services needed to assist the export take-off accessible and available, and to provide firms with sources of advice and help in identifying suitable service suppliers.

**An Integrated Package of Assistance Around One or More Grant Funds**

In India and Indonesia, the World Bank has pioneered the use of cost sharing grants as the core of promotional and service-fostering packages aimed at encouraging and assisting businesses into active exporting. World Bank grants cover up to half the cost of the firm's

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2. Grant funds are also proposed as components in other World Bank projects now being prepared. Somewhat similar grant assistance for services is given in a less public fashion by many successful exporting countries, most of them in Western Europe. An openly publicized grant program,
Assisting Manufactured Exports through Services

programs to improve and adapt its supply, market development, and related export development operations. Firms can use the grants to help pay for expert services and travel associated with market exploration and initial marketing. Matching grants are the rule to ensure that the firm has a financial stake in getting value for money. The availability of the grants serves as one inducement in a powerful promotional and service-fostering assistance package. In India, the first two grant funds started in 1986 were followed by another four in a 1989 project, including successors to the first two managed by the same institutions. All four are called export development funds.

Active Firm-Level Promotion

Efforts to promote exporting face strong resistance among businesses. After experience with import substitution, entrepreneurs tend to mistrust profoundly any approach from a publicly funded operation trying to persuade them to invest their time and money in new directions. A persuasive promotional package is needed to overcome this resistance.

The promotional package in India is particularly comprehensive. Free advice is given initially to back up the sales message. This advice does not overlap significantly with the paid services available later in the process, but it does get the management thinking about the next steps to take after the salesperson’s first visit. Salespeople for the Export Marketing Fund have learned to undertake library research in preparation for this first visit to find out more about the company’s products and potential export markets. By doing this, salespeople are able to stimulate initial interest and to make their program very different from the publicly funded operations that management has come to mistrust.

While discussing the firm’s export development plan and offering help in drawing it up, the salesperson encourages the firm to use commercial support services in carrying out the plan. Experience has shown that firms new to exporting are generally slow to recognize the value of external advisory services. Reducing this resistance early on is important, since the support provided by external services at an early stage can make a huge difference.

The firm’s leaders are told that not only will advice be available on identifying appropriate service suppliers, but also that cost sharing grant assistance will be available to cut the initial cost of these services. Loans may also be available to help fund the costs of upgrading production. Moreover, the grant fund administrators stand ready to help firms design and prepare their grant applications.

Perhaps the most attractive element in the promotional package, especially in India, where controls abound, is that the unit delivering the promotional package is able to ease the firm through a wide range of important government clearances, which have been delegated to the committee that approves grant applications. The availability of this “one-stop” facility often makes all the difference in persuading firms to start taking exporting seriously.

Other Important Features of Grant Fund Schemes

In the grant schemes already under way, matching grants are given for a range of export marketing and supply-related activities, so long as they are undertaken as part of a properly planned export expansion program by an individual firm. This mechanism is designed above all to encourage firms to improve their supply capabilities and engage in appropriate preparation prior to actual selling.

through the Market Development Fund of Singapore’s Trade Development Board, was started over a year before the World Bank’s first use of grant funds in India. Ireland’s CTT started a grant fund for marketing in 1961 and another for design assistance in 1962. However, the World Bank’s grant funds have been the first set up through external assistance and are unusual in their emphasis on consultant assistance relating to supply.
In a setting where initial resistance to using services is particularly strong, the first two or three days of assistance might be fully grant funded to expose firms to the services consultants can provide.

As Ireland’s experience has shown, however, not going on too long with grants is important, else a “grant culture” will develop, in which exporting becomes dependent on receiving a continuing stream of grants. Applying the infant industry principle to subsidies, we suggest that firms are made aware from the start that grants will only be offered for an initial fixed period to launch exports. A second grant will not be given except in certain exceptional circumstances. When further grants are given, we are in favor of increasing the firm’s percentage contribution to ease the eventual transition away from grants.

Rules and procedures must be established to prevent grants from being diverted into activities that would have been undertaken anyway or being used for unproductive purposes. By way of example, the Export Marketing Fund in India is restricted to providing assistance only in difficult and highly competitive markets, and then only to firms marketing products that are new to them, entering markets that are new to them, or making a major change in the marketing of an existing product in an existing market. In its first years, the fund was further restricted to exports of 11 engineering product groups.

Rules such as these also have the advantage of focusing the promotional effort. The Export Marketing Fund team actively promoted exporting and the use of the fund to virtually all competent firms in each eligible product group. Sitting back and waiting for applications is unlikely to prove effective, whatever the rules.

*Complementary Loans*

Another part of the package can be a loan fund for export-oriented investments, administered by the same body as the grant fund. Loans are made available for activities that complement the recipient firms’ grant programs but do not qualify for cost sharing grants, such as purchasing testing and quality control equipment or data processing equipment, or expanding or re-equipping an existing plant.

Using matching grants or other subsidies for such purposes would be contrary to World Bank practice and open to objections and possible countervailing duties under GATT trade rules. Subsidies for services exporters use do not normally meet with such objections, unless the subsidies are linked in a one-to-one relationship with the direct costs of producing a particular item.

The World Bank has set up complementary loan funds along with its four new export development grant funds in India.

*Provision of Services by Donors*

As an alternative to the grant fund method, an increasingly common method for achieving a temporary injection of resources to assist export expansion involves specific donor-organized support services that help selected firms in promising product groups. This substantially reduces the choices available to users, so that we consider it inferior to the grant fund method in most circumstances. However, some bilateral donors and the European Community tend to favor this alternative method. One reason is that the aid can easily be tied to specific national suppliers of services.

Examples of this alternative method can be found in some EC trade promotion projects in recent years, such as one in Egypt being run by the Trade Development Institute of Ireland, and in an integrated project that one of the selection’s authors (Singer) designed and helped to implement in India for DeCTA.

The essence of the method is that a project or project component is contracted out to a private firm, typically a consultancy firm, that organizes and arranges consultant assistance to selected firms with promising export potential in a small number of product groups with strong export prospects. In each of these product groups the firms assisted face similar
problems. Thus one consultant can stay on the job for a considerable period and work individually with each firm, minimizing the travel costs for each visit. In the more effective schemes of this type, charges to the firms cover a substantial share of the costs. Assistance is mainly in supply-related aspects of exporting, but assistance in selling may also be provided once firms are ready for it. With the help of mid-course evaluations and corrections, resources are concentrated in the export activities that show the best prospects or best results.

The export activities assisted are chosen because they have recently become or are expected to become profitable, and a large expansion of these exports appears likely once the firms learn the necessary techniques and supply skills. Thus this method is best suited to a populous country with low labor costs in which policies toward exports are improving rapidly for several industries at once.

As with a grant fund, spillover benefits are likely to occur as key people from the assisted firms move to rival firms to set up their own businesses, and as firms imitate successful export activities. Local firms generally collaborate in providing the services and may gain useful training as a result, and collaboration with (or training of) local organizations concerned with particular product groups may occur, but the main consultants are brought in from abroad. No significant permanent addition is made to the institutions in the national economy.

Guidelines for Detailed Design of a Project Component

Complementary to our four major recommendations are further suggestions and proposals concerning practical choices and promising approaches in the design of a project component in this area.

**Duration of a Project Component**

Present practice suggests project components that last three to five years, but there is plenty of scope for further experimentation. For instance, the initial analysis and preparation phase could constitute a short, independent project component, followed later by a more extended component.

**Institutional Consequences**

Actions aiming at a rapid expansion of exports within a few years contribute to the creation of suitable support service suppliers through a creative process of learning and experimenting. Such a gradual, interactive process avoids the problems that result from freezing the institutional structure or recruiting permanent staff prematurely. A donor such as the World Bank can follow a first project component with a second that amends and improves the delivery mechanism.

**Investment Promotion and Support Services for Exporters**

Project components for promoting investment and providing support services for exports should almost certainly be kept separate. There is essentially no overlap in business customers or concerns between investment promotion and the support services discussed here. Experience suggests that when export promotion services to locally owned firms are combined with investment promotion, one task nearly always dominates to the detriment of the other.

**Targeting Exports and Monitoring Results**

We strongly favor specifying the impact each unit of expenditure in a project component should aim at, measured in terms of the value of the exports that result, and then carefully
monitoring the exports generated. All activities under the project component should lead to additional annual exports of at least a specified multiple, such as ten times the once-off project costs incurred, with these exports continuing for at least five years. Projects in India for DeCTA and the World Bank are using this approach. Experience with it indicates that it is a highly effective management tool for running such projects. However, monitoring may have to continue for, say, two years beyond the commitment of the funds to ensure a successful outcome.

**Built-In Flexibility and Mid-Course Corrections**

In a period of policy transition, the realities of exporting change quickly as policies are improved with the help of feedback from exporters, and as firms take up new profit opportunities. Accurately anticipating what will happen and what the results will be for exports is not possible.

A project design fixed in stone for three or more years cannot allow for unexpected changes, as EC assistance now recognizes. The three-year DeCTA project in India has incorporated an annual progress review into the project design, which leads to an annual redistribution of resources among separate activities, depending on relative progress in different subsectors and changing circumstances.

This means that the World Bank's continuing insistence on fixing the design of a project component for its entire duration is inappropriate to the assistance under discussion and should be modified. It may work well for large fixed-investment projects, but it works less well, in our view, for support for export expansion.

A useful element of project components in this area is the inclusion of built-in flexibility. Thus, if the project component provides support for three to five preselected subsectors, the allocation of resources among them could be only partly fixed in advance, and the subsectors could compete for the remaining resources based on their export results or firms' detailed proposals. In some instances it will be useful to include one separate, open-ended activity for assisting subsectors that emerge as successful exporters during the life of the project. Or some part of the funding can be preassigned to the chosen subsectors and another part set aside for a wider set of manufactured exports.

**Concentrating on Promising Product Groups**

A grant fund may be limited to certain product groups or industries. The first two grant funds in India were initially limited to selected engineering products, but were later extended to all manufactured products. The more open the grant fund, the less likely it is to exclude unique products with export potential, and the less the need to pick winners. However, the promotion that accompanies the fund should be targeted first at the firms considered likely to give the best returns in terms of additional exports per dollar of grant expenditure. Thus, selecting the most promising product groups can be an important aspect of choosing firms to be targeted. In the case of a project component that provides specific

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3. In the case of a matching grant, from the exporter's point of view, the discounted stream of profits from additional exports has to exceed the enterprise's half share of the costs of the consultant. From the government's point of view, the half it contributes (generally borrowed from a donor) ought to be more than offset by the value to it of positive spillover benefits (externalities) from these same exports, and/or additions to revenue generated. This is a more subjective and problematic calculation. A simple practical rule such as we suggest here is meant to ensure that these conditions are met. If the time profile of returns is unusual, a discounting procedure or another rule may have to be used.

4. We know that in practice, some World Bank projects are modified during implementation as part of the supervision process, but too often the original legal documents set tight limits on the degree of modification possible. The paucity of resources devoted to supervision constitutes a further constraint on mid-course corrections.
Assisting Manufactured Exports through Services

support services directly, concentrating on particular product groups is a central part of the design of this component.

Modern thinking treats the concept of comparative advantage as dynamic rather than static, recognizing that although the starting point in exporting may be low labor costs, before long, successful exporting units will depend on acquired advantages for much of their success, including skills acquired from previous export experience. Consequently, the existing manufacturing base is an unsatisfactory starting point for analyzing export expansion. Typically this base has been developed specifically to substitute for imports, and most of it has little prospect of becoming internationally competitive. Thus analyzing it, even using sophisticated concepts, may reveal little about where the country’s manufactured export opportunities lie.

Searching for elements of uniqueness in factor supplies, the availability of inputs, labor skills, relative factor costs, location, and transport costs can be more useful as a starting point. Also important is searching for what we call “attributes with uniqueness,” such as promising exports or export potential in unusual products. One way to do this is to examine underlying export flows to discover the existing strengths they indicate.

Project planners should also pay attention to the opportunities offered and the limits set by the system of bilateral textile and garment quotas in force in leading OECD countries, as well as preferential arrangements as they affect these products. Under the Multifiber Arrangement, the amounts of particular garments and the specific textile products that will be acceptable as imports in a major market without the imposition of quotas, and the approximate levels attainable if quotas are imposed, are known in advance. Thus a developing country can design a strategy to develop these export industries based on its right to quotas.

Project planners should also carefully examine the effects of recent policy reforms in the country since, in a transitional policy situation, the latest policy improvements may open the way to exciting new profit opportunities in exports. India, for example, exported much good-quality leather in the form of shoe uppers and more as finished leather. Then, within the last three or four years, reforms made imported shoe machinery, shoe components, and materials accessible to firms making shoes. This has created an opportunity for firms to move from making uppers into full shoe production wholly for export. The DeCTA project is concentrating on helping firms manage the move from simple sewing of shoe uppers into more fully mechanized, flow-line assembly of finished shoes. Already it is clear that the export returns on this technical assistance expenditure will be dramatic.

Evaluating Constraints

To facilitate and expand the export of particular products, project planners must examine the present state of each link in the export chain for the product to ascertain whether it is acceptable to large buyers. This evaluation requires interviewing exporters, potential exporters, buyers, and others. The assistance under the project can be designed to address the particular constraints to export expansion. Unless assistance addresses the main constraints affecting each product or product group, it is unlikely to have any impact on the expansion of exports.

Selecting Firms to Be Assisted

Scarce and expensive new services need to be directed at firms that will make the best use of them in expanding exports. This inevitably implies some mechanism for selecting firms.

In the first selection round, promotion efforts, and perhaps the services themselves, are targeted specifically on selected subsectors or product groups, and on the more promising firms within each group. If service development is supported through cost sharing grants to
exports, grant recipients can largely be left to do their own selection within these subsectors on a first come, first served basis.

If specific services are to be provided through the project component, further selection rounds are needed. In the second round, trying to preempt the ruthless selection that the market will eventually make is desirable. This can be done by using a surrogate for the community of buyers in selecting the firms to receive scarce services. Such preselection can improve overall cost-effectiveness by concentrating services on the eventual winners.

One method for doing this is to send an expert familiar with the target market's preferences on a tour of applicant (or eligible) firms to select firms "on behalf" of buyers. CBI and DeCTA are already using this approach. Another mechanism CBI uses is to conduct a market test on buyers using product samples from applicant firms. The buyers' responses are used as the basis of selection for further assistance.

Even when a buyer-surrogate approach to selection is used, we strongly favor charging for the services. Thus the final selection criterion is willingness and ability to pay. Charging for services also improves the motivation and attitude of firms being assisted. They take much more interest in the details of the assistance provided to ensure that they get value for their money. Charging also adds to the resources available for assistance. We believe that ITC's enterprise-oriented approach has been weakened by its failure to charge firms and by arbitrary selection of the firms assisted.

Additional Measures to Expand Service Supply

A time-bound project component typically requires the importation of suitable support services for export expansion in the product groups targeted. Development of a local supply of suitable services may sometimes be a feasible additional objective. The choice of how to bring forth the supply of needed services depends above all on what is possible in the given context. Firms in India supported by the World Bank's Productivity Fund and Export Marketing Fund have relied for the most part on consultants and services provided by experienced international service firms overseas, including Japan, Singapore, and other Asian countries as well as countries in Western Europe and North America.

DeCTA's India project provides services entirely in the form of temporary outside injections of British technical assistance to meet the temporary needs of export expansion. Thus, for example, British production management experts helping Indian firms get started in shoe assembly provide their services only in the short term.

Developing Export-Oriented Services

The potential exists of offering grants from a grant fund not only to prospective exporters, but also to service suppliers interested in offering suitable services to exporters. These enterprises could be asked to submit plans for reorienting their services. Key elements of these plans could then be funded through cost sharing grants.

This was attempted in each of the first two grant funds in India. The World Bank tried to induce local service suppliers to provide services for exporters by offering generous grants to support set-up costs, including training; however, this attempt failed. The grants were directed to the management consultancy segment of the consultancy services subsector, which at that time did not view export consultancy as a profit making opportunity. No grants were applied for. The timing was probably too early, and the idea is worth trying again.

Grant Funds and State-Provided Services

The use of grant funds for services provided by public sector institutions presents certain dangers. The grants are likely to be misused in one way or another. In our view, such assistance should be conditional on the full commercialization of these services within a set
period, and on the state extending no special privileges or advantages to its own service providers.

**Selecting a Local Institutional “Hook-Up”**

Choosing an institution to manage and implement a project allows considerable scope for experimentation. Part of the challenge is to select an arrangement where the individuals involved are strongly motivated to achieve the results desired. Managing a grant fund and carrying out the necessary promotion campaigns calls for people with a strong business background in marketing and production management. To attract and motivate such skilled peoples offering them permanent positions in an ongoing organization with an assured future may be necessary.

We see two options here. One is giving the management task to one or more permanent local institutions, such as development, investment, or commercial banks. The second is to give the task to a consultant firm (generally from abroad) operating under a term management contract.

In India the World Bank has had good results from directing its grant fund assistance through an industrial development bank (ICICI) and the country's export-import bank. Both are well managed and strongly concerned with exports. Some of the skilled people required to manage these funds were recruited from private businesses. Two leading state-owned commercial banks now also manage export development funds. Through managing a grant fund, financial institutions such as these have an opportunity to identify new lending opportunities and extend new loans. They can also acquire valuable information and insights that allow them to expand and improve their services to customers. Staff in such institutions can thus be strongly motivated to manage and promote the grant fund effectively and to help make grant recipients succeed in exporting and in expanding their businesses.

An alternative being proposed in World Bank projects now being prepared is to delegate the administration of the grant fund, under a management contract, to a suitable firm of management consultants. The terms of this contract would include bonus payments related to specific measures of performance, such as additional exports directly generated.

In Indonesia, the World Bank helped establish a new organization to take charge of a grant fund. The Export Support Board (ESB) was intended to be independent and run by people from the private sector. However, its newness and a need to comply with public sector budget and expenditure procedures have weakened its initial effectiveness. So has pressure from the Ministry of Trade and the official trade promotion organization, which is a directorate of the ministry. As a result, the World Bank has had to defend ESB's independence. The staff's concern about ESB's and their own future after the grant fund is spent has also caused a variety of difficulties. Yet despite these institutional difficulties and the consultants' unfamiliarity with the grant fund concept, the exports generated, particularly by supply-related assistance to firms, have (as in India) been very large relative to the grants given.

When designing grant fund schemes, World Bank staff typically find themselves under pressure to delegate implementation to the existing trade promotion organization. We definitely do not favor this approach. If the TPO both provides support services and approves grant applications, serious conflicts of interest will inevitably arise. The body approving grant proposals should have no vested interest in the supply of paid services. Moreover, these organizations are typically ineffective and do not enjoy the confidence of the business community. Motivating their staff to do this task well would be likely to prove extremely difficult.

As an alternative, experiments using nongovernmental organizations to deliver the promotional package could prove fruitful. A private bank would almost certainly be suitable. In some developing countries, chambers of commerce or exporters' associations may be sufficiently strong to handle this function. An altruistic not-for-profit foundation might be another alternative. Motivating the staff involved to do the task well while avoiding
undue favoritism may well be feasible in all or most of these arrangements. However, government resistance to the concept of delegating the responsibility for administering government funds borrowed from the World Bank to a private organization would need to be overcome. Investing the authority to approve grant applications in a committee dominated by government representatives would almost certainly be necessary.

Under the alternative method of providing support services directly, a consultancy firm based abroad generally undertakes management functions.

**Discontinuing Unsatisfactory Arrangements**

Our recommendation to rely on time-bound projects, while intended to apply to external assistance, can also be implemented by a developing country in its own programs in this area.

As new delivery mechanisms are created, we recommend that the use of methods and institutions that have proved unsatisfactory be systematically discontinued. Public or mixed public-private organizations providing export-related services are likely to perform better if they know that their future success and survival depend on the demand for their services, or at least their association with successful export expansion. Service quality can usually be improved by eliminating institutional arrangements that work badly.

**Summing Up the Strategy**

Our four main recommendations, in their simplest forms, combine to form a strategy for swiftly expanding manufactured exports by improving the export capabilities and performance of enterprises with strong potential in the most promising export industries.

We recommend that donors build project components around grant funds and direct each time-bound project component toward the overriding objective of expanding exports within the project’s time frame. At the same time, we recommend that the country be persuaded to dismantle policy obstacles to the use of consultants and other service suppliers from abroad, and that the country and aid donor both concentrate primarily on improving firms’ know-how and performance in the supply aspects of exporting.

To accelerate exports further, we also recommend fostering competing, predominantly private service suppliers based within the country as well as abroad. What is needed for this, most of all, is a favorable policy environment on all relevant fronts and vigorous, diversified export growth. Subsidies to service users through a grant fund are likely to contribute to the growth of the market for commercial services.

**The World Bank’s Potential for Popularizing These Approaches**

The World Bank now has a unique opportunity to develop effective instruments of assistance in the field of export promotion. Many developing countries are in desperate need of foreign exchange. The Bank wants to use policy reforms to encourage outward orientation, boost economic efficiency in the industrial sector, and contribute to growth through export expansion. Policy reform is undoubtedly central, but attention to services in support of export expansion represents a unique opportunity to sustain the reform process and boost exports faster.

The Bank is well positioned to adopt and popularize the approaches proposed here. It is not committed to any particular approach in this area. Its concern is typically to encourage developing countries to undertake sensible policy improvements to foster export and industrial development. Its loans are generally conditional on progress in this direction. The Bank is not restricted by a narrow mandate preventing it from giving policy advice. Revising its activities in this field requires no prior complex negotiation among numerous recipient countries and donors.

As the world’s leading development assistance agency, moreover, the World Bank exerts much influence on other donors and on developing countries’ economic policies and strategies.
It has long used this leadership to encourage the adoption of outward-oriented policies. Encouraging new initiatives relating to export support services would be a natural extension of this active role.
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SOME INSTITUTIONAL ASPECTS OF EXPORT PROMOTION IN DEVELOPING COUNTRIES

Paul Hogan

The purpose of this paper is to support the research the World Bank's Trade Policy Division has undertaken on institutional support for export promotion in developing countries. This research suggests that much of the outside assistance to institutions that provide support services to exporters in developing countries has been ineffective and that new approaches are called for.

The Bank has asked the Trade Development Institute of Ireland (TDI)\(^1\) to set out our analysis of the situation and, in the light of our experience, attempt to isolate those factors that underlie successful institutional development. At the request of my colleagues in TDI, I have undertaken this task. I hope that what I have written will cast light on past events and stimulate further inquiry in this important field.

On the central question addressed by the World Bank research, we can confirm that most trade promotion organizations (TPOs) in developing countries have not been successful. However, we regard this as a spur to increase efforts to reform and develop such institutions rather than as a signal to abandon them, because we are convinced that institution building is an inescapable part of a trade development strategy. As a noted writer on the subject puts it: "While it is true that institutional and administrative capabilities of developing countries vary tremendously, this fact actually strengthens the argument for the importance of institution building, because the alternative - when faced with a lack of institutional capability - would be to abandon development efforts altogether" (Rhee 1985, p. 205).

I have been connected with trade promotion in various capacities for more than a quarter of a century, first with Córás Tráchtála (the Irish Export Board), and subsequently with TDI. I joined the Board, universally known as CTT,\(^2\) in 1961, initially to help develop a design service within the organization. This was one of a number of new services developed under the leadership of a charismatic and innovative chief executive during the early 1960s.

Innovation was a characteristic of CTT, and many of the services trade promotion organizations worldwide now routinely offer were pioneered at this time. For example, CTT introduced the idea of cost-sharing subsidies to exporters to encourage them to undertake a variety of activities, from visiting overseas markets to commissioning redesign of their

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Paul Hogan is Chairman of the Trade Development Institute of Ireland. The production of this selection was funded by a grant from the Development Division of the Irish Department of Foreign Affairs to the Economic Development Institute of the World Bank.

1. The Trade Development Institute of Ireland was set up at the end of 1986. It is a private training and consulting organization staffed by people who were formerly in the public sector. We hope this gives us a balanced outlook; neither doctrinaire statist nor rabid private enterprise.

2. CTT started as the Dollar Exports Board. It was established in 1952 when Ireland was part of the sterling area and when that currency was inconvertible. The Board's mandate was extended progressively to other markets when it became a limited company, Córás Tráchtála Teoranta. On the passing of the Export Promotion Act of 1960 it emerged in its present form as a statutory body, the initials CTT being retained for reasons of euphony.
Throughout the 1960s and first half of the 1970s, CTT tried literally every promotional device to encourage exports and was to a large degree responsible for introducing an export culture into Ireland. Whatever the value of the former, and all commentators agree that CTT did contribute to the growth of Irish exports, although estimates of its success in financial terms differ, it was demonstrably successful in regard to the latter. Note that CTT's development went hand in hand with a process of trade liberalization that opened up the market to foreign competition, in return for access to first the British and later EEC markets; a process that spelt the death of import substitution, but without CTT to lead the charge and articulate the new opportunities opening up for Irish exporters, whether the policies would have had the success they had is questionable.

Enter the ITC

The International Trade Center UNCTAD/GATT (ITC) was established in 1964 to address the growing adverse balance of trade between the developed and developing countries. Initially experts believed that this could be done by providing market information, but a deeper analysis led to the ITC becoming involved in a range of developmental activities, including training and manpower development, advice on design and packaging, and institution building. From the outset, the ITC had close ties with CTT expressed in the employment of Irish experts on ITC projects and in study visits to Ireland by parties from developing countries. I first became involved with the ITC as an occasional lecturer in design and marketing on their training programs and subsequently graduated to undertaking short overseas missions for them. As a small, relatively bureaucracy-free organization, they were pleasant to work with.

The ITC approach was in the first instance missionary. A preparatory mission of executives from Geneva would “sell” export promotion to a developing country government. The government would be induced to request assistance from the United Nations Development Programme and from bilateral donors whom the ITC would “soften up.” Unfortunately, this process took a long time to work itself through, with the result that by the time the project finally started a year or so after the preparatory mission, the reasons for the original request would often have been forgotten.

The funds provided were used to employ advisers or experts whose activities were directed toward increasing exports. However, in most cases, little or no funds were provided to the government of the developing country to enable it to carry out the expert’s advice. Any funded activities, which mostly took the form of studies, had to be programmed long in advance and were discrete events rather than part of an overall program.

The role of the resident advisers was an unenviable one. Typically alone, they were attached to a trade ministry and expected to help increase the country’s export trade without resources or authority. U.N. practice forbade their advisers to take a line position where they could exercise their managerial expertise and direct subordinates. Instead, they could only proffer advice that, in the absence of resources to pay for its implementation, was often disregarded. As a result, the advisers’ role was essentially inspirational and dependent on the force of each adviser’s personality. To their credit, many advisers carried off this role successfully and had considerable impact on the activities and behavior patterns of those whom they worked with. Others, however, sat in their offices and wrote the odd ministerial speech. Neither they nor their hosts were ever quite sure what these advisers were supposed to be doing.

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3. Later, when TDI came to develop grants schemes for exporters in the Netherlands Antilles and eastern Caribbean, we drew heavily on the Irish experience.

4. The involvement became more formal in 1975 when I was asked to set up CTT’s Technical Assistance Programme, and from then until 1987, when I became Chairman of the Trade Development Institute of Ireland, I was responsible, as director, for the transfer of CTT’s experience to developing countries.
By U.N. custom, the advisers were supposed to transfer their expertise to counterparts. This system, which may have some merit in relation to purely technical activities that may be learned and reproduced, is utterly inappropriate for trade promotion advisers, whose chief asset is, or should be, their accumulated experience. A counterpart cannot be expected to absorb this experience "watching Nelly." The persistence of the belief in the counterpart system in trade promotion, in the face of all the evidence of its irrelevance, remains one of the subject's great mysteries.

The ITC attitude toward the development of trade promotion organizations in developing countries was a matter of controversy within the ITC. On the one hand, some people argued that a policy of isolated advisers and projects would not bring about change, and that to ensure any kind of sustained impact national institutions must be established that would become the focus of the ITC's efforts. A national "focal point" institution would coordinate the various government agencies, including customs, development banks, marketing boards, and so on involved in the national export effort and be the ITC's (and other donors') counterpart. On the other hand, a minority argued that the place for export promotion was in central government, and that setting up a separate organization would isolate the export promotion effort, weaken government support, and prevent the effort from receiving adequate funding. The "institutionalists" carried the day and the ITC became involved in the establishment of more than a score of organizations in developing countries and the support and development of many others.5

Although the ITC never formally adopted the Irish model (referred to as the "greenprint" by some commentators) as a standard in institutional organizations for developing countries, insofar as the Dublin-Geneva link was quite close and CTT met the ITC ideal of a strong, national, focal point organization, this may have appeared to be the case. Moreover, CTT was a parastatal body, 100 percent funded by government, and was therefore both saleable to developing countries and to some extent an exemplar that they could identify with. However, none of the organizations subsequently established reflected the key characteristics of CTT in its formative years, namely, strong leadership, innovation, commercially oriented staff, adequate funds for promotion, and a very light rein from government.

Once the ITC had decided on a policy of setting up export promotion institutions,6 a fairly standard sequence of events followed. The resident adviser in the ministry of trade prepared the ground for a High Level Symposium, whose object was to secure agreement on the establishment of a focal point organization. I participated in a number of these symposia, including those held in Dar Es Salaam, Freetown, Khartoum, Lisbon, Pattaya, Tunis, and Valetta. They lasted two or three days and were normally opened by the minister of trade or a senior cabinet member. If the advance person, the resident adviser, had done well, participants included senior staff from government, the export sector, and financial institutions. The presenters explained the principles of export promotion and related them to the local situation (albeit somewhat vaguely, as the symposium party were frequently making their first visit to the country). Case studies were presented and the participants invited to tease out the obstacles to increased exports. Among my duties was the presentation of the Irish and CTT story; however, I always stressed the differences between Irish and local conditions and emphasized that I was not recommending the wholesale adoption of features that had worked in Ireland. The final session of the symposium was always taken up with discussion of a resolution, prepared by the organizers, asking the

5. In his historical account of the ITC, Dr. Frederick J. Glover writes: "The growth of national trade promotion organizations in all regions, but particularly in Africa and Latin America, can be fairly credited, to some degree, to ITC's persistent promotion of such institutions as being crucial to success in export development" (1984, p. 64).

6. While these are now known as trade promotion organizations (TPOs), the initial focus was entirely on export promotion. Later the ITC developed programs designed to help rationalize and reduce the costs of imports to developing countries, on the basis that a dollar saved in imports was equal to a dollar earned from exports.
government to set up a statutory body to promote exports. This was invariably passed with acclamation. The following day the symposium party left for home leaving the unfortunate adviser wondering what on earth to do next.

With the wisdom of 1990 this process seems incredibly naïve. However, 20 years ago it seemed a logical way to proceed. Moreover, in a high proportion of cases the symposia accomplished their immediate objectives: legislation was enacted and institutions established. However, the institutions had no trained staff, were unclear about their objectives or had wildly unrealistic ones, and were pitifully underprovided for. With the limited resources at its disposal, the ITC’s assistance was restricted to supplying yet another adviser, this time attached to the institution, and providing short-term specialists for discrete events and some equipment. As with so many aid-funded projects, the bulk of the resources went on paying, transporting, and housing people.

From the developing country side, the institution was another burden on an already overstretched purse. Export promotion was admittedly a good thing, but unless it could be shown to have a rapid payback (which, it quickly transpired it could not), then it would have to take its place in the financial queue behind other more immediate projects. Thus, the new organizations, conceived as being funded by government grants, were from the outset denied adequate resources for development.

However, money was not the major problem. The fundamental flaw was in the process employed. Instead of starting with the export sector’s needs and devising solutions to meet those particular needs, readymade answers were provided in terms of institutions. The concept of the focal point was not necessarily wrong, and in the abstract the argument for it has a lot of force, but the homework to validate it in particular instances was missing. Further, the focal point was seen as an end in itself rather than as a means. ITC people were vague on what an export promotion organization could be expected to achieve, with what resources, and in what time frame. This was because very few ITC staff had first-hand experience of such organizations and depended on the often exaggerated claims made by established bodies concerning their services and impact.

The ITC, like other U.N. agencies, has to spread its available resources among member countries. The resulting situation, in which all are starved equally, is considered preferable to a policy of selectivity or concentration. Indeed, when I raised this issue with a former executive director of the ITC, he told me that selecting priority countries on any basis was out of the question. Thus, the ITC has never been able to deploy a critical mass of resources to make a significant impact in any developing country. In consequence, its project objectives have tended to be soft, emphasizing inputs rather than hard quantifiable outputs.

... and the EEC

While the European Community provided assistance to developing countries under the Yaoundé Agreements, it was not until the enlargement of the Community and the first Lomé Convention that trade promotion assistance began to play a significant part in the EEC’s affairs. Initially the assistance was confined to supporting developing countries’ participation in trade fairs, a reflection of a view of export promotion as promotion at the

7. TPOs habitually speak well of themselves. However, surveys and evaluations of export promotion organizations in developing countries, such as the EEC Evaluation Study of 1983-85, have usually revealed very negative attitudes on the part of exporters. Comparable surveys in developed countries would give a similar result. Exporters habitually discount the value of assistance received from official sources, while promotional organizations exaggerate their influence. The truth, as in most matters, lies somewhere in between, though precisely where is a matter of conjecture.

8. This is perhaps understandable in that the joint advisory group of the ITC, to which the executive director reports annually, consists of representatives of any U.N. member state that chooses to attend. Some 50 to 60 do and there is invariably intense discussion of the relative resources applied to various regions and subregions.
point of sale, but later the Community sponsored a whole range of activities including market research, missions, training events, and so on.

Starting more than a decade after the ITC program, the EEC had several advantages. First, the EEC conducted all trade promotion programs within the framework of trade agreements between the Community and individual states or groups of developing countries. Second, the Community's assistance to Lomé countries, the main focus of the EEC's program, was led by someone who had practical experience of trade promotion. Third, significant financial resources were available and, as trade promotion was only a minor element of most countries' indicative programs, "spreading the money around" was not an issue. Indeed, many countries did not seek EEC assistance for trade promotion, thus facilitating a policy of concentration. A fourth advantage, although not necessarily perceived as such by the EEC, was the small number of staff devoted to trade promotion. This led to a reliance on consultancy firms rather than individual consultants resulting, I believe, in heightened professionalism.

In CTT we were involved with the Community's trade promotion program from the outset. We undertook missions, provided consultancy services and technical assistance, and developed original training programs. While we continued to work with the ITC, relations became strained as the U.N. organization resented the new boy on the block (the EEC), and particularly the money in his pocket. When we provided advisers to the EEC program, they tended to run into their ITC counterparts overseas. This led to bruising territorial disputes.

The EEC was normally not involved in setting up export promotion institutions (all that could conceivably be established appeared to be already in existence), but we were asked to supply advisers to strengthen and develop organizations in a number of countries, including Bangladesh, Costa Rica, Egypt, Jamaica, Singapore, and Tanzania. Altogether, we gained a first-hand appreciation of the institutional situation in more than 50 countries and learned that, almost without exception, the official organizations for export promotion were weak and poorly regarded by those whom they were established to serve. During this period we elaborated the principles that guide our work today, namely, the importance of the policy framework, the centrality of the exporting enterprise, and the dependence of exporting on market-led decisions.

On one or two occasions we encountered green field situations where no institution existed, or only the rudiments of one. In Mauritius, a colleague and I laid the foundations for the eventual Mauritius Export Development and Investment Authority (M.E.D.I.A.). Another colleague, Michael Boyd, now managing director of TDI, established an export promotion unit in the Netherlands Antilles that supported the islands' few exporters with information and marketing grants. In Barbados I learned much from helping to bring into being the Barbados Export Promotion Corporation, a statutory body modeled on Jamaica's National Export Corporation.

Starting with trade fairs, the EEC's assistance back-tracked along the marketing chain to supply considerations like design, production, availability of raw materials and spare parts, specialized skills, and other inputs.

Initially supplying discrete elements, an adviser here or a study there, after the experience of its first wave of trade promotion projects, the EEC concluded that only well-endowed, integrated programs within a benevolent, or at least partly favorable, policy framework could hope to have a significant impact in a particular country. Such programs, based on a realistic assessment of the export potential of the country concerned, would have to take account of each link in the production and marketing chain as any weakness would

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9. Mr. G. P. Lee, who had previously worked for 14 years with CTT, rose to the position of assistant chief executive. He had also been employed as an adviser with the ITC, and was thus familiar both with export promotion institutions and the organization of assistance to them.

10. I was directly involved in a couple of these situations and they were both unpleasant and futile. The last thing considered in a dispute of this kind is, of course, the interests of the beneficiary country.
jeopardize the whole. The evaluation of 1983-85,11 the subsequent meeting of African, Caribbean, and Pacific (ACP) states in Abidjan, and inputs from consultants like ourselves have all contributed to this evolution of thinking and practice within the Commission’s DGI and DGVIII. The definition of trade has been widened to include services, in particular tourism, as well as merchandise.

Both directorates now favor a policy of concentrating on a small number of relatively large-scale, integrated projects in a few carefully selected countries. Whereas earlier projects were necessarily developed in a hurry, the current policy is to emphasize sound project design within comprehensive guidelines stressing impact and long-term viability. Projects are to provide for assistance to firms at all stages of the production and marketing process and are measured against quantified targets, such as attributable export sales and employment. The first of DGVIII’s projects to meet these criteria is the Zimbabwe Export Promotion Programme (ZEPP).12

While the ITC and the EEC provide the principal programs of support to promote trade from developing countries, many more exist. The World Bank and the Commonwealth Fund for Technical Cooperation have funded interventions and studies, and bilateral donors such as USAID have mounted integrated projects in developing countries. However, the ITC and EEC are the two donors who have most concerned themselves with the establishment and support of institutions.

Results?

What then is the result of all this activity during the last 25 years? I must admit at once that the record is a fairly dismal one. After the involvement of thousands of experts and the expenditure of millions of dollars, the overall trade position of most developing countries has worsened and very few self-sustaining and effective institutions have been created. While oil shocks, poor commodity prices, and droughts have contributed to the developing countries’ poor performance, the most depressing fact is their failure to develop policies and strategies that would lead them toward long-term sustainability. This points to grave weaknesses in institutional structures and human resources.

In a World Bank paper that describes the export promotion institutions of Hong Kong, the Republic of Korea, Singapore, and Taiwan, China, Keesing (1988) correctly states that outward-looking policies are at the root of their export success. While recognizing that the institutions in the four countries provide effective support to their traders in a variety of ways, Keesing implies that in the absence of appropriate policies, such institutions could not succeed.

In a later paper, Keesing and Singer (selection 1) describe the development of trade promotion institutions as a fundamentally inappropriate strategy for most developing countries. This seems to me to be a flawed argument that contains within it the danger of replacing the ITC’s focal point dogma with an anti-institution dogma of similar crudity. The four successful exceptions are just that: exceptional. They are exceptional in their high level of development, excellent infrastructure, and abundance of human resources, both in terms of managerial competence and trained labor. To attribute the effectiveness of the Hong Kong

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11. This was an evaluation of the EEC’s trade promotion programs carried out by CTT and MPR Braunschweig under the leadership of the late J.J. Byrne. It covered nine countries in Africa, Asia, Latin America, and the Caribbean in depth and produced a trenchantly critical document.

12. The ZEPP is a complex and integrated series of activities designed to boost exports of Zimbabwean nontraditional manufactured products. It has four components: sectoral development aimed at overseas non-African markets, market development aimed at regional African markets excluding South Africa, human resource development, and institutional development. Total EEC funding for the ZEPP is ECU 4.4 million. The project provides for seven man-years of long-term technical assistance during a three-year period in addition to short-term consultancy inputs in market research, product development, training, and so on. The ZEPP commenced operations in September 1987 and was scheduled to end in September 1990.
Some Institutional Aspects of Export Promotion in Developing Countries

Trade Development Council, the Korea Trade Promotion Corporation, the Singapore Trade Development Board, and the China External Trade Development Council to the outward-looking policies of the economies alone may be overly simplistic. There are other reasons, such as their autonomy and the fact that they were set up following extensive consultations with the business community. They are impressive and well-run organizations in countries where such organizations are generally efficient and well-run. In other words, they conform to an environment that is generally benign and institutionally supportive. While conceiving of a radical change in the trade policies of the four countries is difficult, one suspects that if such a change occurred, these organizations would comfortably adapt to it and make the best of the new circumstances. Consequently, I believe that one should be wary of drawing unduly on the experience of the four successful exceptions, and in particular avoid the conclusion that outward-looking policies alone are at the root of their success.

What then of the more than 60 other countries that have set up trade promotion organizations? What has been their experience? Sadly, the reports are generally poor. In countries where inefficiency and corruption are rife, the trade promotion organization has conformed to the norm. In places where the public service is more dynamic, the TPO has reflected this dynamism. M.E.D.I.A. in Mauritius is an example of this. Well planned and executed activities and events can be ascribed to quite a few organizations, but nowhere, unfortunately, can one find a correlation between export performance and the activities of a TPO that would attest to the institution's value. Discussing this record and the generally low effectiveness of institutional support, Keesing and Singer (selection 1) suggest four reasons:

1. the legacy of import substitution policies,
2. the lack of attention to supply problems at the firm level,
3. the lack of donor leverage and donor acceptance of low impact,
4. an ineffective service-delivery mechanism (TPOs).

This diagnosis seems at once too global and too specific. The legacy of import substitution policies and the challenge involved in turning from an inward-looking policy to an outward-looking policy is a fact of development that affects not just the trade promotion institution, but the whole body politic. It is an environmental factor and not a reason for a TPO's success or failure. Indeed, the massive effort involved in changing perceptions and attitudes is one of the main reasons for establishing some kind of promotional body. TPOs may indeed be ineffective and inappropriate at certain times and in certain circumstances, but to question their existence on a global basis seems altogether too sweeping.

On the question of donor lack of leverage and acceptance of low impact, I am in full agreement, although I would suggest that this is not specific to institutional development for trade promotion, but applies equally to many other aspects of aid and technical assistance. In regard to trade promotion some change is evident, particularly in the policies the EEC is now applying.

I believe that five more reasons bear directly on the relative failure of trade promotion institutions in developing countries, and that these may be at least as important as the four Keesing and Singer listed. These are:

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13. The list of developing countries that have set up specialized trade promotion organizations includes: Algeria, Bangladesh, Barbados, Belize, Botswana, Burkina Faso, Cameroon, Chile, China, Colombia, Costa Rica, the Côte d'Ivoire, the Dominican Republic, Ecuador, Egypt, Gabon, Ghana, Guatemala, Guyana, Honduras, Hong Kong, India, Indonesia, Iraq, the Islamic Republic of Iran, Israel, Jamaica, Kenya, Malawi, Malaysia, Mali, Mauritius, Mexico, Morocco, Nepal, the Netherlands Antilles, Nicaragua, Niger, Nigeria, Pakistan, Panama, Paraguay, the People's Republic of the Congo, Peru, the Philippines, the Republic of Korea, Senegal, Singapore, Somalia, Sri Lanka, Surinam, Syria, Taiwan, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Uganda, Venezuela, Vietnam, Zaire, and Zambia.
1. poor positioning,
2. inadequate human resources,
3. lack of sustained intervention,
4. weaknesses in design and process,
5. bad advice and advisers.

**Poor Positioning**

The anti-institutionalists in the ITC were right in that many TPOs in developing countries were positioned in a way that condemned them to ineffectuality. They were typically set up under the auspices of ministries of trade, which in many countries are the most ineffective ministries, low both in influence and spending power. Even if this was not the case, the average ministry of trade was in a weak position as it achieved many of its objectives by coordinating a range of policy and administrative measures that were usually taken by other ministries. The most senior staff member of the TPO rarely carried the weight needed to effect policy decisions or to secure the resources necessary for the organization to make an impact. This meant inadequate funding and an inability to undertake serious promotional efforts. In extreme cases, organizations did nothing at all and merely served as a passive channel for foreign aid.

The poor positioning of these organizations reflected a lack of foresight by their sponsors. The ground had not been prepared and their establishment was premature, in that there was no broad consensus on their objectives or importance. The right time to establish an institution for trade promotion is when there is a clear understanding of its task in the context of forthcoming policy changes. To wait until the policy framework has become entirely favorable to exports is unduly cautious—besides which the wait may be a long one—and takes no account of the institution's potential as an agent for change. Ideally, the TPO should be put in place when the government demonstrates a clear political will or aspiration to increase exports and transform the economy. The TPO should mediate and lead the change, assisting exporters to adjust to policy changes that, unless irreparable violence is to be done to the economy, must be gradual in nature.

**Inadequate Human Resources**

Export promotion is a people business. The main resource of any TPO is its staff. They must understand the requirements of the marketplace and the productive capacity of the exporter and have the know-how and credibility to bring them together productively. In my experience, very few developing country TPOs have personnel that meet this specification. First, experienced marketing personnel are in short supply anywhere, and in a developing country the private sector snatches up such people. Second, for TPOs that are in the public sector (and most of those in developing countries are), the remuneration package is insufficient to attract high caliber people. Very often salaries have to conform to government pay scales, which are well below those available elsewhere.

When many developing country TPOs were established, they were initially staffed by civil servants, transferred perhaps from the ministry of trade. This was a self-defeating expedient as it brought the practices of government bureaucracy to the TPO and ensured that the exporting community would have little confidence in it. The passage of years has resulted in little improvement, and in many countries responsible executives have little experience of international marketing. For example, in Egypt export managers in public companies have never visited foreign markets, and the staff of the TPO are not equipped to compensate for this.

With the exception of the leading handful, developing country TPOs have failed to develop a self-sustaining core of capable staff. They have never been able to operate at a level that inspired the confidence of their exporter clients and overseas buyers. Most TPOs
have availed of overseas donor-financed training programs but, unless linked to an ongoing staff development program, these courses have little lasting impact.

At all levels of staff, most developing country TPOs were ill-equipped for the tasks they had set themselves and never really got off the ground. The requisite staff were not available initially and the organization failed to develop personnel to fill the gaps. As with everything else, the personnel situation was worst in countries where qualified people were in short supply generally. In East Asia, notably in the four successful exceptions, the problem was less acute.

**Lack of Sustained Intervention**

Most development experts now generally accept that institution building is a long, drawn-out affair that requires patience and commitment over a period of years. This is particularly true when the institution has to alter the cultural context in which it is set. Most TPOs were established following donor intervention and then set adrift with minimal guidance and support. Where assistance was provided it was measured out in months instead of years. There were unrealistic aspirations for rapidly increasing exports that failed to recognize the slow payback of export promotion activities.

In particular, donors did not appreciate the huge gap that separates an economy geared toward exports from one primarily dependent on the internal market. This difference extends to many aspects of life: education, social organization, business methods, and that amalgam of attitudes and practices that we call culture. Essentially the difference is concerned with the adoption of international standards before national ones, the abandonment of parochial values (which small countries are particularly prone to), and the adoption of an outward-looking philosophy in which "best in Ireland," say, becomes a meaningless attribute.

When, in developing countries funded programs failed to yield rapid results, donors and governments were disappointed. Over the years, however, we have learned that no quick fix is available, and that in export promotion we must be prepared for the long haul. As a recent study put it: "Donors should place their efforts in a longer term framework; they need to recognize that capacity building is at the heart of the matter and that strengthening institutions and developing capabilities is a long process that demands vision and persistence over decades, not years" (World Bank 1989, p. 193).

**Weaknesses in Design and Process**

The process by which most developing countries' TPOs were established was faulty. Significantly, the most successful were the fruit of a long process of consultation and coalition building. Just how long this process should take is determined by the cultural norms of the country concerned, the ease with which consensus is habitually arrived at, the distance separating the major parties (in the case of trade promotion organizations, the government and private sector exporters), the strength and example of existing institutions, and the degree to which the economy and people are inward- or outward-looking. However, as a general principle I would suggest that the more measured the process and the more extensive the consultation, the stronger the resulting institution. This approach recognizes that exporting is a partnership in which government sets the ground rules (even in liberal Hong Kong or Taiwan) and exporters do the business. Unless the principal parties are committed to this joint endeavor, in which the TPO is the pivotal element, it will not succeed. Some countries maintain an easy relationship between business and government. Under such circumstances setting up institutions is relatively simple and the process can be brief. In other countries, in a postcolonial phase perhaps, the two parties have conflicting objectives and regard each other with deep suspicion. In such cases consultation will be long and drawn-out as the process involves the generation of mutual confidence where little existed before. In my experience the sponsors of developing country TPOs paid too little attention to process and coalition building. The result was the creation of institutions in
which no one had a sense of real ownership and that were imposed on the exporters rather than being an expression of their needs and aspirations.

Over the years, in CTT and later TDI, we have learned that nothing is easier than diagnosing institutional ills and prescribing remedies. In earlier times we were foolish enough to believe that in designing an organization and specifying the human and financial resources required we had achieved something. Sadly, many consultants still live in this fantasy world. Nowadays we know that the real task is to persuade others to adopt solutions, to resolve conflicts, to bring people together, to educate, to explain, and eventually to transfer ownership of an idea or institution to another party. In Zimbabwe we have taken this road. We do not yet know if we will succeed but we know of no other way.\textsuperscript{14}

\textbf{Bad Advice and Advisers}

The donor agencies bear a heavy responsibility for the failure of many developing country trade promotion organizations. They forced their development rather than allowing them to develop organically, and then prematurely abandoned them to their own devices. The analysis on which the TPOs were based was often shallow and the prescription readymade rather than tailored to the specific conditions existing in the developing country. This is perhaps unsurprising as often the foreign consultant only spent a matter of weeks in the country before giving a diagnosis. How can anyone be expected to absorb the complex trade, social, and cultural patterns of a country in such a short space of time? To be qualified to offer institutional advice demands, first, knowledge of the subject country; second, wide experience of institutions in different contexts and cultures; third, an open mind receptive to the possibility of original design and solutions (such people are normally good listeners); and finally, an ability to conceptualize, sell ideas, and build coalitions. Few of the trade promotion advisers whom I saw in action answered this description. Most were theoreticians, wedded to a particular organizational concept and entirely lost if they moved away from it. They would follow their "party line" irrespective of the country they were in.

Export promotion is a very inexact discipline that has over the years provided a refuge for a variety of misfits. It is unfortunate that some of these made their way to developing countries where they emerged as advisers, and while perhaps they did little damage, they certainly did little good. The task of developing trade from nontraditional or emerging sources needs the highest level of committed expertise. Unfortunately, in the crucial area of institutional development, few developing countries got it. Those countries that did make progress did so almost in spite of advice from donors.\textsuperscript{15} In general, I believe that developing countries that sought to establish trade promotion organizations were incompetently advised, and that this was a major factor contributing to subsequent disappointments.

\textsuperscript{14} The government is currently considering the proposals for the Zimbabwe TPO, ZIMTRADE. They are the product of three years of study and consultation and were prepared by a joint government/private sector working group. The organization proposed is one that is private sector driven, but that will be "official" as concerns government support and patronage.

\textsuperscript{15} Some years ago we were asked to advise on the development of the Singapore Trade Development Board. We rightly judged that this would become one of the most dynamic organizations in the developing world and were suitably honored. However, the Singaporeans quickly made it clear that they valued our advice on only one or two aspects of their organization. For the rest, they correctly believed they had nothing to learn from us. Most developing countries do not have this confidence and perspicacity to pick and choose between advice and advisers.
Key Success Factors

While identifying the reasons for the failure of TPOs is relatively easy, suggesting factors that would make for success is more difficult. A difficulty is that there are so few successes, and those like the four successful exceptions may owe their success to special circumstances not found elsewhere. Concluding that the establishment of TPOs in developing countries was a fundamentally flawed strategy, as Keesing and Singer have argued, is tempting. However, such a conclusion would discount the evidence from OECD countries, several of which have what are regarded as successful TPOs. These range from parastatals like CTT in Ireland to membership bodies like the Swedish Trade Council that carry out a variety of promotional and developmental activities funded in different ways.

While regarded as "successful," precisely quantifying the contribution that these organizations make to national exports is almost impossible. Over the years, CTT initiated three consultancy studies designed to measure the share of exports that could be attributed to CTT's intervention. All established that CTT made some contribution, that it was greatly in excess of the subvention provided by the state, but that a precise answer was impossible. I understand that studies carried out in other countries have yielded similar results. Measuring the impact of individual events like trade fairs or missions is possible, but the organization's overall contribution is a matter of judgment. The trade promotion institutions of Western Europe are generally considered to be effective by governments and exporters and are supported on this basis. It was their success, or what was adjudged to be their success, that provided the headline for developing countries. However, we should note that the OECD countries possess a greater variety of organizational types and models than are found in the developing world. Thus we might conclude that the latter organizations are not organic growths suited to local conditions, but essentially foreign transplants.

I have had the opportunity of studying many TPOs in both developed and developing countries, and I have concluded that no universally applicable model exists. However, all successful trade promotion organizations appear to have a number of factors in common. These are:

- autonomy - in operations,
- confidence - from government and exporters,
- relevant services - keyed to the real needs,
- overseas representation - in the country's major markets,
- staff - experienced and trained for the job,
- sufficient finance - to do the job well.

Autonomy

Autonomy does not mean independence. If the concept of a national trade promotion organization is accepted, then it must operate within a framework of government policy. However, a trade promotion organization serves the business community and to be effective must emulate its "clients" style and flexibility. Quick response is essential, and this is only possible in an operationally autonomous body that can take its own decisions based on commercial considerations. Many developing countries felt that they could achieve the necessary balance through parastatals that, in theory, would combine the integrity and accountability of the public service with the private sector's commercial approach. However, the greenprint did not travel, and parastatal TPOs in developing countries ended up embracing the ethos of the public service that they were supposed to be free from. As the late J. J. Byrne (1985) wrote about such bodies: "Outlook and work practices are affected by the attitudes and approaches that characterize and are proper to the civil service. These are not the most effective in an industrial or commercial environment, where entrepreneurial vision rather than administrative ability is required" (p. 14). Whether in Europe or in the Far East, the most highly regarded TPOs are autonomous bodies responsible only to their...
boards of directors and with day-to-day programs directed by their chief executives without outside interference.

**Confidence**

To be effective, trade promotion organizations must enjoy the confidence of both government and exporters. Government must be confident that the policies being pursued are likely to achieve the desired results and that the organization, if centrally funded, is good value for money. In many countries the TPO's location within the public sector makes it a nonstarter as far as the confidence of exporters is concerned. Even outside the public sector this confidence is not readily secured, but must be earned by demonstrating successful operations and service.

However, purely private sector bodies, such as chambers of commerce, may not be the most appropriate developmental institutions as they are almost bound to take a short-term view in the face of immediate demands from their members. Moreover, such bodies may suffer from the disadvantage of not having the wholehearted support of government, which is essential to any national export promotion effort. If the government has set up the TPO it will, at least initially, have confidence in it. Unhappily, the experience of many developing countries is that the TPO, established in a burst of enthusiasm following a symposium or consultants' report, rapidly lost the confidence and financial support of government when it failed to live up to the unrealistic claims made for it.

Confidence is also related to confidentiality. Exporters must be sure that the details of their business operations are not in danger of being leaked, however inadvertently, to competitors or to government. Exporters in developing countries are generally more comfortable dealing with nongovernmental institutions as they associate the civil service with traditional bureaucracy, controls, and prohibitions rather than with development.

The issue of confidence may hinge on the caliber of people involved in the TPO and on the key positions of chairman of the board or council and the full-time chief executive. Unless exporters can immediately perceive these staff to be commercially and administratively competent, obtaining their confidence will be difficult, if not impossible. One might add that there is no reason for government to repose much confidence in such an organization either.

In general, successful TPOs have boards that are largely business-oriented, with at their head as chairman an outstanding business leader of distinction and acknowledged integrity. My experience is that confidence is earned over a period of years. If a TPO can be seen to be helping exporters then their support is assured.

**Relevant Services**

The services trade promotion organizations in different countries offer vary greatly, but some activities are common to most and may be considered core services. These are:

- commercial intelligence;
- market investigation and research;
- services to foreign buyers;
- group promotions (that is, trade fairs, missions, exhibitions);
- transport and shipping advice.

Additional or optional services (in the sense that not all TPOs offer all or any of them), are:

- provision of a consultancy service for exporters,
- design and product development,
- packaging assistance,
- administration of incentive schemes,
- licensing and certification,
- training of exporters,
Some Institutional Aspects of Export Promotion in Developing Countries

- investment promotion,
- direct marketing and trading.

The selection and scope of services in a well-run TPO depends on the exporters' needs. These vary with changes in the export environment and the development of exporting companies. The TPO that is close to its client group is therefore constantly introducing new services and eliminating those that have become irrelevant.

Another characteristic of successful TPOs is a recognition that exporters are not a homogeneous group, but have different needs according to sector, sophistication, and scale. Most developing countries typically have a small group of strong companies, often foreign owned, and a large number of small, poorly managed, and financially weak ones. The former group's requirements are precise and detailed. They need information on trends, competitors, and prices in their target markets and details of buyers, agents, and distributors in potential or future markets. This information is in support of established marketing plans and the TPO will normally only be one source, albeit an important one, for this information. Leading the second group are companies that may have no marketing plans or for whom exporting is an occasional or opportunistic activity. These may need help in assessing their resources, developing strategies, and moving into export markets in a planned way. The assistance must be continuous, over a long period, and based on an intimate knowledge of the enterprise.

However, the largest element in the TPOs portfolio may be companies that are not currently exporting, but which with assistance and adaptation have the potential to contribute to the export effort. Such companies need a comprehensive business service with the emphasis on training and company development.

Just as a less sophisticated exporter will require more assistance than an established one, so in general developing country TPOs need to provide more extensive services than those of the industrialized countries. However, the essential factor is that whatever services are offered are geared to the needs of the exporters and that the assistance is flexible and delivered speedily and efficiently. This is the hallmark of a successful TPO.

Overseas Representation

Exporting is initiated at home but takes place overseas. Consequently, an export promotion organization must have access to professional trade representatives in the markets that it services. Without them it is isolated and will be unable to offer the up-to-date information and guidance essential for exporters. Nor will it be able to make contact with agents and buyers or prepare itineraries for exporters visiting the market.

All effective TPOs, notably the four successful exceptions, maintain their own network of representatives or have access to commercial representation through their foreign affairs ministry. While the latter arrangement has worked well for some OECD countries, it has generally failed when employed by developing countries. The reason appears to be a combination of inadequately trained personnel, conflicting responsibilities, and the pressures imposed by a small diplomatic establishment overseas. Undoubtedly, overseas representatives attached directly to the TPO have achieved the best results. However, more important than the representatives' location is their caliber. They must be aggressive and experienced sales personnel capable of holding their own in the marketplace.

The choice is not simply one of independent offices versus commercial counselors attached to embassies. Developing country TPOs have successfully established other kinds of representation through agency agreements, honorary consuls, traveling salespeople and trade consultants. The latter is an arrangement where well-connected local businesspeople, perhaps nationals of the exporting country, provide services to exporters on a daily fee basis.

Staff

Probably the most important success factor is the caliber of the TPO's staff. Good staff make good organizations and vice versa. In many TPOs that I have visited in developing
countries, the single most common weakness was the staff; and if the staff are not up to the job, nothing else really matters.

Very few developing countries have a pool of people capable of staffing a TPO. Usually the few graduates with international marketing experience occupy senior positions with subsidiaries of international companies. In this situation the developing country TPO has to develop its own people—grow its own timber—by means of a structured, long-term training program. In my experience, very few have done so.

A training program for young export promotion executives from developing countries should combine academic study, practical on-the-job training, and overseas experience. If the recruit has no commercial experience, it should certainly involve an extended period with the export marketing department of a major company. Attachment to a TPO in a developed country or with one of the four successful exceptions would also be useful. However, throughout the training, the TPO's new staff should be given the opportunity to apply their newly acquired knowledge continuously.

The kind of program proposed would take years rather than months and would undoubtedly be expensive. Therefore trying to ensure that the candidates stay the course and the organization gets good value for its money is essential. This means that the TPO must provide competitive remuneration and conditions. Again, only the best TPOs do so, and elsewhere service with the TPO is viewed simply as a handy jumping-off point for the private sector.

Our training programs have tried to meet some of the manpower development needs of developing country TPOs with short, intensive courses that link theory with practical, hands-on experience. However, we know that unless these programs form part of a larger manpower development program where participants can apply what they have learned immediately on their return home, the program's influence is lost. I believe that there are too many short, donor-funded training programs and not enough long-term manpower development.

**Sufficient Finance**

All the effective TPOs I have encountered are adequately financed. They command sufficient resources to undertake activities to help exporters achieve their goals. Their revenues are sufficient to maintain a high-caliber organization, reward staff at competitive rates, and fund a program of promotional events.

Some of these organizations, particularly those in Europe and East Asia, may even be overendowed. With large guaranteed funding, complacency and inefficiency can set in and considerations other than commercial ones start to drive the organization. But in recent years, tightened budgets have led some organizations to start charging for their services, with benefits in terms of increased efficiency and financial accountability. However, there remain developmental activities with a long payback period that TPOs cannot charge for and that must be funded centrally.

Trade promotion organizations are funded in various ways: by government grant, by levies on imports or exports, by membership subscriptions, by charging for their services, or by a combination of all these methods. The commonest method in developing countries is by government grant-in-aid. The advantage claimed for this form of financing is that it relieves the organization of having to generate revenue from other sources, allows it to concentrate on long-term objectives, and, nationally, gives it a stable, inflation-proof income. The reality more often is that grant-in-aid is subject to arbitrary curtailment, and as it is approved from year to year only, inhibits long-term planning. This has reduced many TPOs in developing countries to a dependence on foreign aid for funding many substantive activities.

Another method used for funding export promotion in developing countries is a levy on exports, imports, or both. A relatively small percentage levy, if applied to all exports or imports, can yield a substantial annual revenue sufficient to meet the TPO's expenses and provide funds for promotion and development. A variation of this is where the government
imposes a more substantial levy for a short period (as in Thailand) and establishes a
capital fund, the interest from which is devoted to export promotion. A further, although
largely theoretical, model is a combination of both statutory funding and levies where the
basic organization is supported by government grants and its promotional activities are
funded from a levy on exports or imports.

Objectors to this kind of arrangement say that it is essentially counterproductive because
it adds to the cost of exports and increases export prices. Moreover they say, it is
discriminatory in that sectors unlikely to benefit from the TPO's activities pay for them at
the same rate as those that do. While the whole community benefits from increased export
earnings, the exporters alone are required to meet the promotional costs. (The earmarking of
taxes for special purposes is also distasteful to budget specialists and fiscal economists, but is
probably unlikely to worry the average exporter.)

The response, which rings hollow in the ears of many exporters, is that the levy is so
small that it has only a marginal effect on export prices and is, in any case, offset by
increased sales consequent on the export promotion program.

Some countries use levy on imports as a way to pay for export promotion. The objections
to this are similar to those raised against an export levy; by increasing the cost of fuels and
raw materials it will increase export prices. If essential imports are excluded from the levy,
then a higher percentage rate must be applied to the remaining nonessential items.

The most powerful argument in favor of trade levies as a means of funding export
promotion is that the most successful TPOs in the developing world employ them (Keesing
1988, TDI 1988). Conversely, the weakest organizations are those funded by government
grants.

Instances where TPOs are supported by membership fees or subscriptions are uncommon
(the Swedish Trade Council is an outstanding example). In this approach the exporters take
the lead and the state plays a supporting role. Government may contribute financially to
such organizations by commissioning them to provide specified services, for example, to
small-scale enterprises, but the important point is that the TPO operates within a
framework established and financed by the exporters themselves.

The remaining method of funding has been referred to already, that is, for TPOs to
charge fees for services provided to exporters. The principal advantages associated with
this source of funding are that it provides a nongovernmental source of funding for the
national export program, focuses the program on services that exporters perceive as valuable,
and ensures a strong commercial orientation in the management and delivery of all aspects of
the program.

The principal objections against charging for services are the exporters' unwillingness to
pay, the inappropriateness of a publicly funded body charging for services, and the conflict
inherent between such a commercial approach and the developmental role of the national
export program.

Export promotion is expensive and likely to become more so. As more countries compete
for available markets, the level of government support is likely to grow. Guidelines on the
appropriate level of support should be treated with caution. Commentators have suggested a
figure of 0.05 percent of the value of manufactured exports, but this may be too high or too
low depending on the kinds of products being produced, the extent of adaptation needed, and
the markets being addressed. As many of the costs are denominated in foreign exchange, this
poses an additional problem for many developing countries. It is paradoxical that the poorer
countries need to spend more than the richer ones to compete on equal terms.

The principle suggested here is that export promotion activities must have sufficient
funding and this funding must be assured. What is sufficient will vary from country to
country as will the method by which the necessary funds are raised. However, the TPO
should always rely on domestic resources and not depend on the generosity of donors. The
government can use foreign aid to extend the range of the organization's activities or to
hasten its development, but should always regard this as a bonus. The core funding should
come from national sources.
Very few developing country TPOs, the four successful exceptions excluded (and even then with some reservations), conform to the desirable principles outlined here. Therefore, establishing scientifically whether organizations that did meet these criteria would play a significant part in the development of their countries' exports is difficult. To test the hypothesis would in most cases require a sustained effort to reform an existing "failed" institution. This I am sure is worth doing, and governments should resist the temptation to bypass failed TPOs. While perhaps attractive as a short-term expedient, the long-term results of such a policy would be confusion, institutional rivalry, loss of confidence, and possibly two problem organizations instead of one. Indonesia provides unwelcome confirmation of this view. The government decided to establish the Export Support Board (ESB) as an alternative to the long-established TPO, NAFED. The apparent rivalry and resulting tension between the two institutions has affected both adversely.

Don't Throw Out the Baby

The conclusions that we can draw from our experience, direct and observed, over 25 years are regrettably tentative. Despite all the different actions and projects, we still lack scientific evidence of what works. However, progress is being made, notably through the work of the World Bank, and as more investigators undertake more studies and the results of more rationally directed programs, such as those of India (Keesing and Singer 1989) and Zimbabwe come to hand, we hope to be able to make firmer pronouncements.

The failure of so many TPOs has led to what I regard as a false antithesis between institution building and the "enterprise approach." In the enterprise approach, assistance is given directly to exporters, bypassing government and its agencies. It is held to be more efficient and cost-effective. The antithesis is false, of course, because institutions, whether designed or informal, will be needed to deliver the assistance. Moreover, to abandon the goal of establishing long-term, self-sustaining institutions is to negate the whole idea of development.

Development assistance in export promotion should have a short-term and a long-term focus. In the short term, projects should aim to help existing exporters maximize their overseas sales by providing relevant services that generate immediate results. In the long term, efforts should be directed toward producing new exportable products and services, and developing self-sustaining capacities. Central to this is the establishment of effective export development organizations.

Successful TPOs will conform to the desirable principles outlined earlier. They will be agents of change rather than monopoly providers of services to exporters, and will represent a partnership between government and exporters, between the public and private sectors, enjoying the confidence of both sides and belonging in neither "camp."

Both the institutional framework and the services to be provided under an export development program will vary from country to country. The approach in a large, relatively developed country will be quite different to that employed in a microeconomy. However, in most cases exporters will need help with information and product and market development. Increasingly, TDI is recommending the establishment of cost-sharing grant schemes to meet these needs rather than the setting up of multidisciplinary institutions. Well-conceived grant schemes are one of the most effective ways of assisting exporters, as Ireland's 30 years of experience with them have demonstrated, and have the by-product of promoting services in developing countries. They are particularly relevant in microeconomies that need to develop all business sectors to survive the transition from protectionism to an outward-looking orientation. In a TDI-designed business development scheme in the Netherlands Antilles, grant assistance was offered to manufacturers, service industries, and entrepôt

16. I have been told of attempts to revive ailing TPOs and, while I have no first-hand knowledge of these, I suspect that they were neither profound nor sustained and undertaken in conditions that led to the failure in the first instance, for example, the absence of an at least neutral policy framework.
Some Institutional Aspects of Export Promotion in Developing Countries

traders as well as to bona fide exporters. In Zimbabwe, the ZEPP project has always had a cost-sharing element. The design of the projected Zimbabwe TPO proposes that 27 percent of its resources will be given directly to exporters as cost-sharing grants.

While this paper is concerned with aspects of institutional support for export promotion in developing countries, and is to some degree a defense of the idea of TPOs, institution building is only one aspect of export development. It is part of a wider strategy that must cover exchange rates, labor regulations, export finance, access to duty-free inputs, price controls, and incentives. Unless governments adopt and pursue favorable policies, institutions of themselves, however well-staffed and well-intentioned, can hardly be expected to make much difference. This consideration relates in turn to the wider national development policy, and ultimately to the will and capacity of the country's rulers.

The role of donors in promoting policy reform and in supporting services for export development is a vital one. The signs indicate that after a rather barren period, donors have now got it right, with large, integrated projects that intervene at all stages of the production and marketing chain. If such projects are to have a lasting impact, they must have strong manpower and institutional development components, designed to result in competently staffed and effective organizations on their conclusion. While not open-ended, these projects must be designed to last for as long as it takes. Above all, export promotion assistance must be tailored to the real needs of the exporters of the developing countries concerned and reflect their objectives and aspirations in solid, quantifiable terms.
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