

EXPORT PROMOTION IN SOUTH AFRICA: CRITERIA FOR THE EVALUATION OF ITS SUCCESS

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ABSTRACT

EXPORT PROMOTION IN SOUTH AFRICA: CRITERIA FOR THE EVALUATION OF ITS SUCCESS

Internationalisation has required companies to look outside their domestic markets and also utilize opportunities internationally. Companies are engaging in export activities to pursue greater market share and growth in profits. Countries also benefit from increased exports by earning more foreign exchange and creating more employment opportunities. Therefore governments and other private entities are providing export promotion programmes which are designed to encourage companies to promote the exports of goods and services in foreign markets.

When assistance to promote exports is provided, it is important to evaluate how effectively the limited government resources are spent and applied. Such evaluation of export promotion programmes will enable public policy-makers to expand those programmes that are more effective.

The aim of this study was to determine the Return on Investment (ROI) of some of the export promotion programmes provided by the Department of Trade and Industry (DTI). The relationship between the total cost of export assistance and actual export sales for national pavilions and trade missions were evaluated. These two programmes are the largest in the DTI's Export Marketing and Investment Assistance (EMIA) scheme. Evaluation measures or criteria which have been successfully implemented by four other countries were examined in order to make practical recommendations to the DTI on how to implement appropriate criteria for the evaluation of these export promotion programmes.

The results of this study yielded that the ROI per sector for national pavilions and trade missions produced positive results. For sustainable export growth, however, the DTI will have to develop new criteria for the evaluation of export promotion programmes. It should also focus more on the manufacturing and services industries to increase the export volumes and obtain higher ROI of government spending in export promotion programmes.

OPSOMMING

UITVOERBEVORDERING IN SUID-AFRIKA: KRITERIA VIR DIE EVALUERING VAN DIE SUKSES DAARVAN

Internasionalisering het van maatskappye vereis om buite die plaaslike markte te kyk en ook internasionale geleenthede te benut. Maatskappye raak betrokke in uitvoer aktiwiteite om groter marktaandeel en groei in winste te bereik. Lande vind ook baat by verhoogde uitvoer deurdat meer buitelandse valuta verdien word en meer werkseleenthede geskep word. Dit is om hierdie rede dat owerhede en ander private instansies uitvoerbevorderingsprogramme aanbied wat ontwerp is om maatskappye aan te moedig om uitvoer van goedere en dienste in oorsese markte te bevorder.

Wanneer hulp aangebied word om uitvoer te bevorder, is dit belangrik om te evalueer hoe effektief die owerheid die skaars hulpbronne tot hulle beskikking bestee en aanwend. Evaluasie van uitvoerbevorderingsprogramme sal openbare beleidmakers in staat stel om die effektiewe programme verder uit te brei.

Die doel van hierdie studie is om te bepaal wat die rendement op belegging is van sommige van die uitvoerbevorderingsprogramme wat deur die Departement Handel en Nywerheid aangebied word. Die verhouding tussen die totale koste van uitvoerbevorderingsprogramme en die werklike uitvoerverkope na aanleiding van nasionale pawiljoene en handelsmissies is geëvalueer. Dié twee programme is die grootste in die Departement Handel en Nywerheid se "Export Marketing and Investment Assistance" (EMIA) skema. Evalueeringsmaatstawwe en kriteria wat suksesvol in vier lande toegepas word, is bestudeer ten einde praktiese aanbevelings vir die Departement Handel en Nywerheid te maak oor hoe om die gepaste kriteria vir die evaluering van hierdie uitvoerbevorderingsprogramme te implementeer.

Die resultate van die studie het aangedui dat die rendement op belegging per sektor van nasionale pawiljoene en handelsmissies positiewe resultate oplewer. Vir volhoubare groei in uitvoer, moet die Departement Handel en Nywerheid nuwe kriteria ontwikkel vir die evaluering van uitvoerbevorderingsprogramme. Dit moet ook meer fokus op die vervaardigings- en dienste industrieë om uitvoervolumes te

verhoog en groter rendement op belegging op die owerheid se besteding in uitvoerbevorderingsprogramme te bewerkstellig.

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CHAPTER 1

INTRODUCTION

The widespread phenomena of globalisation are one that has not gone unnoticed, especially by profit-driven companies. Along with globalisation come many possibilities for companies to grow in market share and to achieve higher profits. To make full use of these possibilities, companies are thinking outside of their traditional domestic framework to seek greater opportunities in export markets. The act of exporting is not only undertaken to expand, but the survival of some companies depends on it. To this extent, exporting has become increasingly important on more companies' agendas. Governments all over the world have established different ranges of export promotion programmes to answer the growing need of companies to export as well as to promote exports from a macroeconomic perspective. These programmes are designed to encourage companies to promote exports of goods and services in foreign markets.

1.1 Motivation of the study

Governments allocate considerable resources to export promotion programmes, which are designed to increase the inclination of companies to export (Crick and Czinkota, 1995). This approach to the stimulation of export sales is similar in many countries. Nevertheless, while throwing monetary resources at a problem might be useful politically, it can be uneconomical. In the age of government budgetary problems and fiscal frugality, accountability is part of every politician's and administrator's agenda (Crick and Czinkota, 1995).

When assistance to promote exports is provided, it is important to evaluate how effectively government budgets are spent and limited resources are applied in order for this assistance to be most effective. A great challenge for researchers, public policy makers and managers is to discover how to allocate export assistance in order to obtain encouraging results (Lages and Montgomery, 2004). Seringhaus (1986a: 61) identified this contemporary problem and suggested that academic research should change direction: "What researchers should determine and management wants to know, is whether or not such [export] assistance has any impact on exporting activity and to what extent such impact manifests itself". Such knowledge

will enable public policy makers to expand export promotion programmes that are effective and cut back on programmes that do not contribute to business.

An essential element for the success of incentive programmes would be the co-operation between exporters and government officials. Yet businessmen exhibit a certain ambivalence: on the one hand, they do not want government to interfere in their business dealings; on the other hand, they appreciate a truly professional approach and service from the government to assist them in their exporting dilemmas. One way to construct co-operation is to demonstrate unquestionably the value or effectiveness of government export promotion programmes (Pointon, 2001: 451). Pointon (2001: 451) states, "A quantitative – not qualitative and highly subjective – measure of benefit expressed in money terms, is desirable". Results from such an evaluation would be valuable not only to government officials and executives, but to exporters and politicians alike. It will be a reassurance that the millions of rands of annual government budget spent on such support programmes are worthwhile and generate substantial results.

1.2 Problem statement

Export promotion programmes are initiatives of government as well as other private entities and are thus funded by public funds, which means the taxpayer's money. It is for this reason that the South African government, through the Department of Trade and Industry (DTI), has been examining its export promotion programmes with great concern. Millions of rands of the annual government budget are allocated to the programmes aimed at promoting exports, but the question that arises is how efficiently are these funds spent?

Currently there is a need by DTI officials (Saaiman, 2006) to evaluate the Return on Investment (ROI) of these export promotion programmes. ROI is defined by Investopedia (2007) as follows: "A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio".

Thorough empirical tests have not been performed on this normative logic and the effect that export promotion usage has on diverse categories of performance outcomes has been given even less consideration (Genctürk and Kotabe, 2001).

This study will examine data provided by the DTI to determine the effect of export promotion programmes and formulate conclusions from the findings as well as from the relevant literature. Such results will even further promote the case for export incentives and the usage thereof to increase export performance and therefore positively contribute to countries' economic well-being (Genctürk and Kotabe, 2001).

1.3 The aim of this study

The aim of this study is to determine the effect of export promotion programmes through data provided by the DTI. The evaluation measures or criteria used by a selection of top exporting countries will also be examined in order to make practical recommendations to the South African government on how to implement applicable criteria for evaluation of these export promotion programmes.

As a result, government officials will have more clarity on the consequential benefits for companies and the country through the assessment of the ROI of expenditure on export promotion programmes. The ROI will be determined by evaluating the relationship between total cost of export assistance and actual export sales.

1.4 Methodology

Two research methods will be employed in this study. An overview of the literature and related government documents are examined and presented. Senior personnel at the DTI will be consulted. A summary of countries that have already successfully implemented evaluation structures for export promotion programmes will provide the basis for the criteria to evaluate the programmes in South Africa. The empirical part of this study will be supported by data from the DTI concerning the government's export promotion programmes. The criteria developed for the evaluation of export promotion programmes will be examined by applying the information already collected by the DTI concerning exporting companies who has been given government assistance pertaining to the promotion of exports.

1.5 Outline of this study

In chapter 2, the definition and need for export promotion from a government perspective will be described. Firstly, the definition of this government initiative and the types of incentives available to potential and established exporters will be

discussed. Subsequently, the need and importance of export promotion will be analysed. To conclude, the need for the evaluation of export incentives will be examined.

Chapter 3 describes export promotion as part of the internationalisation process and explains how the needs of exporters and importers play an important role in this process. The role of information in export promotion is mentioned and subsequently the internationalisation process is discussed. The different export stages, as well as the way that specific types of incentives are required during each stage, will consequently be highlighted.

Chapter 4 outlines the structure of export promotion programmes in South Africa. Firstly, an overview of the current export situation in South Africa will be given and the link between exports and export promotion will be discussed. To understand the structure of export promotion provided by the DTI, each of the Export Marketing and Investment Assistance (EMIA) schemes are discussed.

Chapter 5 examines the evaluation of export promotion programmes. Firstly, the rationale for evaluating export promotion is discussed. Secondly, evaluation internationally and the success achieved by four benchmark countries are presented, followed by recommended criteria for evaluation. The evaluation of export promotion programmes in South Africa is consequently discussed and the results from the two largest programmes in the EMIA scheme obtained from examining trade missions and national pavilions will be presented. From this analysis of the DTI's data, conclusions will be drawn and recommendations will be made.

Chapter 6 provides the summary of the findings of this study and the conclusions that have been drawn. It also contains recommendations to the DTI for applying evaluation criteria as well as identifying possible fields for further study.

1.6 Demarcation of the study

For the purposes of the study the macroeconomic factors of export promotion, e.g. the effect of export promotion on GDP, job creation and balance of payments, will not be included in the scope. To compare the outcome of this study with other countries, a summary of the success achieved by implementing evaluation measures for export promotion in four benchmark countries will be discussed. The countries to be

examined will be those mentioned in export promotion literature and which have already successfully implemented criteria for the evaluation of their export promotion programmes.

The scope of this study is an evaluation of the ROI produced by some export promotion programmes provided by the DTI. For the purposes of this study, the two largest programmes in the EMIA scheme for which data is readily available (although not always accurate), namely trade missions and national pavilions, will be examined. The results from these two incentive programmes will be presented according to the nine focus sectors of the DTI. The period under review will be September 2004 until September 2005, based on six-monthly reports received from exporters and provided by the DTI.

CHAPTER 2

DEFINITION AND NEED OF EXPORT PROMOTION

2.1 Introduction

Export promotion consists of initiatives from government as well as private organisations to assist exporters in the foreign market. A country's trade activities to foreign markets can lead to more sustainable economic development and greater economies of scale, as will be discussed in this chapter. These are only two reasons why export promotion organisations allocate resources to export incentives.

The effective allocation of resources is gaining more attention on the agenda of export promotion organisations. Politicians and policy makers are under increasing pressure to allocate scarce resources where they are most needed. However, when governments provide market-orientated and professional export assistance, it can reap rewards for not only companies, but for politicians and policy makers alike.

The aim of this chapter is to give a literature overview of several aspects of export promotion, such as the definition and different types of export promotion, the rationale for them, as well as the arguments against such incentives. When examining the different views regarding export promotion, it is clear that there is no shortage on the rationale for export promotion and that these incentives have numerous benefits. Therefore, this study supports export assistance provided by governments.

2.2 Export promotion

Each country tends to have its own set of export incentives. Therefore, export promotion is a development distinctive to the country concerned. Pointon (2001: 452) states that no universal agreement exists concerning the nature or extent of central governments' involvement in export promotion. For example, in Japan the large number of big trading corporations assist in the development of export promotion, whilst the industrial associations play a key role in the export promotion efforts of West Germany (Pointon, 2001: 452).

Therefore, each government's advances towards investment in, and provision of, export promotion services is not only based on apparent economic need but also influenced by the nation's history and its economic and social structure (Pointon, 2001: 452). For example, Pointon (2001: 452) states that developing countries, being "late starters" in the industrialisation process, are generally adopting the deliberate approach to growth, which involves export promotion related to an integrated set of general and sectorial targets. The dedication of policy makers to encourage export growth is confirmed by the wide-ranging export promotion programmes offered in many developing countries (Ahmed, Mohamed, Johnson and Meng, 2002).

To gain a better understanding of the subject, it is necessary to determine not only what export promotion is and the rationale behind these incentives,, but also to distinguish between the different types of export promotion programmes offered by various countries.

2.2.1 Definition of export promotion

Export promotion programmes are public policy measures that seek to enhance exporting activity at the company, industry or national level (Root, 1971). Seringhaus and Rosson (1990) describe export promotion as "the creation of an awareness of exporting as a growth and market expansion option, the reduction or removal of barriers to exporting, and the creation of promotion incentives and various forms of assistance to potential and actual exporters". Genctürk and Kotabe (2001: 51) define export promotion assistance programmes as those that refer to all public measures designed to support companies' export activities, ranging from counselling, tax incentives and export financing to trade shows and sales leads.

The various definitions given above can be explained further when examining the rationale of export promotion programmes. Many views concerning export promotion have been stated in export literature. Some arguments support export promotion, while others are against the provision of export promotion services. To get a clear understanding of export incentives, some of the views of the rationale of export promotion in export literature are discussed.

2.2.2 The rationale for export promotion

Today, companies in almost all developed and most developing countries enjoy full-fledged programmes to enhance the respective countries' exports. This support is a result of the country's reinforced dedication to export promotion assistance programmes to enable the participating companies to enhance their export growth.

Spence (1997: 13) states that export promotion programmes by governments are aimed at two different levels: country/markets and companies. Firstly, the objective is to guarantee that the financial incentives are targeted at the countries that present the best prospects for the domestic products and services or that have the most potential for infiltration. Secondly, the objective is to provide financial support to those companies that have the best export potential and require assistance in order to enhance their exports.

As export incentives support export activities, the benefits of exporting relate very closely to the benefits of export promotion and are therefore mentioned. The benefits of export promotion can be classified at both a macro and a company level.

2.2.2.1 Macro advantages/benefits of export promotion

2.2.2.1.1 Income and foreign exchange

The positive effects of exports can be seen from a macro perspective. Exports enhance the flow of foreign currency and consequently strengthen a country's currency. Therefore exports can influence currency values as well as the fiscal and monetary policies of governments. Exports are also responsible for shaping public perception of competitiveness and determining the level of imports that a country is able to purchase (Czinkota, 1996).

To generate larger amounts of foreign exchange, an increasing number of countries are actively stimulating exports of manufactured products (Krueger, 1980; The World Bank, 1992). In accordance with international trade liberalisation, international development agencies are increasingly advocating export-led growth policies to developing countries (World Development Report, 1992). With regards to the need for assistance to increase export activities, the importance of a macro perspective is greater than just to concentrate on the issue of companies' profitability (Crick and

Czinkota, 1995: 62). Otherwise, policy makers are addressing the symptom rather than the problem.

2.2.2.1.2 Economic development

Export promotion features as a prominent component of the economic development strategies adopted by developing countries (Ahmed, Mohamed, Johnson and Meng, 2002). In the period from 1963 to 1985, when the World Bank examined 41 countries, their results revealed the following: “the economic performance of the outward-orientated economies has been broadly superior to that of the inward-orientated economies in almost all respects” (World Development Report, 1987: 85). Consequently, the success that has been achieved by export promotion policies has motivated other developing countries and the states of the former U.S.S.R to do away with inward-orientated import-substitution policies (Michalopoulos and Tarr, 1992).

Export promotion and technical assistance programmes, as part of export-led growth strategy, are generally developed to deal with both internal and external barriers to exporting and to encourage economic growth (Cavusgil, 1982, 1983). China can be seen as a textbook example of export-led growth before the end of the 1990s and her subsequent economic growth record attests to this (Krugman and Obstfield, 1991: 247).

2.2.2.2 Company advantages of export promotion

2.2.2.2.1 Economies of scale

At a micro level, through the mechanism of exporting, companies can benefit from economies of scale. According to Czinkota (1996) a company can produce more, and do so more efficiently, by broadening its market reach and serving customers abroad. When interacting and dealing with international customers, it can lead to the improvement of existing products and the development of new ones. Czinkota (1996) states that this is particularly important when domestic sales are below break-even levels. Higher profits due to lower costs can be achieved in the domestic as well as the foreign market as a result of exporting activities. Therefore, for export assistance to meet the needs of customers, it needs to be more marketing orientated to increase export sales.

2.2.2.2.2 Competitiveness

Due to world markets being open, countries can now compete and therefore companies benefit in having the ability to choose their business locations (Garelli, 2006). As a result, this forces countries to promote their particular comparative advantages in different areas. Domestic companies are exposed to increasing foreign competition in their local markets from imports and from foreign-owned subsidiaries because of the growth in international trade (Ahmed, Mohamed, Johnson and Meng, 2002). This growth in foreign transactions also opens opportunities for companies to market and sell their products and services in international markets.

The use of exports and foreign direct investment acting aggressively on world markets is an example of promoting competitiveness. Competitiveness can also be used to make a country more attractive to both foreign and local companies to initiate activities that generate economic wealth (Garelli, 2006). Comprehensive incentive schemes with the purpose of attracting foreign investment are a significant part of the competitive advantage of countries.

The House of Commons (as quoted by Seringhaus, 1986a: 55) states that policy makers see government export promotion policy as having a major impact on companies' competitive positions abroad. To be more precise, the usage of export promotion programmes is expected to result in the maximum payoff in terms of a company's competitive position and efficiency (Genctürk and Kotabe, 2001). These incentives provide exporters with external resources, which are vital to maintain a competitive advantage in the international market. It is also believed that the use of export promotion programmes gives companies the edge above non-users, since they are now more competitive because of the increased competence and knowledge applied to export market development.

The government provides export assistance free of charge or at a nominal fee, offering a cost-efficient means of acquiring knowledge and experience. Subsequently, the company is able to save time and money as such assistance supplies a central inventory for market information and sales leads. Thus the use of export promotion programmes can result in a substantial decline in the investment required to generate and preserve internal export proficiency.

Therefore, export promotion programmes should be considered a resource to companies in order to become more competitive. The export incentives in each country depend on the goals the country wants to achieve when implementing these services, for example to increase export sales to satisfy the needs of foreign customers by being more competitive.

2.2.2.2.3 International capabilities

Market diversification, taking advantage of different growth rates in different markets and gaining strength by not being excessively reliant on one particular market are other examples of the benefits that accompany exporting. Exporting activities enable a company to be sensitive to various demand structures and cultural diversities, to learn from the competition and demonstrate its ability to endure in a less familiar environment in spite of higher transaction costs.

The goal of export promotion programmes is to make an external resource available to companies to gain more knowledge and experience that is fundamental for successful foreign market involvement (Gençtürk and Kotabe, 2001: 51). In a study concerning small- and medium-sized companies, Beliveau (1987) detected that such companies often did not have the monetary resources or research expertise needed to undertake export market research by themselves.

Seringhaus (1986a: 55) remarks that the role of export promotion assistance is threefold. First, it intends to put risks and prospects of foreign market participation into perspective. Second, it seeks to encourage a company's awareness of, and advance its dedication to, exporting. Third, it operates as an external resource to construct knowledge and experience imperative for successful foreign market involvement.

Czinkota (1996) states that the aim of export assistance can be to try to improve the managerial as well as the organisational characteristics and capabilities of the company. Export assistance can also contribute to positive change in the administrative capabilities of the company. On the part of the suppliers of export assistance, their continued involvement with the international market environment, both in terms of learning from the environment as well as in terms of shaping it, is essential to the efficiency of these aspects. The lessons learned can enable companies to be more competitive when operating in the international market.

2.2.2.2.4 Export performance

Through its interaction with the companies' export involvement behaviour, it is suggested by Genctürk and Kotabe (2001) that the use of government export promotion programmes is an imperative determinant of companies' export performance in a direct manner. Genctürk and Kotabe (2001) further mentioned that the direct effect unambiguously models the hypothesis that government export promotion programmes are an essential resource for constructing the knowledge and experience needed for successful international market involvement.

Based on the inadequate research and its implication for this topic, Genctürk and Kotabe (2001) argue that export promotion usage is a significant export success factor but that its significance depends on the dimension of export performance considered. Some studies, as will be discussed in 2.2.2.2.5, had positive results regarding the effects of export promotion usage on export performance.

2.2.2.2.5 Profitability

While exports play an important role in times of inflexible budget constraints and opposing public priorities, it is important to ask why companies should be persuaded into exporting by using public funds (Czinkota, 1996). Whereas profit is the main driver of business activity, it could be argued that the profit opportunities for exporters should be enough reason to motivate companies to export. Export promotion programmes are also used as a tool to motivate companies to engage in export activities, and if profit seems to be the main driver for exports, export incentives play an important part in supporting such motivations and activities.

A further renowned and empirically sustained financial benefit of export promotion programmes is the direct cost savings enjoyed by users through programmes such as subsidies, below-market rate loans and reduced bulk rates on rental spaces at trade shows and travel fares (e.g. Grønhaug and Lorentzen, 1983). As such, using export promotion programmes enables a company to reduce operating costs and grow to be more lucrative and, for that reason, more efficient in its export activities, as was explained in section 2.2.2.2.1 with regards to economies of scale.

Export assistance will be most effective when it either reduces the risk to the company or enhances its profitability from export operations (Czinkota, 1996).

Providing information on market potential abroad is expected to reduce the risk (both real and perceived), to the company and profitability is expected to increase when offering low-cost credit through export promotion programmes.

At least on the surface, export promotion programmes are an important tool, for the reason that they are alleged to have positive results. For example, in one nationwide study concerning the United States, it was cited that for every \$1 spent on export promotion programmes, an increase in exports of approximately \$432 was reported (Coughlin and Cartwright, 1987). According to the Growth and Innovation Framework (2004), an external consultant's report found that, in 2001, the Danish Trade Council (DTC) was involved in exports worth DKK33 billion (6 percent of 2001's exports) and that companies ascribed to it a direct increase in exports of DKK3 billion. The report also found that, on average, every krone spent on DTC's services increased a company's turnover by DKK217.

Even with the prospective benefits accrued to users of export promotion programmes, previous studies showed that companies were hesitant toward the use of export promotion programmes (Ahmed, Mohamed, Johnson and Meng, 2002). Nevertheless, companies receiving and making use of export assistance might be exposed to unsolicited government interference into their business activities and might alert competitors to the companies' export strategy (Kedia and Chhokar, 1986).

To recognise the interrelationship between these efforts and the need for them to occur concurrently is fundamental. Therefore, it is necessary to examine the literature on the arguments against export promotion.

2.2.3 Arguments against export promotion

On the one hand, export promotion programmes have numerous benefits when effectively employed by companies to develop export activities. There also seem to be some aspects of export promotion programmes that are not perceived in a positive way.

Adversaries of export promotion argue that the competitive position and export performance of companies are attributed to the private market forces and not to government promotion programmes. Furthermore, claims of considerable improvement in export performance credited to these programmes are considered

self-serving post hoc rationalisations by many critics, since most states do not have reliable evidence or crucial statistics to either support or contradict these claims (Nothdurft, 1992).

Weil (1978) mentioned two general weaknesses of export promotion programmes: (1) a lack of information about what services are needed by specific groups, and (2) insufficient financial resources. Weil (1978) explained further that these weaknesses occur out of a general lack of knowledge of the export development process, by this means resulting in an inability to effectively target export assistance efforts to potential users.

While Cline (1982) and Adelman (1984) remarked that the consequences of the general equilibrium of export incentives for the countries in the world might probably be negative, some individual countries may be able to gain from such policies. The field of research on export promotion policies in developing countries and regions is increasing but still somewhat inadequate in extent (e.g., Dominguez and Sequeira, 1993; Jaffar, 1990; Leong, 1996; Linnemann et al., 1987; Milner, 1990).

To assist companies in their various needs regarding exports, different types of export incentives are provided and these are explained in the following section.

2.2.4 Types of export promotion

Export promotion is a unique development in each country. Therefore, it is difficult to describe all the types of export promotion. Different export promotion programmes are also used during each stage of the internationalisation process, as will be discussed in section 3.3.2.1. The broad types of assistance identified in the literature are discussed.

Export promotion consists of structural measures, such as tax incentives, technology innovation support, export financing and insurance, trade-aid relation through multilateral and bilateral channels and, last but not least, marketing assistance (Seringhaus, 1986a: 55). Czinkota (1996) states that macro assistance in the foreign market environment can consist of international trade negotiations intended to diminish foreign barriers to entry. Czinkota (1996) explains that micro assistance consists of learning from the international market and its consumers, and passing on that information to allow domestic companies to adjust to that market.

Differentiation between the assistance programmes is done by either providing objective or experiential knowledge (Genctürk and Kotabe, 2001: 51). Terminology in literature differs and therefore the differentiation between export promotion programmes is known by two different terms. The meaning of these terms is discussed below.

2.2.4.1 Export service programmes

Export promotion assistance normally comprises export service programmes, also known as objective knowledge. These programmes include seminars for potential exporters, export counselling, “how-to-export” handbooks and export financing (National Governors’ Association, 1985; Lesch, Eshghi and Eshghi, 1990). According to Spence (1997: 13), the provision of services concerning objective information are available, either at a price or free of charge, to all companies, depending on the service and the country providing it.

2.2.4.2 Market development programmes

Market development programmes, or experiential knowledge as it is sometimes termed, consist of the dissemination of sales leads to local companies, participation in overseas trade shows, research for market analysis and export newsletters (National Governors’ Association, 1985; Lesch, Eshghi and Eshghi, 1990). Those services providing experiential information are charged for, however, but are frequently subsidised. The role of the government in the export promotion programmes will now be discussed.

2.2.5 Government involvement in export promotion

Companies need help and support from the government to identify potential export markets, to try to find customers and to promote their goods and services abroad. In both developed and developing countries, these needs are met through the provision of export promotion programmes. Such programmes are typically coordinated through government agencies (Ahmed, Mohamed, Johnson and Meng, 2002).

From the viewpoint of national governments, international business dealings have considerable economic and policy implications (see section 2.2.2). Therefore,

governments use a variety of resources to facilitate international trade (Ahmed, Mohamed, Johnson and Meng, 2002). Thus, the government's contribution is in providing some "compensation" through a broad selection of support services to assist exporters with the difficulties and problems associated with international trade.

According to Seringhaus (1986a: 55), the stimulation of a company's foreign market participation through government endeavours has increasingly received the attention of policy makers in many trading nations. For public policy makers to overcome this basic challenge, it is vital for them to understand the requirements of exporting companies and to meet those requirements effectively with promotional programmes. There is a view that the role of government in export assistance should not go beyond fostering awareness of foreign market opportunities and involvement, as suggested by Czinkota and Ricks (1981). Seringhaus (1986a: 56) continues to say that fostering awareness means providing the right information (assistance) to the right companies at the right time.

It is doubtful whether there are any economies today that are completely free from government intervention. All economic decisions by government have an impact on some or other sector. There has, however, been some difficulty in determining empirically whether or not government intervention is a better strategy to follow. Nevertheless, this investment from governments has sometimes been in the nature of a blind and indefinite commitment because there has been no adequate evaluation of the gains from government export promotion in many countries (Pointon, 2001: 451). As a precondition to the use of export promotion programmes, however, the companies at which such programmes are targeted must first be aware of their availability.

2.2.6 Awareness of export promotion programmes

Pointon (1977) and Seringhaus (1983) (as quoted by Seringhaus 1986a: 57) comments that since export involvement is accompanied by a need for a great amount of detailed and diverse information, various levels of awareness and use of government services are found. Consequently, the awareness of government export services, particularly among small- and medium-sized companies, was found to be unexpectedly low (Reid, 1984; Seringhaus, 1986/1987, 1987).

Ahmed, Mohamed, Johnson and Meng (2002) remarked that the effectiveness of export promotion programmes might influence the perceptions of their usefulness. The competence of government export incentive programmes as well as managers' knowledge of these incentives are two imperative determinants of the success of export development strategies (Kumcu, Harcar and Kumcu, 1995).

In a study conducted by Kedia and Chhokar (1986: 13) concerning the familiarity, use, and benefits of 17 export promotion programmes in the United States, they found that the low levels of awareness on the part of both exporters and non-exporters have caused the export promotion efforts to be ineffective. Kedia and Chhokar (1986) stated that more companies might make use of export assistance programmes if it could be shown that such support programmes assisted companies to develop or obtain new markets. Kedia and Chhokar (1986: 14) remark: "If it can be clearly demonstrated that various export promotion programmes do help in initiating or developing export markets, perhaps a greater number of business firms would seek assistance and avail themselves of export opportunities".

Adding to this statement, Seringhaus (1986a: 56) remarks that, to ascertain reliability with management, it is important to show that external resources can positively contribute to the exporting process. Where the exporting process is concerned, the companies undertaking exporting activities are the main role players. Consequently, the contribution of export incentives to the exporting process is dependent on the companies' application of export promotion programmes.

To determine the benefits for government's providing export assistance to exporting companies a need arises to evaluate and measure the effects of such programmes.

2.3 The need for the evaluation of export incentives

The situation concerning government export promotion is aggravated by the fact that it is to a large extent an "information" gathering and distribution action (to be discussed in chapter 3), for which there is no adequate means of measurement (Root, 1971; O'Dochartaigh, 1975). Hence, what is needed is a low-cost methodology, which will present an unmistakable, quantitative measure of effectiveness, if possible, on an ongoing basis (Pointon, 2001: 452). Consequently, the utility of the individual programmes as well as that of the whole export promotion

function should be revealed by this measure of evaluation. The results should be expressed in money terms.

According to Weaver, Berkowitz and Davies (1998) the need to spend money effectively in the export promotion activities of the government has emerged as a key concern. This is also the situation in South Africa. For this reason, the effectiveness of expenditure on export promotion programmes by the South African government needs to be evaluated.

2.4 Conclusions

After examining the different aspects of export promotion, it is evident that these incentives are important tools in developing and enhancing a country's export efforts. As these initiatives are supported and resourced by governments and other public entities, it is essential that these resources are allocated as accurately and effectively as possible to obtain the most profitable results. Different types of resources are allocated to different types of programmes and each programme aims to satisfy a specific need of exporters and importers alike.

Export promotion programmes have many benefits, both on a macro and company level. These benefits include an increase in income and foreign exchange, international and domestic competitiveness and enhancing profitability, increasing economies of scale and acquiring international capabilities and knowledge. On the other hand, there are adversaries who argue that companies' export performance and competitiveness are attributed to private market forces and not to government support.

In this study, the export incentives provided by governments are supported and therefore the aim of this study is to evaluate the success of some of these programmes (see section 1.1). This study is an attempt to determine criteria to measure the results (ROI) of an element of the South African government's export promotion programmes. In chapter 3, the needs of exporters and importers and the role of information in export promotion are mentioned and subsequently the internationalisation process is discussed. The different export stages, as well as why specific types of incentives are required during each stage, will be highlighted in chapter 3.

CHAPTER 3

THE ROLE OF EXPORT PROMOTION IN THE INTERNATIONALISATION PROCESS

3.1 Introduction

In the previous chapter, the definition and different types of export promotion illustrated that export promotion incentives play an important role in a country's economic development and growth (see section 2.2.2.1.2) as well as in the competitiveness of companies (see section 2.2.2.2.2). In order to increase these benefits for countries and companies, it is the aim of this chapter to explain the role of export promotion in the internationalisation process of companies.

Firstly, this chapter will explain export promotion as part of the internationalisation process and how the needs of exporters and importers, along with gathering the relevant information, play important roles in this process. Secondly, the stages of the internationalisation process and the export behaviour of companies will be explained. Thirdly, the risks versus the profits in each of the export involvement stages as well as incentives through the export stages will be discussed. Finally, the application of export promotion programmes during the internationalisation process will be discussed.

3.2 Export promotion as a component of internationalisation

3.2.1 The needs of exporters and importers

The majority of literature on export promotion concentrates primarily on the programmes available and provided by government to promote exports. Little reference is made to the categories of export assistance that exporters require and the extent to which these requirements have been met (Crick and Czinkota, 1995: 61). It therefore seems that current export assistance does not necessarily consider whether the assistance provided is actually required by exporters. According to Crick and Czinkota (1995: 62), exporters require assistance to meet the customers' needs, e.g. support such as subsidies and credits (where allowed) and insurance, as this may increase the likelihood of profitability and reduce risks for exporters, and are desired by them.

The question should be asked whether the assistance that is granted is that which would most greatly increase exports (Czinkota and Ricks, 1981). It must be considered, however, that in the context of export promotion, an increase in export profitability of companies is only meaningful if it leads to increased export activities. Any policies aimed at the profitability issue are therefore only addressing the symptom, not the problem (Czinkota and Ricks, 1981).

A market orientated export promotion approach would deal with the central issue of increasing foreign sales to companies (Czinkota and Ricks, 1981). The main aim for exporters should be to satisfy their foreign clients. Therefore, the primary objective should be to determine the needs and wants of importers and to assist exporters to fulfil these needs and wants. In order to attain this objective, exporters should also to pay attention to what importers require and to what is deemed to be of importance to them. The ideal state would be for exporters to enquire about government assistance in these areas of importance and, in turn, it is in these areas where government should be providing assistance.

According to Czinkota and Ricks (1981), it is believed that attentiveness to the needs and interests of importers will significantly help companies in their export efforts and the government policy makers with their export assistance programmes. It is further argued that policy makers must determine the needs of importing companies and assist exporters in satisfying these needs (Crick and Czinkota, 1995: 62). In order to address these needs, exporters firstly need information. The importance hereof will subsequently be discussed.

3.2.2 The importance and types of information in export promotion

To succeed in an extremely competitive international business environment, the better and effective use of information is important (Gençtürk and Kotabe, 2001: 51). The use of information as a foundation for sustainable competitive advantage and consequently success in the international arena has become increasingly significant in the global competitiveness of certain industries and markets (Gençtürk and Kotabe, 2001: 51). The role of federal governments and states as primary providers of external information is no longer being taken for granted. This is due to their contribution to domestic companies in providing them with the information needed to improve their international competitiveness and performance.

However, Brooks and Rosson (1982) examined Canadian companies and found that, even though both exporters and non-exporters had regularly sought assistance from both federal and provincial government agencies, exporters were more vigorous in their search for market opportunities. Government agencies were a vital source of information for these exporters, but the quality of assistance provided by some agencies did not always match the expectations of the users (Diamantopoulos et al., 1991). The information provided is often “too general, irrelevant and outdated” according to Knight et al (2003: 226). Customised information and information that is difficult to obtain holds the most value for companies.

International trade rules narrowly define government export promotion activities, where these activities are predominantly about providing information on exporting and export markets. The information provided by these government agencies includes information on standardised reports and seminars, customised research and sales leads databases, in-market knowledge gained from participation in international trade missions and visits to overseas markets (The Boston Consulting Group, 2004: 8).

Governments can also offer initiatives designed to assist export-ready companies to understand, investigate and penetrate overseas markets. Services can range from desk information to in-market support and vary according to the stage of the export development process at which they are provided (see 3.3.1 for information on export stages). Desk information comprises trade data, market and sector reports, technical assistance (regulatory and compliance) and contact lists (The Boston Consulting Group, 2004: 35). Aside from government agencies providing this information, it can also be obtained from general sources such as the OECD, World Trade Organization and the United Nations, as well as from press releases, statistical and export promotion websites. The evolution from desk information to in-market support reflects the increasing usefulness that existing and potential exporters attach to the information services.

Nonetheless, government incentives to exports, such as providing information, export credit insurance and tax exemptions, could be “triggers to internationalisation,” particularly for locally orientated companies in the early market entry phase of internationalisation (Douglas and Craig, 1989). It seems, however, that as exporters become more advanced in exporting, they require more focused and specialised

information and other services. The internationalisation process and the different stages of export will be discussed in more detail in the following sections.

3.3 The internationalisation process

For many companies, the decision to enter into international markets is a most important choice. The company's strategic objective may be responsible for the motivation to internationalise or changes in the company's business environment may have caused it to evolve (Johanson and Vahlne, 2001: 11).

International trade is one of the aspects responsible for most countries' prosperity (Calof, 1993: 60). For example, according to the SARB (2007), in 2006, South African companies exported R547 874 million in goods and services, or approximately 31 percent of South Africa's gross domestic product. In order for a country to maintain its standard of living, however, the domestic companies need to expand their share in foreign markets. Consequently, the companies take part in the process of internationalisation to achieve and maintain a healthy economic environment (Calof, 1993: 61).

The process of internationalisation can take a number of forms. The establishment of foreign subsidiaries, international joint ventures, licensing agreements, international advertising campaigns, international trade and exhibitions are just a few of the ways in which this process is manifested (Johanson and Vahlne, 2001: 11).

According to Johanson and Wiedersheim (1975) two patterns in a company's internationalisation can be explained by the internationalisation process model. Firstly, the company's commitment in the particular foreign markets develops according to a business chain. For example, initially there are no export activities in the market, after which independent representatives take care of exporting. Later on, a sales subsidiary takes responsibility for exports and eventually manufacturing abroad may begin.

The second pattern states that companies enter new markets within a greater geographical distance. Geographical distance is defined in terms of factors such as differences in language, culture, political systems, which disturb the flow of information between the company and the market (Johanson and Vahlne, 1977). Thus companies start internationalisation by going to those markets they can most

easily understand. There they will see opportunities, and there the perceived market uncertainty is low.

During the course of the internationalisation process, companies are characterised by certain behavioural patterns concerning export activities. A company's behaviour also depends on the particular stage of internationalisation and export development it is in and is therefore discussed next (Leonidou, 1995: 133).

3.3.1 Export behaviour of companies

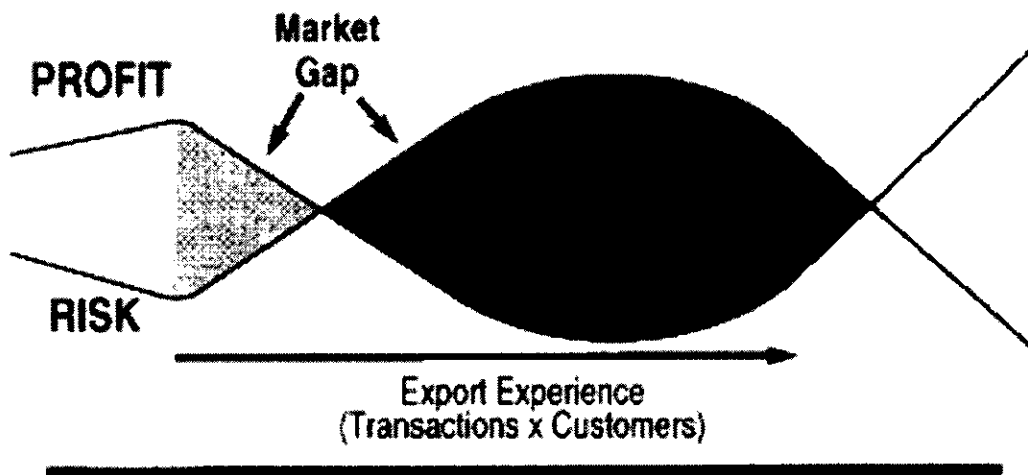
Factors that stimulate the early implementation and consequent growth and sustainability of international business activities, e.g. export incentives, are one of the fundamental features of the export behaviour of companies (Leonidou, 1995: 133). This is because export incentives can describe to a large degree why some companies are involved and successful in their export activities, whereas other companies remain inactive and do not export at all. As a result, the successes and failures of many companies during the course of internationalisation depend on the nature of the export incentives (Leonidou, 1995: 133). For example, an unprepared and poorly motivated company will have less success in the international arena than an adequately prepared and strongly stimulated company (Leonidou, 1995: 133).

According to Leonidou (1995: 136) the company's decision to export is not only dependent on the emergence and existence of export incentives, despite their importance and necessity. Various background factors also influence the decision to begin, develop and maintain export activities. These factors assist or hamper the successful establishment of the fundamental motivation. In fact, Wiedersheim et al. (1978) confirm that the more positive these background factors are towards exporting, the higher the successful reaction of export motivating factors. During the course of internationalisation, the risks of exporting are high. These risks will be subsequently discussed.

3.3.1.1 Risk versus profit during the internationalisation process

Management's perception of risk exposure and profit grows as the company progressively develops new expertise, many concerns arise and uncertainty surfaces as the company is about to enter the new environment. Figure 1 explains this process.

Figure 1: Profit and risk during export initiation



Source: Czinkota, 1994: 96.

When the company first started out in the domestic market, it learned progressively about the market and therefore managed to have its risk decline. During the company's expansion into the international market, it is faced with new challenges such as currency exchange rate and their vagaries, greater distances, new means of transport, new government policies, new legal and financial systems, new languages and cultural diversity (Czinkota, 1994: 96).

Consequently, the company is exposed to increased risk and, at the same time, the immediate profit performance may decrease due to the outlay requirements of the exporting endeavour in aspects such as information acquisition, market research and trade financing. During the short and medium term, managers might be faced with deteriorating profit margins and increased risk exposure. This might happen even though global market expertise and diversification effects are likely to reduce the risk below the previous "domestic only" level as well as increasing profitability.

In the light of this uncertainty, and not knowing whether there will be profitable results, many executives do not initiate any further export activity and may even put an end to any existing export activities. A temporary breach in the functioning of market forces seems to exist (Czinkota, 1996). Government export promotion can help companies bridge this irregular gap to the point where profits increase and risk declines. Bridging this short-term market gap may well be the key responsibility of export promotion, and the foremost explanation for public sector involvement

(Czinkota, 1996). As part of the internationalisation process, the company goes through a number of stages to develop its foreign business activities. These stages or development phases are discussed in the following section.

3.3.2 The export stages as part of the internationalisation process

The internationalisation process of a company requires and produces knowledge and this is evident in distinct capabilities. Through this course of internationalisation it is clear that the needs of a company change as the internationalisation process intensifies. Consequently internationalisation is evident in the “stages theory”.

The “stages” model of exports consists of the following (Calof and Viviers, 1995: 248):

- Stage 1: management is not interested in exporting.
- Stage 2: management is prepared to deliver on unsolicited export orders; however export markets are not aggressively pursued.
- Stage 3: management has investigated exporting to a country that is geographically and culturally related to their country (i.e. it is what is called a “passive” exporter).
- Stage 4: management is exporting on a more regular basis to the country identified in stage 3 (it is now termed an “experimental” exporter).
- Stage 5: management is actively exporting to two or more countries (now known as an “active” exporter).
- Stage 6: management is allocating considerable resources to the international operations of the company. Decisions regarding foreign direct investment, international structure and resource distribution at international level lead management discussions.

According to Johanson and Vahlne (2001: 13) the need for resources increases with every stage in the market and consequently current business activities increase. These activities differ with regard to the market experience gained. The first stage involves practically no market experience. The second stage sees the firm as having an information channel to the market and receiving fairly regular but superficial information about market conditions. The subsequent business activities being performed in the market lead to more differentiated and wider market experience.

Consequently, the promotional incentives must adjust to the various stages through which the company passes as it strengthens its export activities (Leonidou and Katsikeas, 1996). Export incentives change through the different stages of the internationalisation process. The link between the different stages and the export incentives will now be discussed.

3.3.2.1 The link between export stages and export incentives

Export incentives are all those factors influencing a company's decision to commence, expand or maintain export activities (see section 2.2.3). Olsen and Wiedersheim (1978) remarked that these factors have frequently been explained as the most dynamic and crucial fundamentals of a company's export behaviour, in the sense that they present the actual driving force in pushing the company along the internationalisation path. Stimulating factors, however, are important to export commencement and growth only to the extent that they are brought to the attention of the decision maker (Olson and Wiedersheim, 1978; Wiedersheim *et al.*, 1978).

In an effort to assist policy makers in devising export promotion policies, much thought has been directed in recent years towards the requirements of exporters. This is due to discrepancies in certain Western manufacturing trade sectors (Crick and Czinkota, 1995: 61). While scarce resources limit government support efforts, policy makers should be careful as to how they allocate export assistance in order to meet the requirements of exporting companies as well as satisfy the needs of importing companies (see section 3.2.1) (Crick and Czinkota, 1995: 61).

The classification of export incentives is possible through all the stages of the internationalisation process, from the pre-export and early stages to the more advanced and dedicated stages (Leonidou, 1995: 136). Export promotion programmes typically centre around the wide-ranging area of motivational, informational and operational needs of companies, as can be seen in table 1. Table 1 describes the stages and the export promotion programmes offered during each stage. It shows that various export promotion incentives exist to meet the needs of the exporters at the different stages of the export involvement process (Seringhaus and Rosson, 1990).

Table 1: Companies' needs and export promotion programmes

	Stage of export involvement			
	Non-exporter	New exporter	Expanding exporter	Continuing exporter
Companies' needs	To be made aware of opportunities	To determine the feasibility of exporting	To select the most promising market and entry method	To improve and fine-tune existing operations
Programme focus				
Motivational	Advertising local seminars	Seminars Export bulletin/newsletter Sector-specific assistance	Sector-specific assistance	Sector-specific assistance
Informational		Market reviews Custom market research Primary export marketing research scheme	Market visits Export seminars Export newsletters Primary export marketing research scheme Foreign Direct Investment research scheme	Export seminars Export newsletters Foreign Direct Investment research scheme
Operational		Trade missions Financing Insurance Outward selling trade missions National pavilions	Trade fairs Trade missions Financing Insurance Outward selling trade missions Individual exhibitions National pavilions Outward investment recruitment missions Inward buying trade missions	Trade fairs Foreign buyer visit Sales offices Financing Insurance Outward investment recruitment missions Inward investment missions

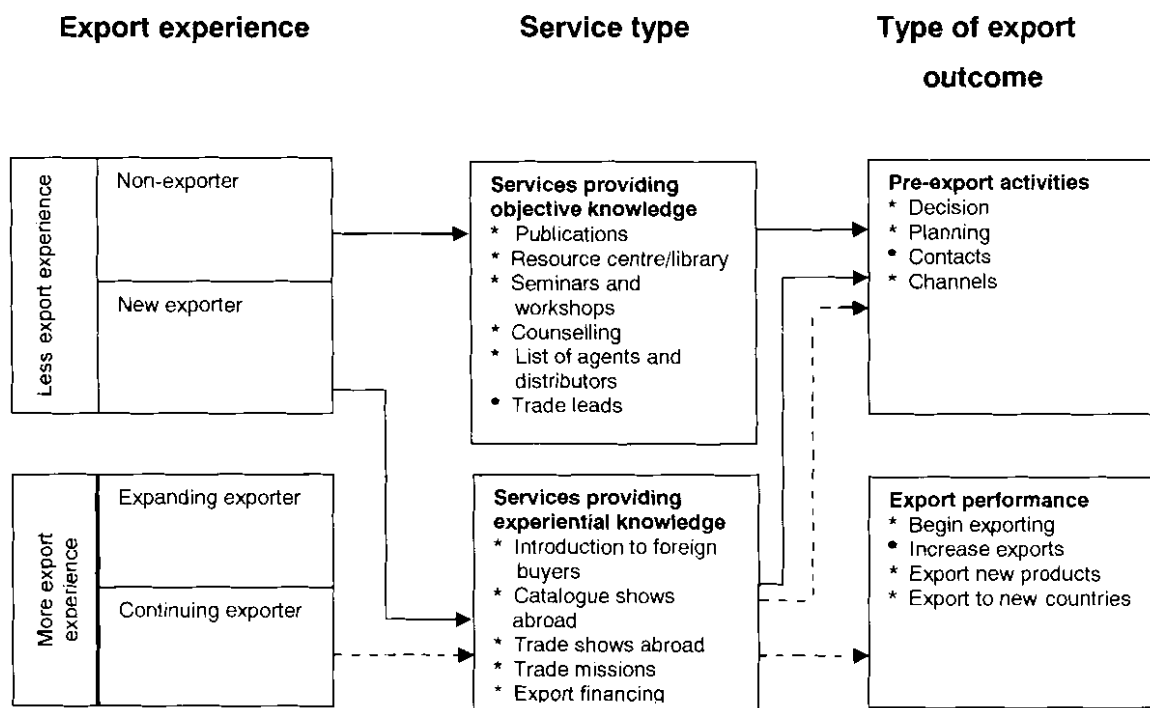
Sources: Adapted from Ahmed, Mohamed, Johnson and Meng, 2002: 832 and DTI, 2007.

Bilkey (1978), Cavusgil (1983) and Seringhaus (1984) (as quoted by Seringhaus, 1986a: 57) remark that diverse government services are accessible and appropriate for such different stages.

There are different export promotion programmes for the various stages in the internationalisation process. Similarly, theoretical and empirical support is available that the need for, as well as the impact of, export assistance is greater at lower levels

of export involvement (Gençtürk and Kotabe, 2001). Since inexperienced exporters perceive the range of export barriers and the capital layout for export activities to be excessive, they are expected to depend on and benefit more from readily obtainable external expertise and knowledge that is supplied by export promotion programmes. On the contrary, the somewhat lower dependence of highly involved companies on external sources of information and support has been accredited to their extremely developed internal competence to manage the intricacies of exporting as well as their more precise and decisive information requirements (e.g. Bilkey and Tesar, 1977; Diamantopoulos and Inglis, 1988). Thus, it can be concluded that the usage of export promotion programmes becomes ever more trivial for export success at higher levels of export involvement.

Figure 2: The effect of service type and company export stage on export outcome



Source: Adapted from Singer and Czinkota, 1994: 57.

In accordance with these arguments, figure 2 explains the relationship between a company's export stage and the services provided during each stage (see also table 1). This figure shows the linkage between service use and export outcomes. This model is based on the findings that the results of the use of export assistance

depend upon both the type of assistance and the export stage of the company (Singer and Czinkota, 1994: 57).

From figure 2, it can be seen that objective knowledge (see section 2.2.4.1) is expected to result in increased pre-export activity (deciding to export, planning, making contacts and selecting channels) for companies when such knowledge is part of export services. This does not depend on the company's stage in the exporting development process, though companies with more export experience are likely not to use such services. The use of experiential knowledge by companies with less export experience is expected to result in an increase of only pre-export activities, whereas export sales might increase if more experienced exporters use this service. The nature and timing of assistance, as mentioned in the government's involvement in export promotion programmes, plays a vital role for the company. A company's specific requirements need to be satisfied by specific assistance services (see section 3.3.2.2). First, for a company just starting out with an export endeavour, experience in the field is limited and therefore the need for assistance arises in the early stages of the export involvement process. Second, Walters (1983), Seringhaus (1983, 1984) and Reid (1984) (as quoted by Seringhaus, 1986a: 60) remarked that although objective information has an important place in external assistance, experiential information (such as that gained at a trade fair or a trade mission) is viewed as crucial, especially by smaller companies.

The underlying principle for the expected differences in the performance impact of export promotion programmes originates from the complexity of export activities. These activities require a large amount of comprehensive and diverse information, involving considerable rules and regulations and demand an extensive amount of financial and managerial resources.

There is a difference between the factors responsible for instigating exporting (incentives) and the factors sustaining exports at later stages (motivators) (Bilkey, 1978). Bilkey (1978) said that through this distinction by some researchers, there is an understanding that these factors are often closely linked. Through the stages of the internationalisation process many incentives are prevalent, but there is little evidence as to what is the instigating factor to initiate the progress of the company from one stage to another. This is also one of the main weaknesses of the "stages" approach of export development models (Leonidou, 1995: 136).

To support such initiatives, a government service that provides facilitation with contacts between interested overseas consumers and domestic suppliers could achieve the resulting goal of sustaining and developing export operations (Leonidou, 1995: 138). When taking part in the internationalisation process, a company comes across different export incentives at every export stage. How companies use these export incentives during the internationalisation process will now be discussed.

3.3.2.2 Companies using export incentives during internationalisation

Kotabe and Czinkota (1992) found that companies at different phases of internationalisation required or wanted a different level of assistance from government export promotion organisations, as mentioned earlier in the link between export stages and export incentives (see section 3.3.2.1). It was stated in section 3.3.2.1 that the export incentives play a stimulating role. However, when it comes to first time exporters, these incentives need to bridge the gap. Whether the gaps are filled by private or public sector organisations will be a policy preference. However, the gaps must be filled if economic growth through exports is to be assured.

To enable companies to progress from the status of non-exporters to that of successful, committed exporters, government needs to play three roles: initiator, developer and eliminator (Viviers and Calof, 1999: 915). Where non-exporters are concerned, the government should play the role of initiator. The key lies in developing mechanisms designed to open up the non-exporters' minds to the prospect of exporting and to do so in a way that will be appealing. The mechanisms developed must not only stimulate their interest, but must work towards lowering their perception of the costs and risks of exporting (Viviers and Calof, 1999: 918).

When companies have been initiated into exporting, the next step is to get them actively pursuing their own export opportunities and to develop them from stage two to stage six exporters (see section 3.3.2). To help stage two exporters develop into dedicated exporters, programmes need to be established that bring about changes in attitudes and support companies in developing the managerial attributes associated with export success, (Viviers and Calof, 1999: 920). However, as dedicated companies approach foreign markets, one further barrier may affect success – lack of a level playing field. The government's role as eliminator is to deliberately implement a policy of removing anything that stands in the way of export success. Through eliminating export barriers, companies with the right attitudes and the right

product will be able to become successful and aggressive exporters. Without elimination, a companies' ability to realise maximum export potential is reduced (Viviers and Calof, 1999: 921).

Results from a study in Singapore by Tan and Kau (1987), showed that not much attention was placed on distinguishing between providing government assistance to companies for export promotion purposes, and providing assistance for development purposes. This was where special attention had been given by the government to the requirements of small- and medium-sized companies. Although the awareness of export promotion programmes was generally high, the use of such programmes was low, according to Tan and Kau (1987). The reasons given for this observation were that perhaps some of the exporters in Singapore didn't qualify for the assistance, or they did not find the support programmes very useful.

Reid (1982) confirmed that in order for companies to make use of specific export incentives, they need a high absolute level of export sales as a prerequisite. Nonetheless, this is not the case where first-time exporters are concerned. In relation to Reid's findings, Ogram (1982) confirmed that companies currently exporting were much more likely than non-exporters to investigate and use export promotion programmes provided by government organisations and other agencies. According to Seringhaus (1986a: 59): "A firm's perception of, and attitude towards, export promotion support appears important to that firm's use (and willingness to use) and expectation of the degree of helpfulness of assistance".

3.3.2.3 The effect of export involvement on export performance

Eventually, the aim of export involvement is to lead to higher export performance (see section 5.5.3), where this performance is evaluated in three different ways (Czinkota, 1996). Efficiency refers to the ratio of the effective or useful output to the total input employed. The company's export profitability is the most important means of measuring efficiency. Market share and export sales growth play a vital role in measuring the effectiveness of a company, where effectiveness is defined as comparative success when weighed against that of other competitors in the market. Czinkota (1996) explains that competitive position (see section 2.2.2.2.2) concentrates on the overall strength of a company arising from its distinct competencies, management approach and resource consumption. The general

quality and capability of a company's export activities are classic indicators when examining competitiveness.

Dependence on export promotion assistance has not been shown to be prominent in export growth (Kirpalani and Macintosh, 1980). According to Kirpalani and Macintosh (1980) export promotion programmes do not automatically culminate in sales. Companies must engage in various activities to bring about export sales. For that reason, companies' effectiveness in terms of sales growth is not expected to be determined by export assistance. The company still requires the working capital to execute the export order or to finance the contract. In this case, for example, a secured export order will be ineffective. Export promotion assistance may be indispensable for companies to participate in global markets, but it is not sufficient, by itself, for export sales growth (Kirpalani and Macintosh, 1980; Seringhaus, 1986b).

Then again, greater access to, and usage of, export promotion programmes is facilitated by a higher export involvement (Kotabe and Czinkota, 1992: 644). As a result, better export performance can be anticipated. The reputable organisational structures and managerial practices of highly involved companies make them better positioned for acquiring necessary expertise from secondary sources, to assist in the processing of external information (Samiee and Walters, 1990).

Companies may come to rely on externally available assistance because the use of services may become habit-forming (Seringhaus, 1986a: 60). Therefore, although exporters are becoming more experienced, they still make use of export promotion assistance. Seringhaus (1984) (as quoted by Seringhaus, 1986a: 60) stated that where trade missions are high on a company's priority list as means of market entry, they are used with great regularity. A study of the US international trade fair program done by Katcher in 1975 confirmed that companies with less experience in trade fairs were not as successful as those companies being experienced in the program (Seringhaus, 1986a: 60).

While some companies are making use of export promotion programmes, the return on investment (ROI) is not always clear to governments and economic role players. If the export promotion programmes can be evaluated and the contribution thereof demonstrated successfully, it may lead to more exporters making use of such assistance and consequently contributing to the country's economic growth and stability.

3.4 Conclusions

During the course of this chapter, it has become evident that export promotion plays an important role in the export development process. Export promotion is mainly an information dissemination activity that needs to take the requirements of exporters as well as importers into account. With the help of such support programmes, exporting companies can obtain a competitive advantage and gain a strong foothold in the international market.

Therefore, given the information in chapter 3, it can be concluded that exporters have different needs during the different stages of the internationalisation process. The success in exporting for companies is not only determined by export incentives, but by other internal factors, as mentioned. Through the use of export incentives it is, important to determine whether the success of the chosen export incentive can be measured.

In an attempt to address these differing needs of companies, the Export Marketing and Assistance (EMIA) scheme provided by the DTI in South Africa will be examined in chapter 4. Firstly, the current export situation in South Africa will be mentioned and the link between exports and export promotion will be discussed. In the overview of export assistance programmes, this chapter places specific emphasis on the Export Marketing and Investment Assistance scheme (EMIA). EMIA is one of the export incentive programmes provided by the DTI and, in chapter 5, specific focus will be placed on the ROI of the national pavilions and trade missions provided by EMIA.

CHAPTER 4

EXPORT PROMOTION IN SOUTH AFRICA

4.1 Introduction

In the light of ever-increasing internationalisation, it is the companies of a country that have to stay one step ahead of their competitors to achieve these elements of growth. During each stage of the internationalisation process, different export promotion programmes can assist exporters to develop their export activities further, as discussed in chapter 3. It is here where governments can play a vital role through export promotion programmes in helping economies to grow and to be more competitive in the foreign market place (Leonidou, 1995: 138).

This chapter therefore aims to discuss the services and support provided by the South African government in the form of national export promotion programmes. First, the current export situation in South Africa will be explained and the importance of export promotion in South Africa will be highlighted. To understand the structure of export promotion provided by the DTI (Department of Trade and Industry), each of the Export Marketing and Investment Assistance (EMIA) schemes/programmes are discussed. Thereafter, conclusions are drawn. The correct understanding of the EMIA programmes is vital in assisting the government to determine the efficiency/usefulness of export promotion programmes and to compare this to those of other countries. This is discussed in chapter 5.

4.2 The current South African export situation

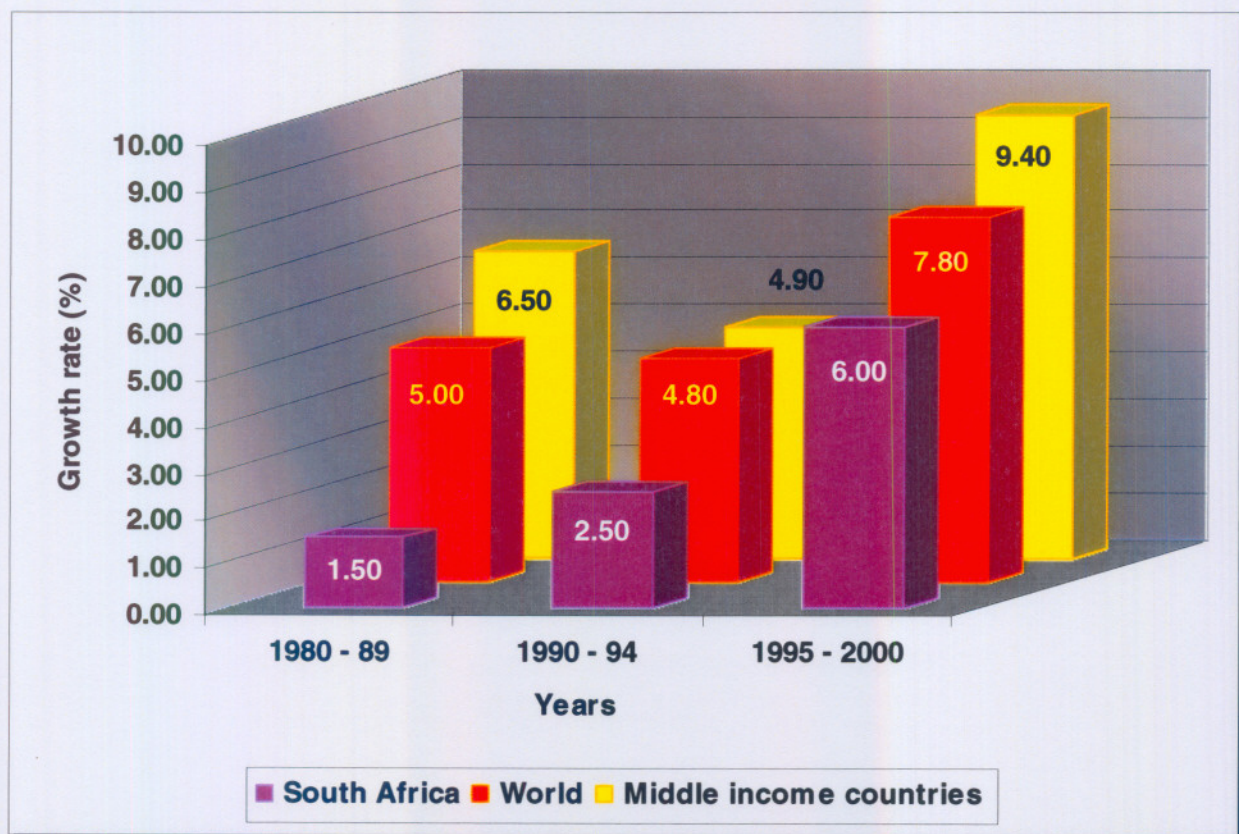
4.2.1 Export growth

The South African economy, characterised by its dualistic nature, which encompasses both first and third world characteristics, creates an uneven playing field for exporting. Historically, the country was protected from the structural disparity of the global economy by isolation, in the form of sanctions, and tariff protection. More recently, a relatively weak currency had a similar effect. Consequently, Lalor

(2005) acknowledged that with the rand demonstrating its resilience, it is clear that the country needs to create a more sustainable source of national competitive advantage. The fact that South Africa must do this in spite of an ongoing process of political, social and economic transformation intensifies the challenge considerably.

As a result of South Africa's previous circumstances, "the need for business and government to constantly innovate in order to become and remain competitive, is increasingly becoming a cornerstone of South African institutions", as noted by Kühn (2005). Firms in developed, as well as in developing economies, have found exporting to be an effective tool to gain access to foreign market opportunities (Duran & Ubada, 2001:23). These foreign market opportunities make way for new technology to be incorporated to gain a more competitive foothold in the international arena.

Figure 3: Growth rates of exports of goods and services, annual average



Source: Adapted from Edwards and Golub, 2004: 1324.

Figure 3 indicates the South African growth of exports of goods and services (in constant US\$) through various periods, compared to the growth of other middle-income developing countries and the world as a whole. South African exports grew much slower prior to 1995 than the exports of the rest of the world. During the 1980s and early 1990s, South Africa's export growth was only limited to between 1 percent and 2 percent annually in constant US dollars, whereas world trade was increasing by about 5 percent. Some middle income countries experienced export volume growth of 10 percent or more during the same period.

South Africa experienced annual export growth of 6 percent during the period 1995 to 2000, but it was still well below the world average and even more so compared to that of the middle-income countries. Growth rates of as much as 10 to 15 percent were experienced by some dynamic emerging countries, aside from the Asian crisis (Edwards and Golub, 2004: 1324).

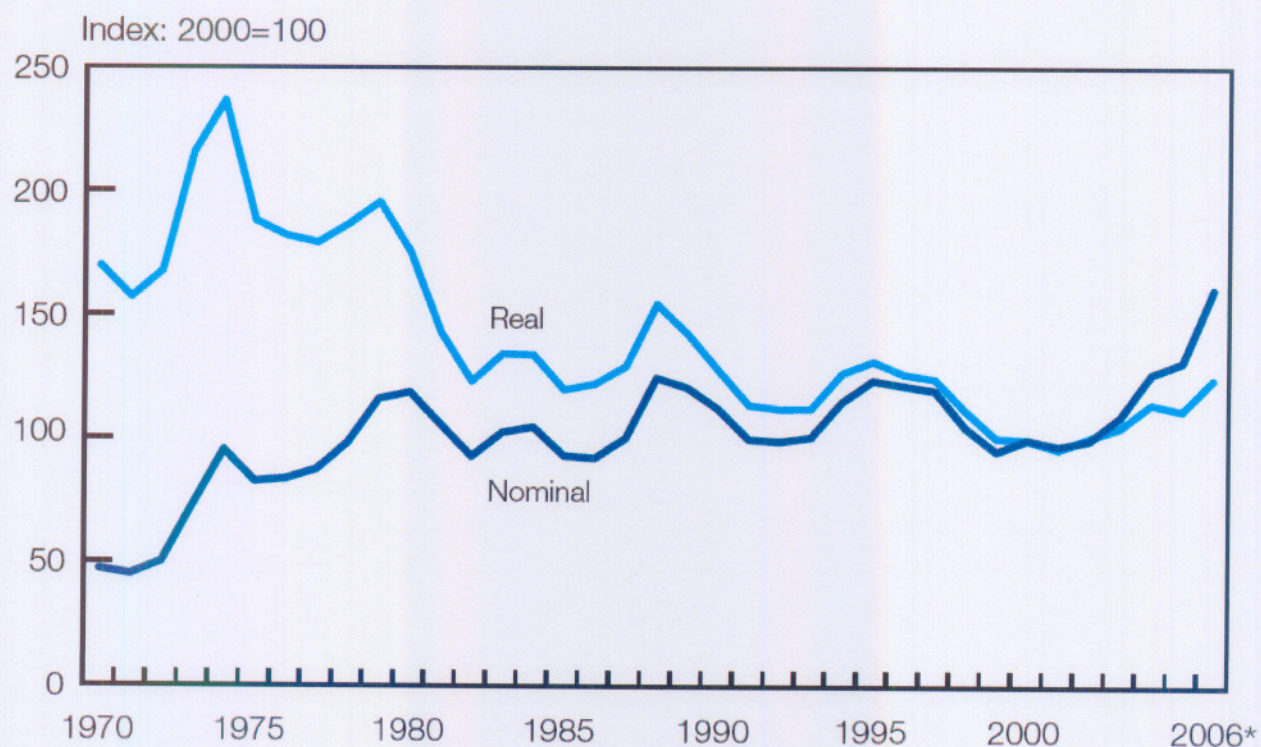
When examining South Africa's total export picture, it is evident that growth in export volumes dropped from 11.6 percent in 2000 to 1.6 percent in 2001 (SADC, 2006). This negative impact on the export volumes was caused by the global economic slowdown in 2001. During this period, import growth has decreased as well, because the prices of import goods were characterised by a sharp rise and also because of a slowdown in inventory investment. In return, this gave rise to an enhancement in the country's international terms of trade¹ resulting in export earnings growing more rapidly than expenses for imports. Due to these developments, the country's trade account had a healthy surplus with the rest of the international community during 2001, which further improved in the first half of 2002.

Although the general growth in exports was down in comparison to the previous year, South African exporters were successful in increasing their share of overall world trade, reflecting increased efficiency and rising productivity in the South African industry (SADC, 2006).

¹ The volume of exports that can be traded for a given volume of imports; changes in the terms of trade are measured by changes in the ratio of export prices to import prices (ITCD, 2004).

As a result of the manufacturing sector recovery at the beginning of 2005, exports have contributed to overall GDP growth for the first time in several years. The real increase of 10.3 percent in export volumes lead to the real GDP growth of 4.5 percent in the second quarter of 2005. Real GDP growth would only have been 3.5 percent if it were not for the contribution made by a real increase in export volumes (Business Monitor International, 2005: 5).

Figure 4: US dollar prices of international commodities



Source: SARB, 2006: 34.

As a consequence of the increase in international commodity prices during 2005 and the first half of 2006 (as can be seen in figure 4) the terms of trade were strengthened by the subsequent rise of South African export prices against import prices (SARB, 2006: 34). This, in turn, contributed to increased operational surpluses, a rise in share prices and more sustainable investment growth.

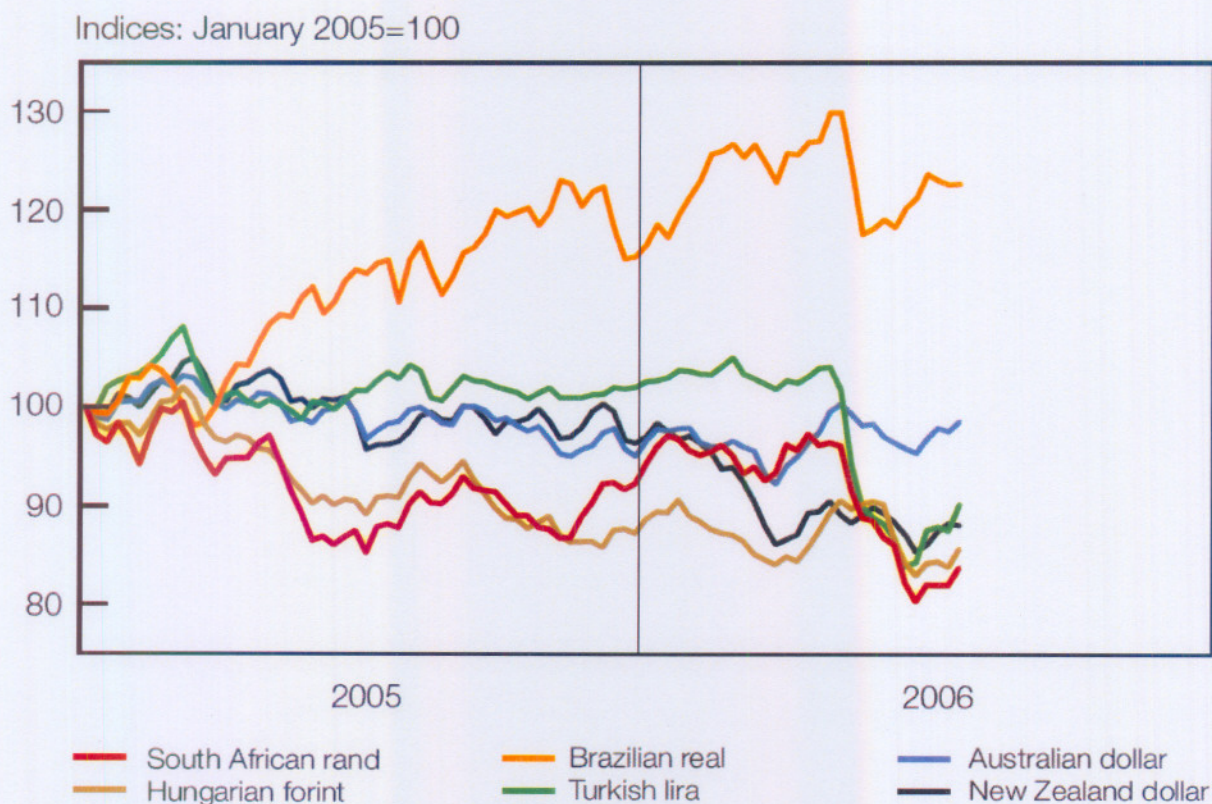
4.2.2 Influence of the exchange rate

The demand for South African exported goods is dependent on the strength of the rand. Due to the currency's performance, manufacturers were faced with a decrease

in external demand for their products during 2006 (SARB, 2006: 39). On the other hand, this spurred the increase for demand in imported goods. Commodity prices are the most prominent influence on the strength of the rand, for example gold, where the prices tend to move in the opposite direction to the US dollar. The strength of the economy is consequently influenced by the capital inflows.

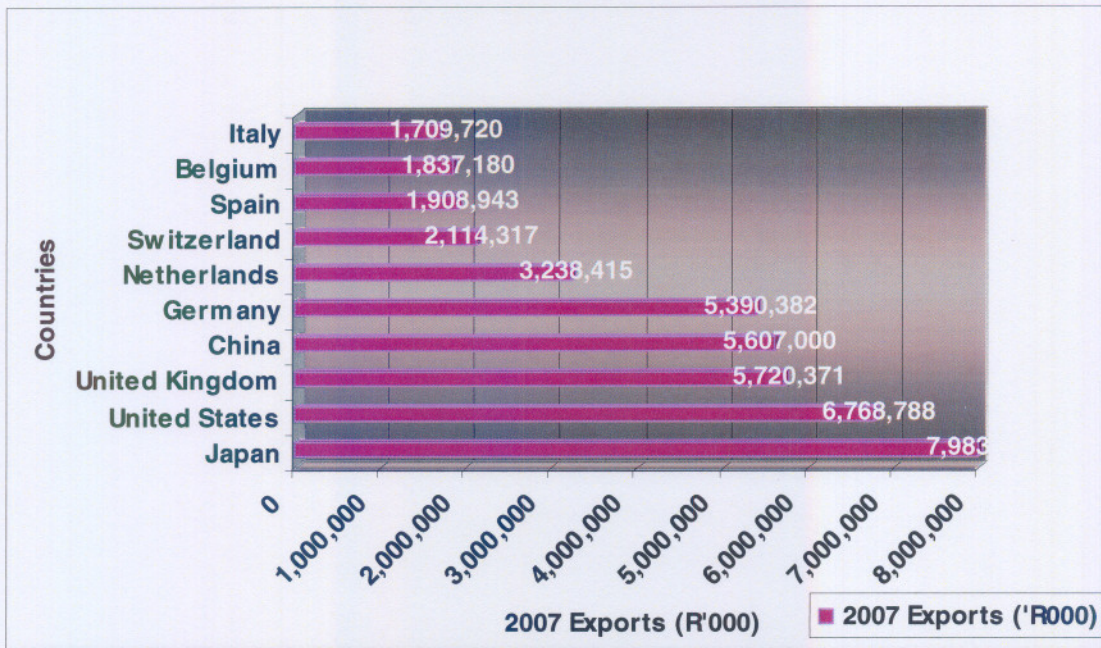
Throughout the first four and a half months of 2006, the nominal effective exchange rate of the rand fluctuated mostly sideways. Due to the rand being on the unfavourable side of investor sentiment together with currencies from other emerging-market economies, the rand lost more than 15 percent of its value within six weeks of May 2006 (SARB, 2006: 39). Figure 5 shows that the South African rand, Turkish lira, Australian dollar and the New Zealand dollar began to depreciate against the US dollar in early May 2006. The depreciation of these currencies was driven by global risk aversion; rising interest rates in the United States, Western Europe and developed Asia, a decline in international commodity prices and the widening of the external trade and current account deficits in these emerging markets.

Figure 5: Exchange rates against the US dollar



4.2.3 Export partners

Figure 6: South Africa's total exports (first quarter of 2007)



Source: Own calculations, adapted from the DTI, 2007.

Figure 6 gives the breakdown of South Africa's total exports by country. These figures contribute to South Africa's balance of trade and depict whether South Africa is in a healthy trading position. A healthy trading position would constitute one where exports are greater than imports.

From this figure, South Africa's main trading partners can be identified. In terms of exports, the main trading partners are Japan (1), the United States (2), United Kingdom (3), Germany (4), the Netherlands (5) and China (6). When considering these regions, it is clear that most of South Africa's export partners are located within the European Union.

These exporting activities with other countries can be classified in three categories, which depend on the type of goods being exported. They consist of primary exports, manufactured exports and services exports and these three types will now be discussed.

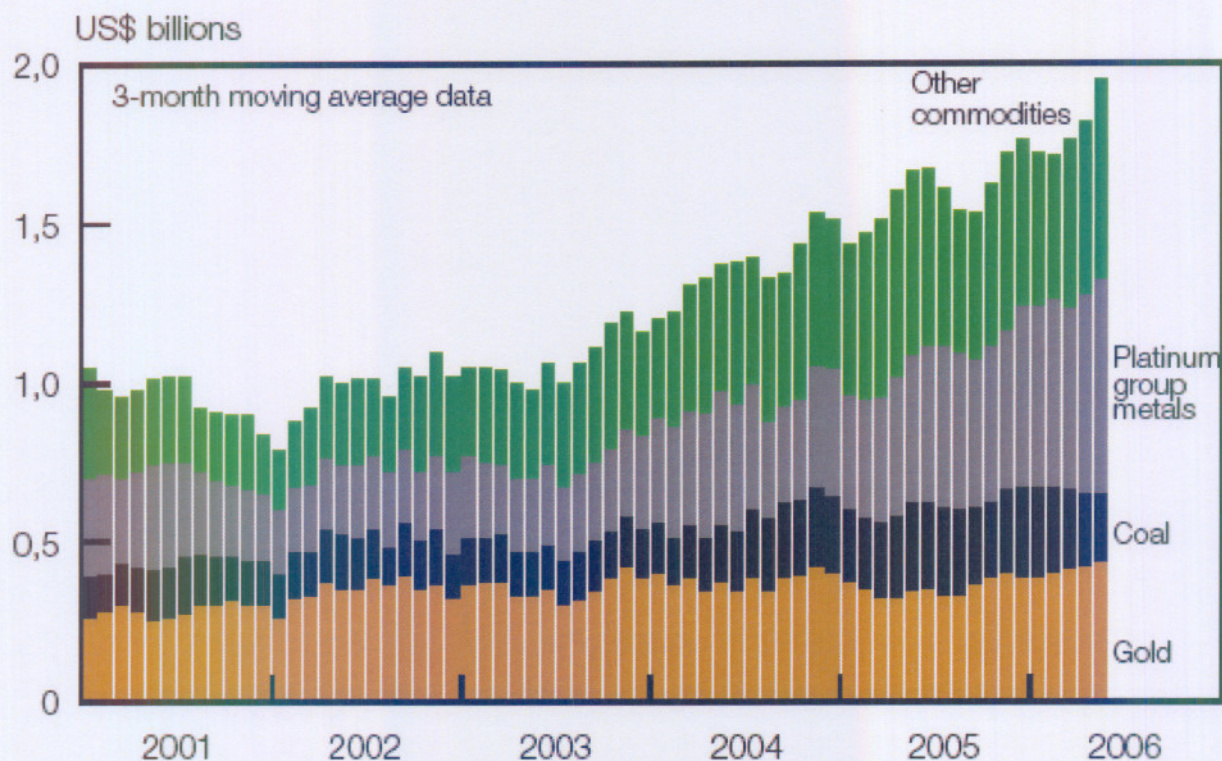
4.2.4 Export diversification

4.2.4.1 Primary exports

Although South Africa is characterised by a dualistic economic environment, its trade sector resembles that of a developing country – predominantly reliant on exports of a primary nature (Calof and Viviers, 1995: 74). South Africa's export profile continues to be dominated by primary and beneficiated mineral exports, although the mining sector's contribution to GDP has declined over the past few decades (DTI, 2006). The country's most valuable export commodities remain gold and diamonds, whereas platinum and aluminium are the export industries showing the highest growth. Platinum could later surpass gold as being South Africa's largest foreign exchange earner. This would be due to increasing export volumes and the platinum price remaining above US\$600 per ounce (DTI, 2006).

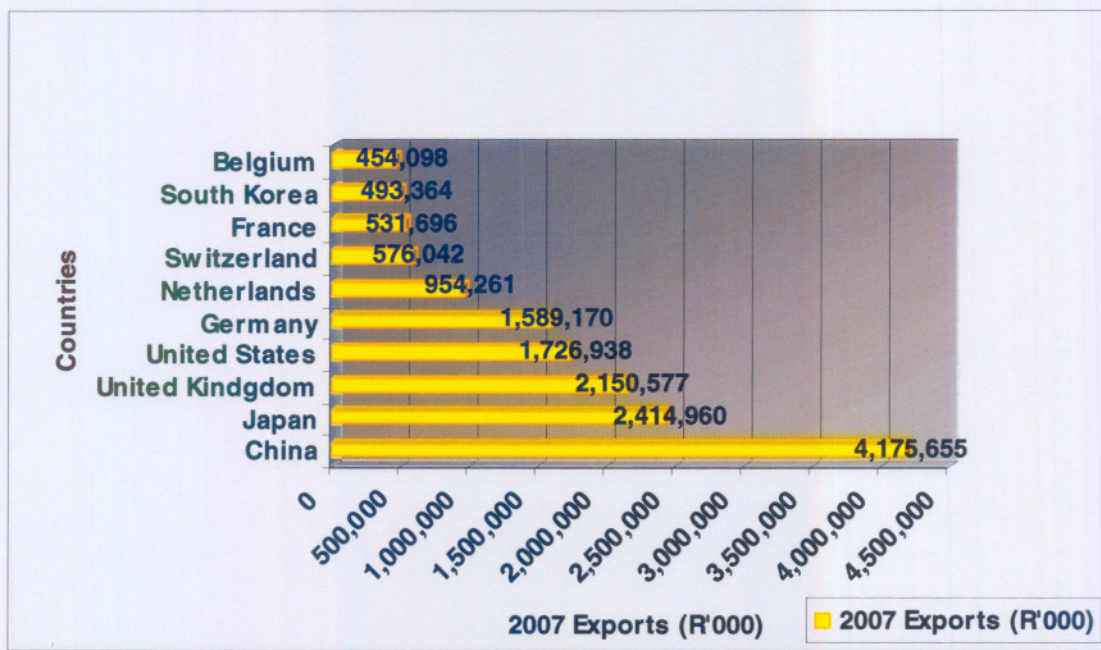
During 2005, the value of visible exports recorded an increase of 14 percent because South African exports benefited from strong global demand and surging of commodities (SARB, 2006). As can be seen in figure 7, platinum was the highest export earner, followed by gold which was historically the largest export earner. Coal was the third largest export earner.

Figure 7: South African commodity exports



Source: SARB, 2006.

Figure 8: Mining exports by country (first quarter of 2007)



Source: Own calculations, adapted from the DTI, 2007.

Figure 8 illustrates the mining exports of South Africa by country in the first quarter of 2007. This figure indicates that most of the mining exports arrive at destinations like China, Japan, the United Kingdom and the United States. These countries have first world facilities to use the primary mining inputs and use them in the production of more sophisticated goods, such as jewellery and computer equipment.

Positive economic growth overseas, not least in China and India, increased the demand for South African-produced mining products such as iron ore, platinum, diamonds and metals during 2006 (SARB 2007). The superior performance of the mining sector was, nonetheless, somewhat countered by a decline in the volume of exported manufactured products destined for Europe and the United States. International commodity prices, which had peaked in US dollar terms in the second quarter of 2006, fell in both the third and fourth quarters of the year (SARB, 2007).

The average realised rand price of exported gold moved generally sideways from the third to the fourth quarter of 2006, after having increased for six consecutive quarters (SARB, 2007). This occurred when a decline in the US dollar price of gold was fully counteracted by the depreciation of the rand. The value of gold exports rose by 0,5 percent over the period, due to a marginal increase in the physical quantity of gold exports (SARB, 2007).

Even though the superior performance of the mining sector was countered by a decline in manufacturing exports, the manufacturing export sector still plays the second largest part in the total South African exporting profile. Therefore, the effect of this sector on the South African export industry will now be discussed.

4.2.4.2 Manufactured exports

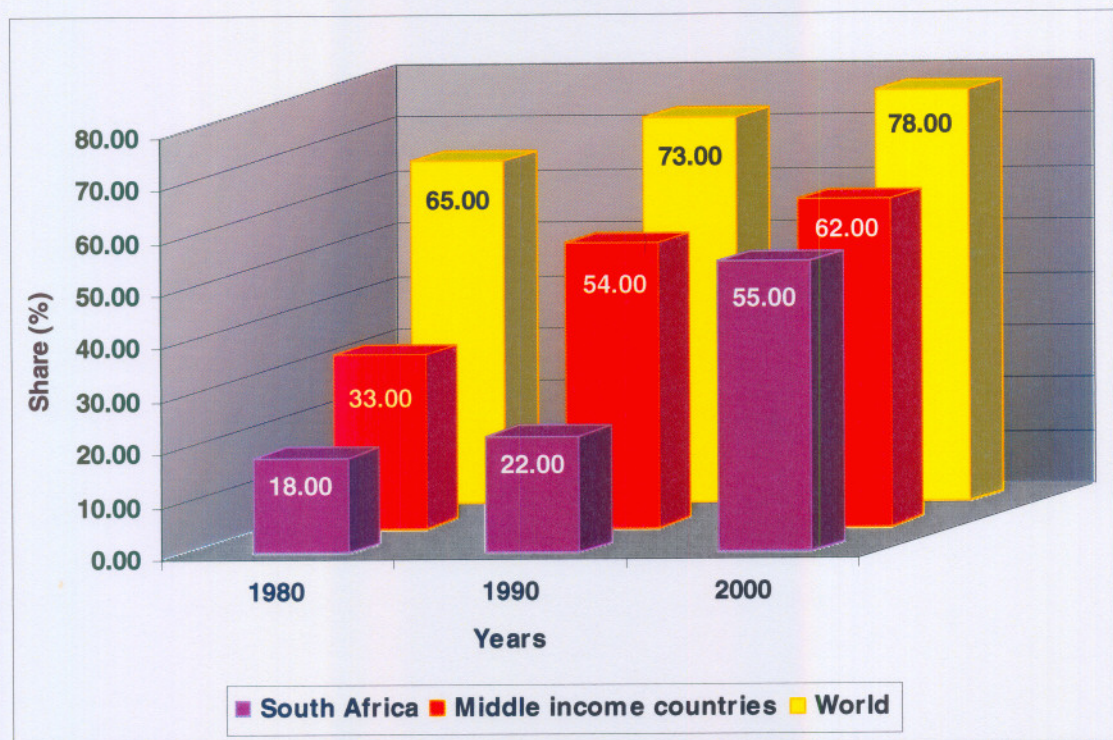
The years 2005 and 2006 have seen some of the fastest-growing exporters originating from the smaller manufacturing industries such as organic solvents, acyclic hydrocarbons, building plastics and catalytic converters. These industries, prior to the 1990s, were unable to develop export markets (SADC, 2006).

The total volume of merchandise exports is increasingly dominated by manufactured products. This initiative is supported by export promotion programmes and export credit reinsurance offered by the DTI. One of the largest projects, which was

reinsured by government, is the MOZAL aluminium smelter in Mozambique which absorbed more than R2 billion in capital exports from 192 South African contractors during its construction (SADC, 2006).

According to the SADC (2006), the rand value of South Africa's exports and imports in manufactured goods has doubled since 1994. Exports, specifically those of manufactured products, have posted strong growth during this period. This was due to depreciation of the currency as well as inflation.

Figure 9: Share of manufactured exports as a percentage of total merchandise exports



Source: Adapted from Edwards and Golub, 2004: 1325.

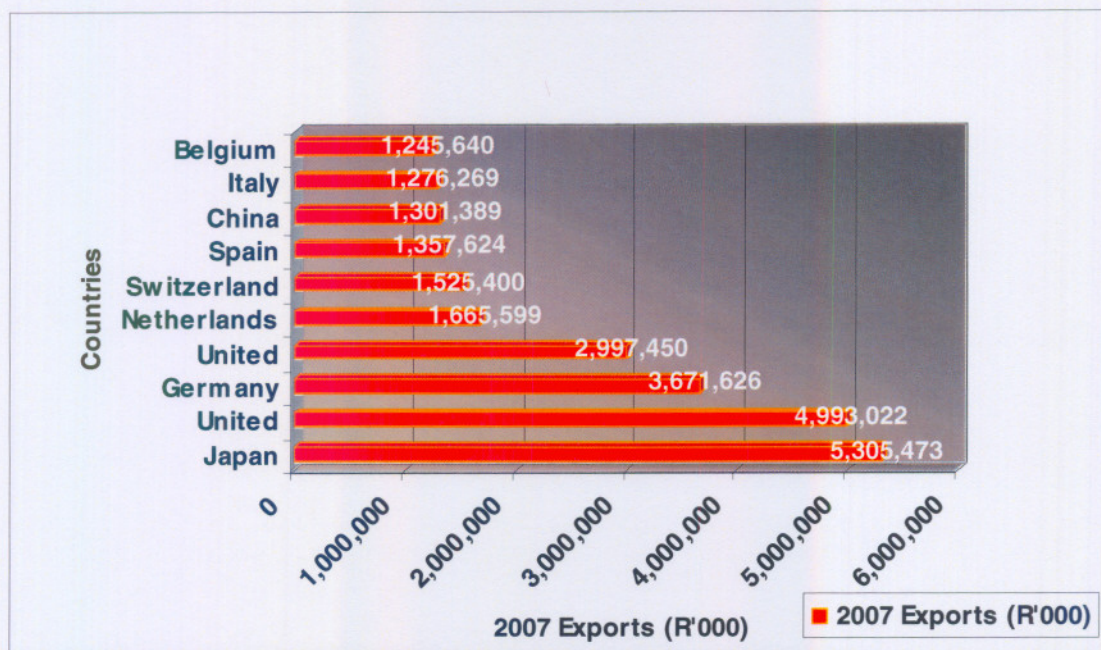
In figure 9, the share of manufactured exports as a percentage of total merchandise exports is presented. According to Edwards and Golub (2004: 1325) it is well known that a number of developing countries, particularly in Asia, have dramatically altered the composition of their exports. Where these countries depended heavily on primary products, a shift was made toward manufactured goods. To grow in the exports of manufactured goods is an important aspect in the economic development

of many emerging countries and one of the essential elements of modern-day "globalisation" (Edwards and Golub, 2004: 1325).

Middle-income countries showed a much greater rise in their share of manufactured exports compared to the world as a whole in the 1980s and 1990s (see figure 2). The share of middle-income countries still stayed below the average level of the world in 2000. South Africa's share of manufactured exports grew much more slowly than the share for other middle-income countries in the 1980s. In 1990, manufactured goods represented only about a quarter of total exports. During the 1980s, South Africa's exports were dominated by the mining industry, especially gold (Tsikata, 1999).

During the 1990s, however, the composition of South African exports shifted dramatically toward manufactured goods and, by 2000, manufacturing constituted more than half of South Africa's exports. The declining share of mining partially reflected the decline in the world price of gold, but also resulted from an impressive average annual growth rate of manufactured goods in real terms of 12 percent (Edwards and Golub, 2004: 1325). South Africa's exports to other developing countries in Africa in the form of manufactured goods supported the increasing share of manufactured products in South African exports during the 1990s.

Figure 10: Manufacturing exports by country (first quarter of 2007)



Source: Own calculations, adapted from the DTI, 2007.

Figure 10 represents the manufacturing exports of South Africa by country for the first quarter of 2007. It is interesting to observe that, when exports are considered, they go mostly to countries like Japan, the United States and Germany, much the same countries as for the mining sector. The last export sector consists of services exports, which will now be discussed.

4.2.4.3 Services exports

Services exports have also come to the forefront lately. The development of this export sector is evident in the diversification of the economy, where services exports have been increasing faster than merchandise exports in the last couple of years. According to SA Trade Hub (2006), tourism and other service exports have increased from 12 to 15 percent of total exports since 1991, while service imports have remained around 16 percent of total imports.

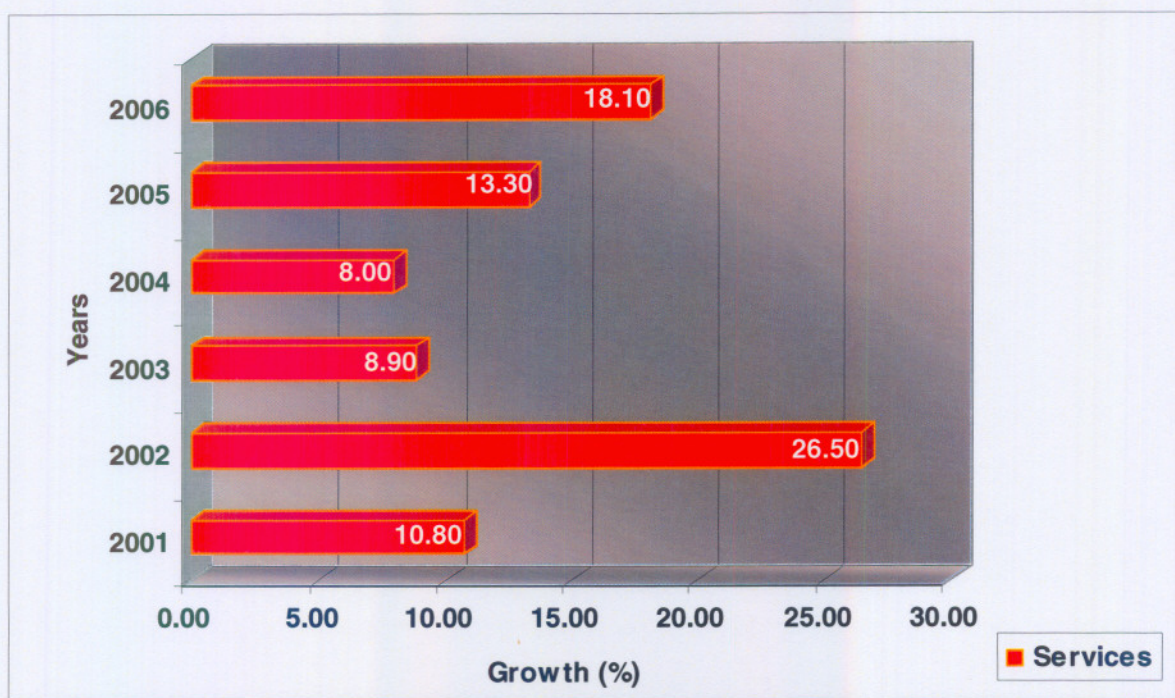
The exports of South African services to the rest of Africa have increased by 436 percent during the period 1987 to 1995 (Tullio, 1996: 18). During the 1990s, the South African services exports and export diversification increased relative to the

1980s. However, this was still not enough to force South Africa onto a path of rapid export-led growth (Edwards and Golub, 2004: 1338). With regards to standard procedures of incorporation into the world economy, the other middle-income countries are still ahead of South Africa.

During 2005 and the first half of 2006, net services, income and current transfer payments to the rest of the world rose considerably (SARB, 2006: 33). This is because consumption of foreign services by South Africans travelling abroad also continued to rise. Increases in freight and merchandise insurance services reflected the higher value of merchandise imports. Due to increasing income payments to non-residents, the services account experienced a higher deficit throughout this period (SARB, 2006: 33).

Figure 11 describes the growth rate of services during the last six years. The highest growth has been achieved in 2002 (26,5 percent), the second highest in 2006 (18,1 percent) and the third highest in 2005 (13,3 percent). The increase in spending by foreign visitors to South Africa partly countered the increased service payments in 2005 and the first half of 2006 (SARB, 2006: 33).

Figure 11: Growth in gross payments to non-residents by main category – services



Source: Own calculations, adapted from SARB, 2006: 33.

In order to increase exports, as well as export diversification and gain greater market access in the international arena, it is imperative to understand the link between exports and export promotion. When this relationship is clearly defined and understood, it will improve the efforts of the DTI in allocating their scarce resources as cost-effectively as possible.

4.3 The link between exports and export promotion in South Africa

South Africa, particularly if it depends on international trade to such a high degree as other countries, has a fundamental interest in making use of all its export opportunities (Dichtl, Goeglmayr and Mueller, 1990: 23). When a company decides to undertake the act of exporting, it first has to make the vital decisions needed to develop its markets outside the country's borders. In assessing the outcome of these decisions correctly, many South African companies have succeeded in making exporting a profitable part of their business (DTI, 2006).

There is an increasing emphasis on becoming more competitive in the international marketplace. Becoming more efficient, improving productivity and using innovation to enhance products and their marketability can enable companies to take a more competitive position in the global arena. International trade allows a country to increase its productivity by doing away with the need to produce all goods and services itself. The industries and sectors that are relatively more productive allows for specialisation, while products and services, where companies are less productive than foreign rivals, can be imported. This, in turn, increases average productivity.

According to Aw and Hwang (1995), companies that are exposed to a greater level of international competition are likely to be more efficient in their use of resources. Consequently, it was found that exporting companies act as conduits for the informal inflow of foreign technology and thus could generate higher productivity. Aw and Hwang (1995) came to the conclusion that government policies acting to promote exporters at the expense of domestic market companies may be more justified if the performance differences between the two groups of companies are explained by their productivity differences rather than resource differences.

The effects of trade on employment can also be seen in the changing trade patterns. As trade patterns change, so must the demand change by sector for both capital and labour (Gouws, 1996: 16). In the exporting sectors, employment is likely to increase, whereas employment decreases in sectors where the country imports. For example, when the United Kingdom revoked the Corn Laws, the demand for farm labour decreased, while the demand for industry labour increased. Problems occur in the labour market when skills from one sector are not transferable to the growing sector (Vanston, 1995).

Export industries are supported by governments for various reasons. Support from governments is essential to level the playing field and not to lose export market share (Fischer and Gelb, 1991). Structural problems in the South African economy, caused by years of protection, led to industries losing market share. This did not occur because the domestic markets faced unfair subsidised competition from abroad (Fischer and Gelb, 1991).

Bhagwati (1990) proposed the following reasons why an export promotion policy is preferable: firstly, there is a more efficient allocation of resources and, secondly, there is less direct unproductive profit seeking and rent seeking activities. Export promotion policies allow countries to exploit their comparative advantage as there are now opportunities for specialisation. More consideration has to be given to market signals where economies apply export promotion incentives. As a result, these economies are more flexible and therefore adjust better to exogenous shocks (Gouws, 1996: 18). Where exports are not penalised, resource allocation is more efficient with unbiased trade incentives, as mentioned earlier. The administration of export promotion policies is easier and these policies tend to be more transparent.

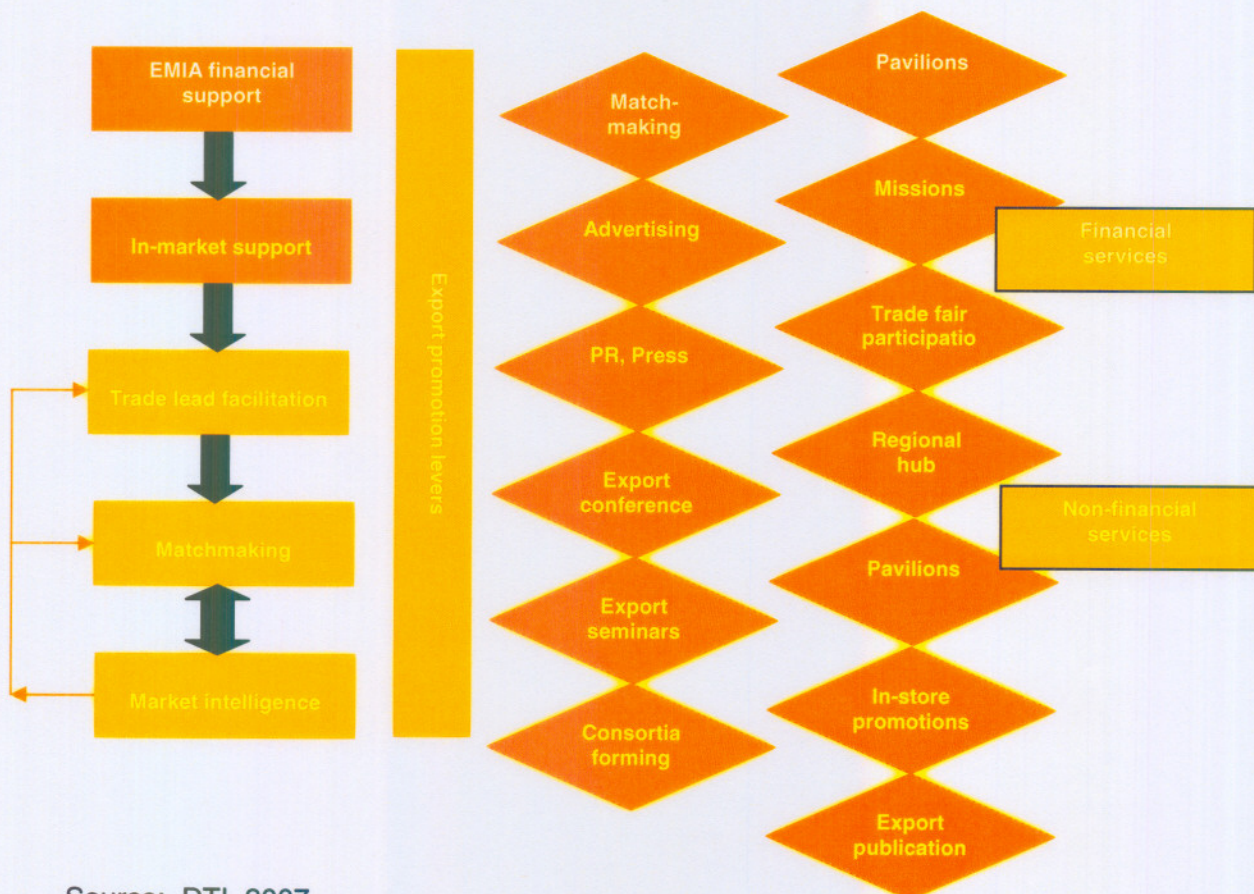
Export assistance programmes designed by governments are intended to provide companies with the resources and capabilities necessary to facilitate success in exporting (Duran & Ubeda, 2001:24). South Africa is no different, and the Department of Trade and Industry has many initiatives to assist exporters in the process and providing them with the necessary resources. Consequently, the structure of these export promotion initiatives in South Africa will now be discussed.

4.4 The structure of export promotion programmes in South Africa

Since the DTI started redesigning export promotion services in South Africa after 1994, they have been dedicating a substantial effort to dismantling what has been argued to be ineffective export subsidies (Valodia, Goode and Macheke, 2002: 719). These ineffective export subsidies have been replaced with supply-side measures, drawing, wherever possible, on what is considered best practice internationally. By taking on a sectorally focused approach, international experience concerning industry associations has been combined from, among others, New Zealand and Australia. The DTI focuses on the development of certain sectors in the economy that lend themselves to domestic mobilisation. The support from these sectors is then extended to export promotion. Valodia, Goode and Macheke (2002: 722) state that the focus is now on the upstream identification of competitive strengths through the DTI's cluster studies and the actions required to overcome identified weaknesses. Therefore, the priority lies with the industries that have been identified as potentially competitive.

The DTI's trade and investment support body, Trade and Investment South Africa (TISA), has given practical application to this policy. The support provided by TISA to the industry is founded on the notion of sector specialists supplying strategic support to a business process, rather than once-off export market support. The sectors of the economy deemed to show the greatest growth potential are the focus of TISA's support. These include chemicals, metals, agro-processing, aerospace, rail and marine, automotives, arts and crafts, clothing and textiles, capital equipment, clothing, textile, leather and footwear, electro-technical, tourism and TV and film (DTI, 2007). The DTI is able to provide market intelligence and identify export opportunities in some 48 South African diplomatic missions worldwide through the support provided by TISA. Exporters, as well as potential exporters, are provided with help and assistance through a range of incentive schemes managed by TISA. These services include research and information and more practical assistance in areas such as exhibitions and logistics and can be seen in figure 12 and will now be summarised.

Figure 12: TISA's integrated export offerings



Source: DTI, 2007.

4.4.1 Market intelligence

The DTI supplies customers with information on export markets and opportunities, answers to frequently asked questions, country reports, and market survey reports as well as booklets on the export process, quality issues and e-commerce issues. Information regarding the requirements for entering into foreign markets and identification of export markets for their products and services will be provided to customers (DTI, 2007).

4.4.2 Trade-lead facilitation

The Trade Opportunities Centre receives business opportunities originating from foreign economic representatives for them to match these with competent South African exporters (DTI, 2007).

4.4.3 Matching buyers and sellers

The primary aim of this offering is to link South African exporters of export-ready companies with foreign buyers or potential importers and this offering, in turn, will enable South African exporters to expand their foreign markets (DTI, 2007). Consequently, both importers and exporters are measured on various criteria pertaining to their capability to answer each others needs. The best companies are then matched and an introduction is facilitated. The DTI will be involved to ensure that the relationship is secured and agreements are in place.

4.4.4 In-market support

This consists of actual support, co-ordination and facilitation of an export company in support of matching marketing and other logistical support required by the company in the target market by the DTI foreign office (DTI, 2007).

4.4.5 Export councils and incentives

An essential aspect of the DTI's strategy is the promotion of export councils, which bring together export-oriented companies in certain sectors of the economy (DTI, 2006). Accordingly, twenty such export councils have been formed. Companies are enabled to collectively develop an export strategy for the sector concerned and to target particular export markets through the assistance of export councils. Export impediments can be addressed through the forum provided by the export council. It also serves as a platform for companies to connect directly with DTI personnel.

The integral part of any National Export Strategy (NES) consists of financial incentives, trade finance and insurance products. The main aim of incentives is to compensate for markets' failures to provide returns that reflect the full advantages resulting from investment – like job creation, skills-transfer and access to world markets (UNCTAD, 1997).

In order to enhance the export competitiveness of exporters and to make efficient export processes possible, the government intervenes by the use of these incentives. The DTI (2005: 85) states that the underlying principle behind the export incentive and financing instrument offering was the need to address the following:

- To aid exporters in their pursuit of improved competitiveness and successful entry into international markets.
- To increase the number of practising exporters, focusing on Black Economic Empowerment (BEE) companies.
- To increase the volume and value of exports.

The overarching challenge is therefore to increase the number of practising exporters, particularly SMEs and BEE Enterprises, and the geographic spread of these exporters through suitable export-financial incentive schemes (DTI, 2005: 85).

The following product offerings are made available to South African exporters through the DTI (DTI, 2007):

- Market intelligence and advice, e.g. identify new products and new markets
- Trade-lead facilitation

- Facilitating exports by matching potential exporters with foreign buyers
- In-Market Support
- EMIA Financial Assistance

Although each of these export promotion incentives can be discussed in detail, this study will only focus on EMIA. Consequently, the definition of EMIA and each of the nine EMIA programmes will be described in the sections to come.

4.4.6 Export Marketing and Investment Assistance Scheme (EMIA)

“The purpose of assistance under the EMIA scheme is to partially compensate exporters for costs incurred in respect of activities aimed at developing export markets for South African products and services, and to recruit new foreign direct investment into South Africa” (DTI, 2006).

4.4.6.1 Assistance provided under the EMIA scheme

4.4.6.1.1 National Pavilions

Exporters, who demonstrate that they are equipped to export their product, are assisted by Trade and Investment South Africa (TISA) to participate in National and Mini National Pavilions. These pavilions are held abroad and consist of trade fairs and exhibitions, which provide the opportunity for many exporters to introduce South Africa’s products to the world market (DTI, 2006). The financial support provided by TISA enables companies to contribute to suitable foreign exhibitions in a cost effective manner.

A variety of costs are subsidised by TISA. For example, stand rental, stand design and construction, the consolidation and transport of exhibition material, and continuation allowances. TISA is also involved in the arrangements that have to be made and they provide assistance throughout the planning and execution of the exhibitions.

Exhibitors taking part in a National or Mini National Pavilion may only display products that are produced and packed in South Africa. In this way, manufacturers are also encouraged to apply for the “Proudly South African” endorsement. Each company should have a product and export specialist present at their exhibition to advise potential clients on their product range and their export network.

4.4.6.1.2 Individual Exhibitions

Individual exporters are assisted to participate at renowned exhibitions in foreign countries where TISA does not offer the service of a national pavilion (DTI, 2006). This programme makes provision for a maximum of four exhibitions annually and the assistance per exhibition allows for a maximum of ten exporters.

The EMIA scheme bears the costs of, for example, the freight forwarding of samples, telephone installation, electrical costs and the construction of the stand. This service is especially valuable to first time exporters investigating the possibilities of international trade in order to expand their markets abroad. The aim of the assistance under Individual Exhibitions is to export value-added products that will increase the export capability of South Africa (DTI, 2006). It is left to the discretion of TISA to decide in which exhibitions they will participate. The decision depends on whether the desired results have been achieved over a number of consecutive years and whether sufficient exporting outlets have been established.

4.4.6.1.3 Primary Export Marketing Research (PMR) Scheme

Under the assistance of TISA, exporters are partially reimbursed for any expenses incurred in developing new export markets (DTI, 2006). These expenses include the designing and printing of export brochures, registration of a product in an overseas market, airfares and the transport of samples. Again, the assistance provided is intended for value-added products and market research aimed at the establishment of new markets rather than the additional development for a specific product in a particular country.

According to the DTI (2006) the listing of a product in a foreign market represents a sub-program of PMR. The scheme is available to HDIs, SMEs and other-sized businesses. The scheme covers half of the cost relating to registration of a product in a foreign market, such as patents, trade marks and quality marks (e.g. ISO range) up to R100 000 per annum.

4.4.6.1.4 Foreign Direct Investment Research Scheme

Through this scheme exporters are partially reimbursed for costs incurred in recruiting new foreign direct investment into South Africa (DTI, 2006). This is done by personal contact with prospective shareholders in foreign countries through overseas visits. The financial assistance provided includes travel expenses and design costs of promotional material.

4.4.6.1.5 Sector Specific Assistance

Assistance under this scheme is provided with the objective to (DTI, 2006):

- Develop new export markets;
- Expand the export foundation;
- Stimulate the participation of SMEs in the export sector, encouraging black economic empowerment (BEE) and woman empowerment (WE), with the use of backward linkages as a tool to accomplish the above;
- Enhance job creation as a result of the above mentioned objectives.

Through the sector-specific assistance scheme, governments provide financial support for the development of Export Councils as well as their operational costs. "An Export Council is a Section 21 (non-profit) company that serves to represent the development and promotional objectives of a particular industry/industries on a national level" (DTI, 2006). The configuration of such an Export Council should be substantiated by the needs of that industry and the identified industry should fall within the DTI's key priority sectors or industries.

The fund is distributed between qualified applicants to expand specific projects proposed by them for the purpose of developing and supporting the industry as a

whole. The financial contribution of the DTI is only partial (between 50 percent and 80 percent), and is used to cover any overhead costs incurred by a company for projects that have been approved. Funds for the marketing and advertising of the project/product will be provided with, for example, generic advertising and publicity being financed to a maximum of R250 000 annually (DTI, 2006).

4.4.6.1.6 Outward Selling Trade Missions

This scheme was initiated to conclude new export orders for South African exporters who desired to get in contact with overseas buyers. Only recognised industry associations can take part as an organising body, such as Chambers of Commerce, Industry Associations, Provincial Investment Promotion Agencies (PIPAs), Export Councils, Official Provincial and Local Government Trade Promotion offices (TPOs) or the DTI (DTI, 2006).

4.4.6.1.7 Outward Investment Recruitment Missions

This assistance programme is for the purpose of encouraging and attracting foreign direct investment into South Africa. It compensates South African exporters partially for their involvement in Outward Investment Missions. The beneficiaries of this scheme are obligated to be involved in adequate investment research (DTI, 2006).

4.4.6.1.8 Inward Buying Trade Missions (IBM)

The aim of this programme is to allow potential buyers to make contact with South African exporters to conclude export orders. The funds are provided to organisers of inward buying trade missions and a qualifying organisation, export council or TISA must arrange the group mission. Part of the criteria for the approval of such assistance is the fact that companies, which are invited, must have a large buying capacity (DTI, 2006).

4.4.6.1.9 Inward Investment Missions

The main objective is to attract foreign direct investment into South Africa by providing assistance to the organisers of Inward Investment Missions. Investment capacity is a prerequisite for the organisation represented by the mission members where the mission could be of a specialised or general nature.

4.4.6.2 Criteria for the qualification of the EMIA scheme

EMIA is designed to be an accessible export promotion instrument. Consequently, a broad approach to the range of suitable applicants was adopted, and includes the following (DTI, 2006):

Registered South African exporters are granted assistance if they are:

- South African manufacturers of products including SMEs, HDIs or other owned businesses;
- South African Export Councils representing at least five South African entities;
- South African export trading houses;
- Certain entities/divisions/subsidiaries forming part of a group, joint venture or partnership;
- South African commission agents representing at least three SMEs or PDI owned businesses; and
- Companies outsourcing their production process will qualify if they have sufficient proof that the entity is the legal owner of the patent design.

In qualifying for this assistance, firms are already on the threshold of a promising export endeavour. From the government's point of view, there is a need to determine the success of these export promotion programmes to allocate scarce resources more profitably.

4.5 Conclusions

The importance of exports is being recognised by all countries in the world. When exporting effectively, it enables a country to use its scarce resources in those areas in which the country enjoys competitive advantage. This creates the opportunity for specialisation and focusing on those products which the country is best in producing.

To support the growth in exports, governments are intervening in the form of providing export promotion incentives. Through the DTI's efforts, they aim to provide exporters and potential exporters with appropriate resources to encourage their export activities.

The EMIA scheme and the incentives that are included were also discussed. This programme consists of individual exhibitions, foreign direct investment research schemes and sector-specific assistance, just to name a few. The evaluation of these incentive schemes will be subsequently examined in chapter 5.

CHAPTER 5

EVALUATION OF EXPORT PROMOTION PROGRAMMES

5.1 Introduction

Governments allocate considerable resources to export promotion programmes with the aim of increasing export growth. How effectively such resources are used remains uncertain. The DTI is concerned about the ROI (return on investment) of the public funds they distribute between their export incentives. In order to manage these government export incentives effectively, there needs to be a measure for evaluating results.

The aim of this chapter is to discuss the reasons for evaluating export incentives and to examine the results achieved by other countries that have successfully implemented measures to evaluate these incentives. Suggested evaluation criteria from the export promotion literature will be considered and then the results from the DTI data regarding national pavilions and trade missions will be discussed.

5.2 The rationale for evaluating export promotion

In the past, export promotion expenditure, specifically that related to trade shows, has been justified by “rules of thumb”. This includes inertia (updating last year’s expenses to estimate this year’s activities) or rhetoric (the competitors will be present, therefore participation in the trade show is mandatory) (Gopalakrishna, Lilien, Williams and Sequeira, 1995: 75). Yet, for companies to gain a competitive advantage, authors such as Slywotzky and Shapiro (1993) encourage companies to treat marketing expenses as investments. Investment accountability has been identified as one of the greatest challenges facing export promotion organisations (Business Marketing, 1993).

The rationale for the evaluation of export promotion programmes is described by Wholey (as quoted by Spence, 1997: 2) as the following: “to provide objective feedback to programme managers and policy makers on the cost and effects of national programmes and local projects, to assist effective management and efficient allocation of limited resources”. In times of increasing pressure to work within more constrained budgets, trade promotion organisations will be hard pressed to

substantiate their expenditure (Bendow, 1992: 12). The effective allocation of scarce resources is becoming more prevalent on the agenda of managers. This should lead to the better application of evaluation measures.

There are two reasons, among others, to undergo an evaluation exercise: to substantiate expenditures and to assist in the decision process of spending resources most effectively (Bendow, 1992: 12). In fact, there are various reasons for conducting such an evaluation exercise and many benefits can be derived from it. Before undertaking such an exercise, the reasons for it should be clear. Taking these considerations into account can assist in shaping the design and fundamentals of the evaluation exercise and the results to be evaluated.

Some reasons for undertaking evaluation exercises are (Bendow, 1992: 12):

- To justify the subsistence of the organisation or department and to gain increased support on a continual basis. This objective may even be subconscious and is rarely stated, but an evaluation with positive results can be obtained from it.
- To be perceived as evaluating activities. Evaluation is widely accepted as being a "good thing". Therefore, for an organisation to undertake frequent evaluation exercises as part of being proactive and diligent is seen as a step in the right direction. For achieving the evaluation objectives, the evaluation exercise might be done by a separate department, even though the results might not be as accurate as possible.

These might make evaluations seem to be being performed for political or routine reasons. However, there are other, more concrete, reasons for performing evaluations. For using evaluation as a management and policy-making tool, Bendow (1992: 13) states that these elements provide more solid reasons for undertaking evaluation exercises, which include the following:

- To assist in selecting the most valuable actions for accomplishing specific strategic objectives. Evidence of evaluations being performed over time can present guiding principles for choosing one or a combination of different actions. For example, trade missions, individual exhibitions or missions, in order to accomplish definite objectives such as providing exporters the opportunity to meet and interact with new sales leads in international markets.

- To choose the most valuable and suitable event or means for accomplishing strategic objectives (for example a particular trade mission or national pavilion).
- To enhance the performance of the business and techniques by recognising its strengths, weaknesses and challenges. Are budget and costs controlled as effectively as possible? What are the reasons for trade mission exhibits sometimes arriving late? Does the exhibition attract as many visitors as those of the other countries?
- To use the scarce resources as effectively as possible with the aim of achieving strategic objectives. The above mentioned advantages can be attained by the use of an evaluation programme. Such a programme can also provide guidelines for the effective allocation of resources. Where will the greatest ROI (return on investment) be attained, by assisting the aerospace and defence sector or the cultural industry sector, by helping small or large companies, assisting new or committed exporters?

To conclude, Bendow (1992: 13) remarks that the evaluation process can assist management in answering two important questions: Has the money been well spent? How can the money be spent more effectively? In order to answer these questions through the evaluation process, the next section will highlight some examples of countries that have been successful to some extent in determining the value added by export incentives.

5.3 Evaluation internationally

These measures have not been successfully implemented in many countries, and some countries are still looking at ways to measure the impact of their export assistance, but do not have an answer yet (Growth and Innovation Framework, 2004). Countries that have found a solution and recommendations for the evaluation problem are Denmark, the United Kingdom, the United States of America and Australia.

5.3.1 Denmark

In order to measure its success on this front, the Danish Trade Council (DTC) claims to be “one of the world's first trade promotion organisations to conduct an

independent assessment of the direct effect of its efforts" (Growth and Innovation Framework, 2004). According to the Growth and Innovation Framework (2004) an external consultant's report found that, in 2001, the Trade Council was involved in exports worth DKK33b (6 percent of current exports) and that companies ascribed to it a direct increase in exports of DKK3b. The report also found that, on average, every krone spent on the DTC's services increased a firm's turnover by DKK217. Such measures are always the subject of contention, but the strategy of rapid opportunity identification employed by the DTC could be a contributing factor to its short-term impact.

5.3.2 The United Kingdom

United Kingdom Trade and Investment's (UKTI) performance is verified by independent consultants, but an evaluation unit is currently being established within UKTI to allow continuous review (Growth and Innovation Framework, 2004). Working with academic researchers, UKTI has developed new measures to assess the impact of its programmes. However, a description of their efforts suggests that UKTI may be aiming too high, running the risk that its measures are precisely wrong rather than broadly right. The Growth and Innovation Framework (2004) states that services are being evaluated primarily to assess their impact on competitiveness, improvements in productivity, profitability and other changes in business performance. The system will also allow comparisons of effectiveness across services contributing to a single objective. The intention is to establish more clearly the links between receipt of a service and improvements to productivity or business profitability.

5.3.3 The United States of America

In a study done by Coughlin and Cartwright (1987) concerning state foreign export promotion and manufacturing exports, they specified and estimated a cross-section model to quantify the relationship between state export promotion and exports. Their empirical analysis allowed for the calculation of the export promotion elasticity of exports on a state basis. Coughlin and Cartwright's (1987) results suggested that an increase in manufacturing export promotion expenditures of \$1,000 will generate increased exports of approximately \$432,000. The results indicate that the export promotion expenditures are having their desired effect.

5.3.4 Australia

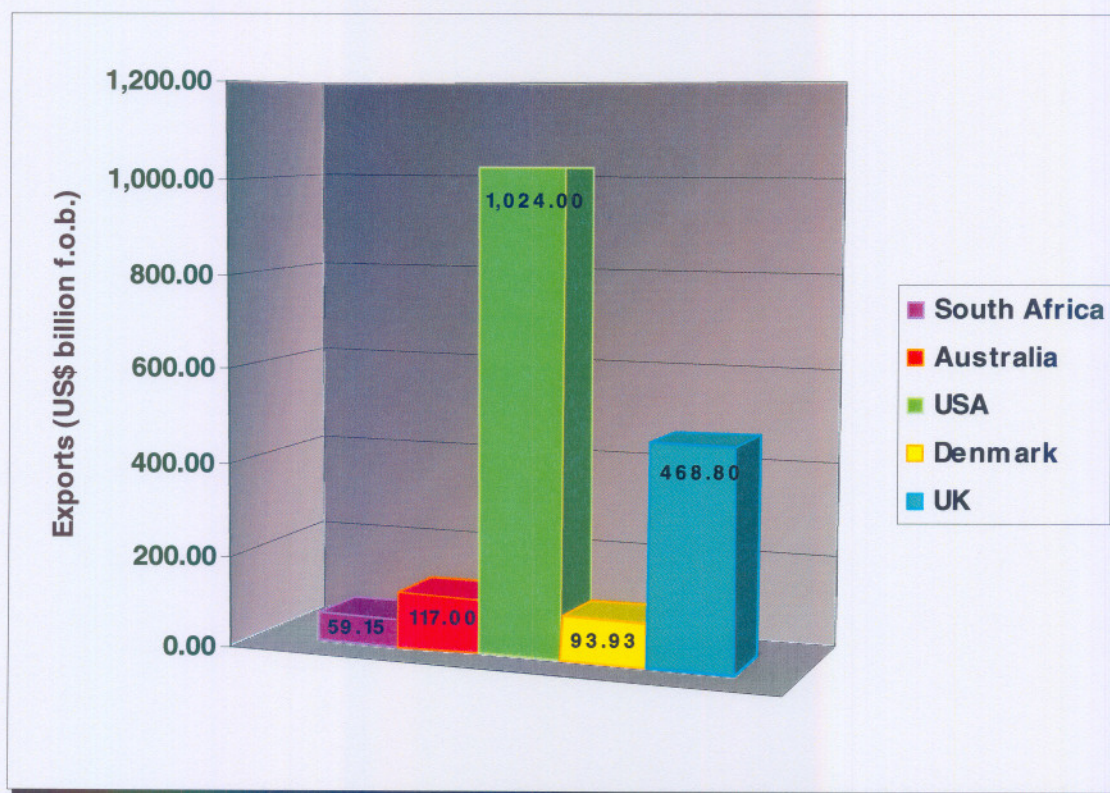
The Australian export promotion organisation Austrade applies client satisfaction as one of its key performance indicators. According to Milner (2005) this is measured through annual telephone surveys, which are conducted with a random selection of Austrade's clients. The clients respond to questions on Austrade's services generally, their exporting programmes and the services of particular offices. However, this questionnaire cannot be obtained from Austrade as it is their intellectual property (Milner, 2005).

Austrade also has a separate process to verify the export sales achieved by the companies that Austrade has assisted (Milner, 2005). Austrade sends a standard verification form to companies to confirm the size of the sale and the level of Austrade assistance provided.

After discussing the success achieved by these four countries in measuring the ROI of their export promotion programmes, the next section will examine their economic indicators, compared to those of South Africa.

5.3.5 Comparing economic indicators

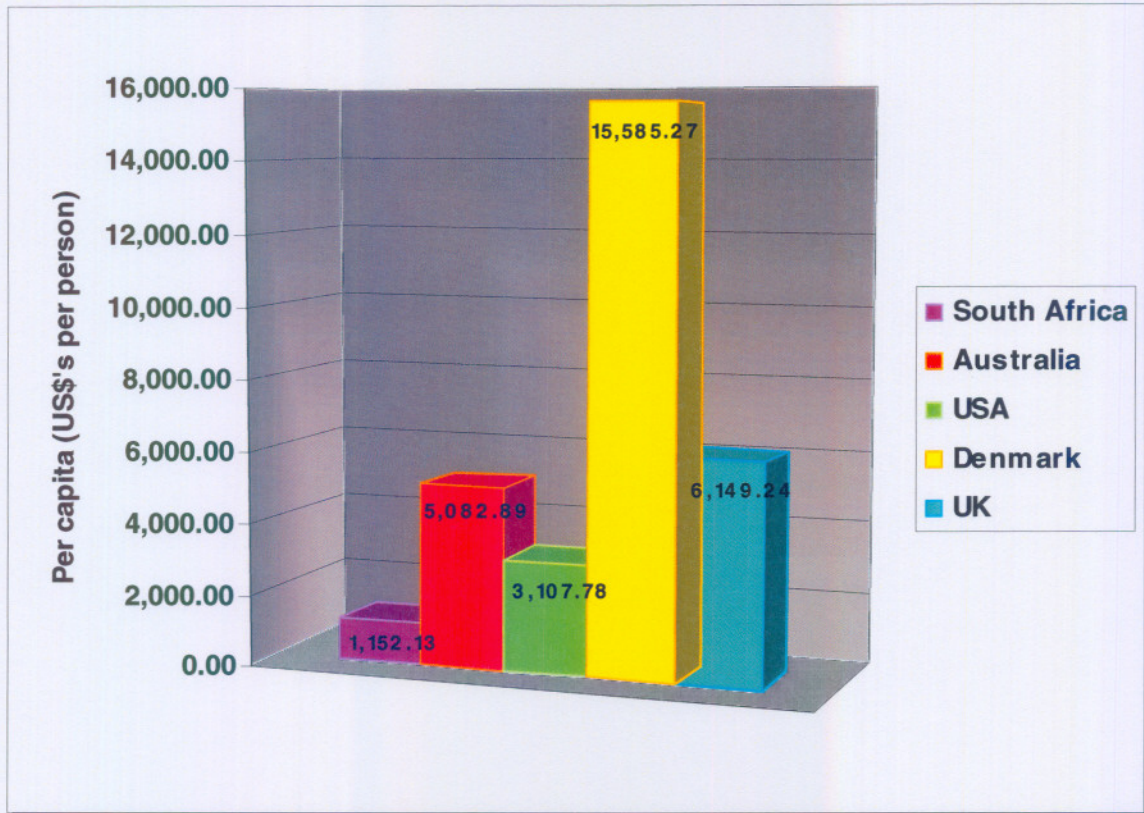
Figure 13: Exports (2006 estimate)



Source: Own calculations, adapted from CIA Factbook, 2007.

In Figure 13, the 2006 export figures for the benchmark countries are compared. The USA has the largest value of exports (US\$ 1,024 billion), followed by the UK (US\$ 468.80 billion) and Australia (US\$ 117 billion).

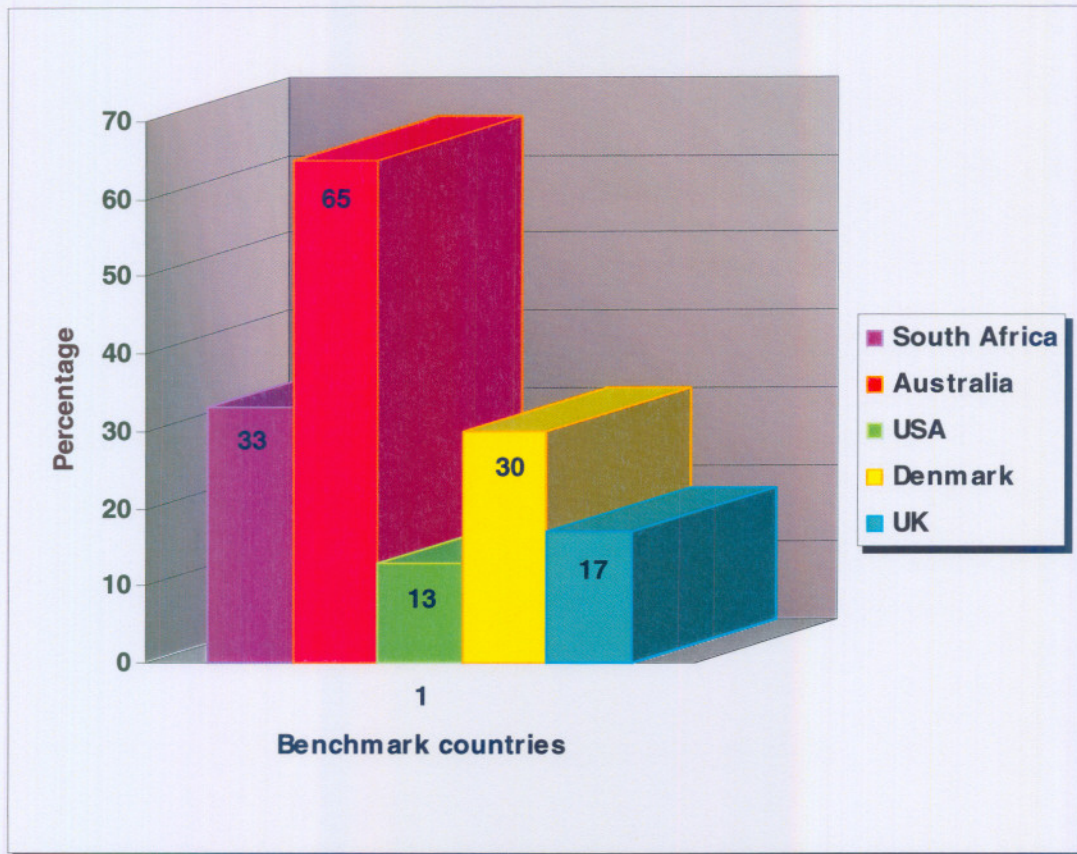
Figure 14: Exports per capita



Source: Own calculations, adapted from Nationmaster, 2007.

Exports per capita figures are compared in figure 14. Denmark has the largest export figures per capita (US\$ 15,585.27), followed by the UK (US\$ 6,149.24) and Australia (US\$ 5,082.89).

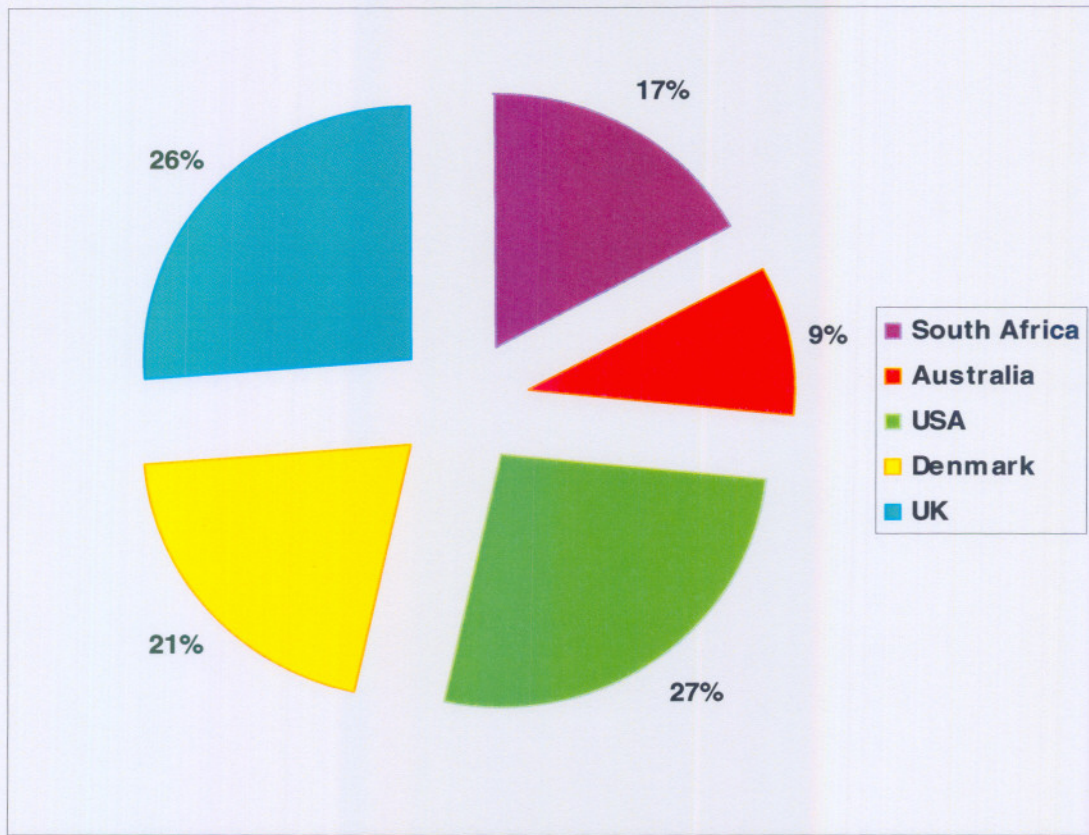
Figure 15: Primary exports



Source: Own calculations, adapted from Nationmaster, 2007.

Figure 15 indicates the percentage of primary exports as part of total exports per benchmark country. Firstly, Australia has the largest percentage of primary exports (65 %), followed by South Africa (33 %) and Denmark (30 %). These figures are evidence of the fact that both Australia and South Africa cultivate large primary industries and focus heavily on agriculture.

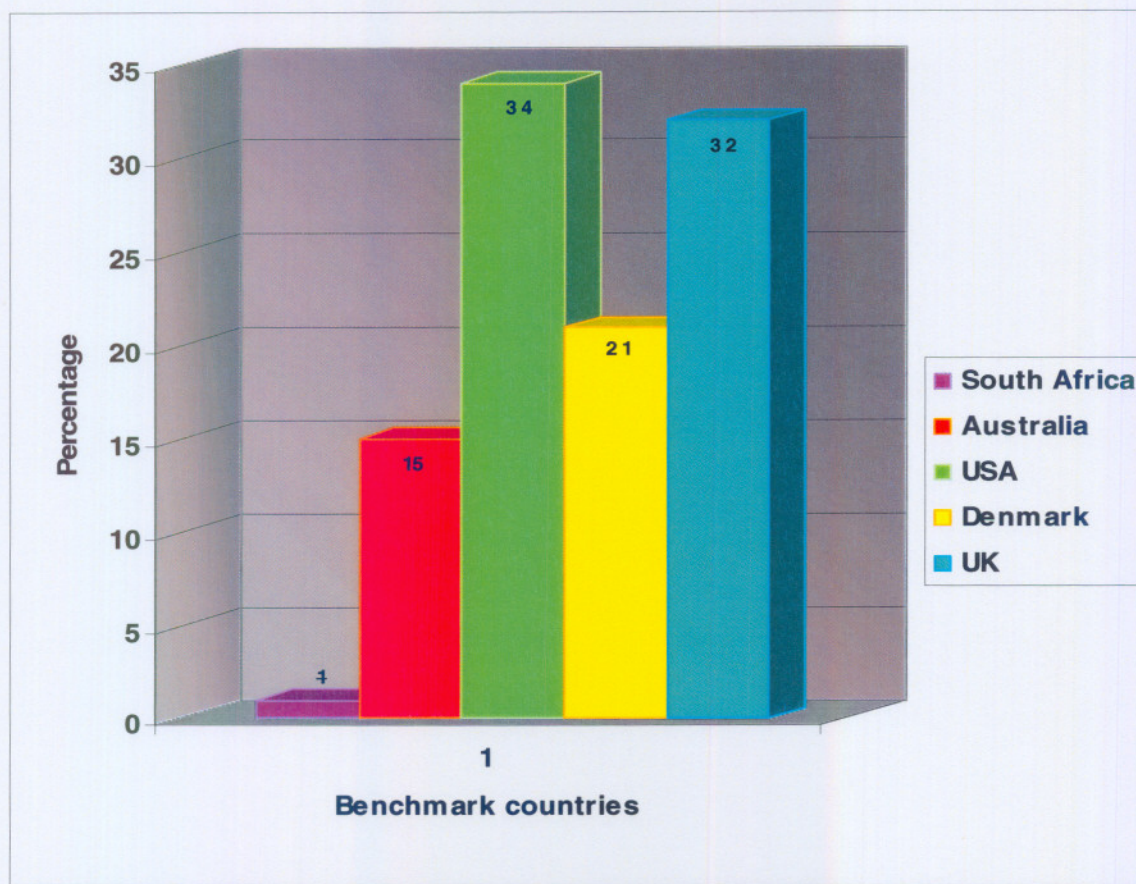
Figure 16: Manufactured exports



Source: Own calculations, adapted from Nationmaster, 2007.

When examining manufactured exports as part of total exports, figure 16 illustrates that the USA produces that largest proportion of manufactured exports (27 %). The UK produces the second largest proportion of manufactured exports (26 %), followed by Denmark (21 %).

Figure 17: High technology exports



Source: Own calculations, adapted from Nationmaster, 2007.

Figure 17 illustrates the percentage of high technology exports as a percentage of total exports. The USA exports the largest percentage of high technology products (34 %), followed by the UK (32 %) and Denmark (21 %). These figures are in line with the previously mentioned manufactured export figures shown in figure 16, as high-technology exports are part of manufactured exports.

As can be seen from the economic indicators illustrated, the USA, the UK and Denmark are predominant in the more sophisticated export sectors, whereas South Africa is more involved in the primary export sector. When examining export figures, the USA, the UK and Australia have the largest export figures also reflecting these strong economies. For South Africa to cultivate export growth, the diversification of its exports is an important factor and there has to be a stronger focus on exports by the manufacturing sector (see section 4.2.4.2).

The above mentioned countries are examples of how evaluation criteria can be successful in achieving their objectives. However, the question remains as to how these evaluations are compiled. In the next section, the criteria for the evaluation of export promotion programmes will be examined.

5.4 Criteria for evaluation

In the design of an evaluation exercise, three sources of bias have to be taken into consideration: firstly, the person being evaluated as well as the evaluator, secondly the evaluation process and, thirdly, the units in which the evaluation will be measured (Spence, 1997: 2). The bias might come from the participants in the evaluation exercise, where they will use their influence to either overstate or understate the results in their favour. The evaluation exercise might even be used to rationalise past events or results instead of providing the evaluator with an accurate picture of the current situation. The information required in the evaluation process may be withheld to avoid possible decreases in the allocation of resources (Spence, 1997: 3).

According to Spence (1997: 3) the evaluation process includes two phases: firstly recognising the controllable elements that will influence the results of a government programme and, secondly, measuring the input these controllable elements have on the success of the programme. The different elements of this evaluation process will now be discussed.

5.4.1 The time frames of obtaining data

Because government evaluation programmes do not yield immediate results, the evaluation programmes need to be part of a continuous process (Spence, 1997: 6). However, due to rigorous evaluation exercises being expensive and time consuming, it is not practical to evaluate all activities with the same intensity on a continuing basis. Particular kinds of activities or key individual events will have to undergo rigorous and thorough evaluations on an intermittent basis.

The continuous and efficient gathering of information is advantageous, even if formal evaluations are only done on an intermittent basis. When looking at the evaluation results of a single event, they might have little significance. However, in comparing evaluation results to those of other similar events which have been evaluated, a

better understanding can be obtained over a specific period (Bendow, 1992: 14). Therefore gathering information on a continuous basis is essential. Entire programmes can then also be evaluated with the support of such data (as opposed to individual projects or activities).

To accomplish and maintain the continuous gathering of comparable data, the process needs to be embedded in the mandatory, standard operational measures. Staff might often see this as a hassle; therefore they need to be educated in the value and benefits of these measures. Bendow (1992: 14) states that “apart from being essential for the evaluation process, the efficient collection of data on costs and results can help to encourage a result and efficiency-oriented mentality in an organization”.

5.4.2 The establishment of objectives

The preparation for trade promotion activities should always start with establishing objectives. These confirmed objectives present a foundation for evaluating the results of an activity. The results are measured against the objectives, as well as against the costs (Bendow, 1992: 14).

The ultimate objective of any export promotion activity is an increase in exports. The challenge, however, is that it is not practical to measure the end result of any export promotion event, for example a trade mission, and the effect it had on exports. In the case of trade missions, Gopalakrishna, Lilien, Williams and Sequeira (1995: 82) state that “trade shows ‘pay off’ when their effects can be isolated, but to be considered cost-effective, they must also ‘pay off’ when their effects are mixed with the effects of other elements in the promotion mix”. According to Bendow (1992: 14) too many other dynamics need consideration, for example the current economic environment, trade activities locally, and other export promotion programmes initiated by companies.

If a dynamic promotional program has been carried out in a sector for a period and there has been a consequent increase in exports for that sector, it is probably due to the export promotion programmes that have been implemented. Consequently, if there was no increase in exports, it can be assumed that the promotional

programmes have not been successful. However the evaluation requirements usually need more accurate and concrete answers.

“Desirable events”, which are often called “immediate objectives”, can be used as the platform for the evaluations and this is generally the most feasible way to deal with the problem of inaccurate or unsubstantiated data (Bendow, 1992: 15). In order to achieve the ultimate objective, or at least expect to contribute to its realisation, these desirable events must occur.

Bendow (1992:15) explains that examples of such desirable events are visits to the exhibition stand by “qualified visitors,” requests for catalogues, and sales to new customers. “Qualified visitors” are the targets for the exhibitor; people who can help achieve the exhibitor's objectives. The qualifications should be defined when objectives are set. A study based on selling and non-selling achievements of trade shows and how different influences affected performance (Kerin & Cron [as quoted by Seringhaus and Rosson, 2004: 153]) resulted in only four out of 13 predictors being statistically significant. These predictors are number of products, number of customers, written trade show objectives and use of sector-specific trade shows. These predictors all form part of trade show strategy, subsequently emphasising the importance of management to determine viable trade show objectives.

5.4.2.1 Quantifying the objectives

Simple views about participating in trade fairs have been replaced by more feasible (multi-dimensional) ideas about the objectives pursued by companies through their participation (Seringhaus and Rosson, 2004: 153). Objectives should be articulated in quantitative terms, to the degree that consistent data on findings can be acquired in these terms. This facilitates the calculation of cost-effectiveness and the comparison of the results of diverse activities. A few examples of such objectives are (Bendow, 1992: 15):

- “A minimum of R50 000 of definite orders during the event, as a result of contacts made at the fair.
- Sales to at least 20 first-time buyers.
- Contacts with a minimum of 100 importers, wholesalers or retailers.

- At least 80% of the identified target audience will have visited the exhibition.
- All members of the target audience will have been exposed to the advertising at least once.
- At least six new-to-the-market companies will sign, or have started negotiating, representation agreements.
- Information on trade prices of at least ten competing suppliers will be obtained.
- All of the exhibitors will have received either positive confirmation of their product's acceptability or information on the need for specific product improvements.
- Advertisers will receive an average of at least five trade enquiries per issue of the magazine.
- A minimum of 80% of subscribers to the export bulletin will renew their subscriptions annually.
- At least 50% of the people on the mailing list will request additional information."

5.4.2.2 Verifying of the objectives

Objectives set for export promotion activities at the initial stages of the planning process should not be taken as finalised. The practice of evaluation should include an assessment of the objectives themselves, seeing that the setting of objectives is a significant and general area of weakness (Bendow, 1992: 15). For a company determining its objectives fairly, the current market situation faced by the company would be a primary determinant (Seringhaus and Rosson, 2004: 154). These can vary from "awareness creation" or "seeking new or repeat sales". The planning for the trade fair will be influenced by such objectives, especially where training of staff is concerned (Gopalakrishna and Lilien: 1995). Questions such as were the objectives of the event or activity, even if they were met, worth the cost should be answered. Were they realistic? Were they appropriate for the type of event? Suitable objectives for a trade exhibition, for example, would usually not be the same as for a store promotion. Were they adequately defined? Were they consistent with longer term strategic objectives?

When the setting of objectives is employed in the right way, the results from evaluations over a period should present a basis for creating progressively more realistic and useful objectives. Developing benchmarks can assist in this process. For example, how many trade enquiries would be realistic to expect in response to mailing a catalogue; how many visitors to the stand at a given fair should be the minimum target, and how much in immediate sales; what should be the target attendance for an individual exhibition (Bendow, 1992: 16).

Generally recognised benchmarks for export promotion activities based on the experience of various countries would be useful.. For example, the average cost per qualified visitor to a trade fair stand. According to Bendow (1992: 16) some data of this nature is available from trade fair organisers; exhibition, industrial and publishers' associations; and similar sources. However, this is of limited value to developing countries, because the information is generally based on the experience of companies in or from industrialised countries.

5.4.2.3 Relating results to cost

The evaluation of promotional activities should include their cost-effectiveness (Bendow, 1992: 16). This is one of the determining factors by which management chooses the promotional mix of activities. The exhibitions manager may be pleased to report that R50 000 in firm orders were written during a fair, or that ten qualified importers visited the stand. The result may be less pleasing to senior management, or the finance office, when it's disclosed that it cost R60 000 to achieve these sales, or R6 000 to meet each of the ten importers. It may become displeasing when these results are compared to, say, the results of a trade mission to the same market that cost R40 000 and resulted in R100 000 in immediate sales and contacts with 20 qualified importers (at a cost of R2 000 per importer). Bendow (1992:16) states that information regarding the total cost should be included as part of the evaluation process. Indirect costs, such as staff time required for preparation and costs incurred by participating companies should also be included. Through a study done by Seringhaus and Rosson (2004: 158) they noted that "a core group of activities that are resource-driven (such as participation costs, staff training, stand management and visitor contact activities) are critical to generating desired results (leads, sales, effective staff)".

For developing countries participating in trade fairs, the costs are sometimes incurred by overseas sources, and these costs may not always be included in the total cost calculation. If these costs are mainly tied to participation in a specific trade fair and could not otherwise be used, they are warranted from the evaluation point of view. However, if the funds can be used at the discretion of the benefiting trade promotion organisation, the cost of the activity should also include these financial resources.

5.4.3 Evaluating the event

When evaluating a trade exhibition or other promotional activity, the efficiency of the planning, organisation and execution should be measured together with the results from these incentives (Bendow, 1992: 16). Cost-effectiveness is directly impacted by these factors. Consequently, the evaluation of these aspects focuses more on qualitative measures than on quantitative information. Hibbert (as quoted by Spence, 1997: 4) states that both quantitative and qualitative factors, as well as a time lag should be taken into consideration when measuring export promotion activities.

According to Hatry (as quoted by Spence, 1997: 5) one problem regarding measurement is the definition of output, because some government promotion activities take the form of services and therefore the quality of services has to be evaluated as well. The definition of 'output' is "the amount of something produced or manufactured during a given time", whereas 'outcome' is "a result or consequence" (Reader's Digest Great Illustrated Dictionary). Wholey (as quoted by Spence, 1997: 5) claimed that "the essence of programme evaluation is the assessment of outcome, e.g. what happened that would not have happened in the absence of the programme". The evaluation of such programmes should take into account outputs (the results of the policy) as well as outcomes (the results of the policy on target population and the environment) (Cabatoff and Bion as quoted by Spence, 1997: 6). Governments tend to look at 'outputs' (number of units processed) while 'outcomes' (impact) should rather be measured.

Apart from examining outcomes, a meticulous evaluation of trade fair participation will cover the following (Bendow, 1992: 16):

- The decision to exhibit: Was it well considered?

- The suitability of the market(s) for the exporters.
- The suitability of the fair for meeting the objectives.
- The decision-making process itself. Was the decision supported by sufficient market information and supply data?
- Range of exhibitors: Is their profile consistent with the promotional strategy (in such terms as type of business, experience in exporting, experience in the particular market, readiness to export, size, ownership and so on)?
- Assortment of products: Were they suitable in terms of current and/or expected demand, price, quality, supply, significance to your economy?
- The objectives. Were they:
 - Clearly stated?
 - Consistent with your position in the market, and your promotional strategy?
 - Realistic?
- Follow-up actions by exhibitors: Exhibitors must follow up on contacts and sales made at the fair if their participation is to have a long-term impact. It is useful to record follow-up actions for evaluation purposes. Have exporters communicated with persons met at the fair? How many of them have visited, or plan to visit, the market again within one year or one and a half years after the fair? Have they had visits from contacts made at the fair?
- Effectiveness and efficiency of the organisation and arrangements: This should be analysed with a view to recognising weak spots and improving performance. Factors that might be considered include:
 - Market research performed before the exhibition.
 - The visitor promotion drive and its response.
 - Logistics, housekeeping, competence of the stand staff.
 - Briefing of exhibitors.
 - Readiness of exhibitors.
 - The stand or pavilion: adequacy of size, location, design, decoration.

- Budgeting and cost control efficiency.

5.4.4 Obtaining the information

To conduct a constructive evaluation exercise, a great deal of information is needed. In a properly managed organisation, the background information will be collected on an ongoing basis as part of everyday activities to contribute to the above mentioned information needs. Information should be gathered about competitors, customers, industry trends and new products at the upcoming trade show (Hansen, 2004: 3). Other relevant market and trade information can be collected from documentary research sources. The rest of the information should be collected predominantly for evaluation purposes, which entails planning and preparations before the event and thorough pursuit during and after the event. Managers will be enabled to make strategic decisions regarding marketing, finance, production policies and programmes with information gathered at the trade show (Sharland and Balogh, 1996). Sharland and Balogh (1996) state that information gathering at trade shows assists companies in selecting effective trading partners, diminishes legal and contract costs and helps them in deciding which parts of the business should be outsourced or kept in-house. Without such preparation and gathering of information before and during the event, evaluating results after the event will not be a meaningful exercise.

A list of the information needed and suggested sources for a complete evaluation of trade fair participations includes the following (Bendow, 1992: 17):

- Background information: The search reports, reports of previous events, press reports, trade statistics and so on.
- Profiles of exhibitors: The exporters register (if it exists), supplemented by information provided by the "Application to Participate" form (see below for details included in this form).
- Information from exhibitors: Gather as much information as possible from exhibitors before, during and after exhibitions by means of personal interviews carried out with the aid of questionnaires. During the exhibition, daily meetings should be held to provide fresh feedback.

- Central visitor registration: This can be done at a general information booth on a national stand where the traffic flow can be designed for visitors to pass this point before entering the stand. However, this should not interfere with the function of the stand.
- Observation by the stand manager and other trade promotion organisation staff.. This should be done in a formal, systematic way. For example, the staff can count the number of visitors on each company booth at specific times during each day, using a prepared check form. This data can later be compared with contacts reported by exhibitors to help estimate their accuracy.
- Interviews by stand manager and staff: Interviews with a sample of visitors should be conducted at least informally to determine their identity and importance, their interests, reactions to the exhibits, business conducted, how they learned about the presence of the national stand (effect of publicity, stand design) and so on.
- Follow-up interviews or mail surveys of visitors some time after the show. Trade representatives in the host country would be ideal to assist in this process, conducting interviews and sending out mail surveys.
- Response cards together with invitation mailings can help determine interest.
- Report of the fair organiser. Attendance statistics, audience profile and business reported by all exhibitors can be valuable for comparing general performance trends with that of other stands.
- Trade press reports of show attendance and results.
- Analysis of trade statistics: This is mainly used for measuring the long-term impact of promotion programmes. This is not suitable for assessing individual exhibitions and trade fairs and some problems may arise. Results of exhibitions will only reflect in trade data 12 months after the event, or sometimes even later. Trade statistics are seldom accurate enough to match with the particular products exhibited. In some countries computerised customs data make it feasible to track the performance of specific exporters who exhibited, but in many other cases specific exporters are not identifiable unless they are known to be the only ones for a particular product category. There is also no necessary link between the exhibition and the exports.

The trustworthiness of the information acquired from exhibitors will differ to a great extent. This is all reliant on the relationship that the trade promotion organisation and its personnel have with the exhibitors. Bendow (1992: 18) stresses that information provided by exhibitors should be cross-checked to verify its accuracy as much as possible. This can be done by comparing the daily and summary reports, the reports with the stand manager's observations and with information from visitors, and so on.

To obtain clear and understandable information from potential participants, standardised forms should be in place. The following forms are suggested (Bendow, 1992: 18):

- Application to participate. Trade promotion advisers should assist participants in the completion of this form and in formulating objectives. Information to update the exporter's profile in the export register should include past and present activity in the target market and other foreign markets, representation already established, past exhibition experience and so forth.
- Contact forms or summary of contacts. Exhibitors, as well as stand staff, should be encouraged (if not obliged) to fill out a contact form for every contact with a "qualified visitor," and to turn in a copy of each at the end of each day. If exhibitors are reluctant to reveal the identity of their contacts, they should be provided with forms that can summarise the nature of each contact.
- End-of-show questionnaire. A summary of activities at the exhibition is obtained after the event and exhibitors are asked to complete this before they depart.
- Follow-up report. The report should be written six or nine months after a show, with a possible follow-up one year later.

To provide information about trade fairs and exhibitions can be compulsory and be included as part of the participation agreement, but the reliability and accuracy of information provided by exhibitors cannot be guaranteed (Bendow, 1992: 18).

To aid in the evaluation process, exhibition auditing firms can also be hired. They make use of on-site observations, interviews and/or mail surveys to assess stand effectiveness in terms of such indicators as visitor number and profiles, reactions to the stand, recollection of the stand and advertising messages, time spent on the stand and so forth. However, such services are hardly ever used by governments because of their cost.

After discussing the primary elements of an evaluation function, the next section will look at how South Africa is currently performing in this area. South Africa's current method of export promotion evaluation of national pavilions and trade missions and the results will be discussed.

5.5 The evaluation of export promotion in South Africa

5.5.1 Current method of evaluation

The current measurement of export promotion programmes in South Africa is done on a small scale and is not undertaken by any specific department. According to Jansen van Rensburg (2005), the only form of evaluation presently available to the DTI is a six-month report compiled by the different departments of their respective export promotion incentives. This is done in co-operation with the DTI's finance department. No single department takes full responsibility for the compilation of this report (Jansen van Rensburg, 2005).

5.5.2 Criteria for participating in export promotion programmes

In order for an exporter to be selected to participate in a national pavilion, the selection committee of the DTI evaluates all applications. According to Jansen van Rensburg (2005) this is done by making use of selection criteria, which are the same for all export incentives.

The exporter is evaluated under the following headings:

- pre-selection criteria
- product criteria
- applicant/firm criteria
- other considerations.

The pre-selection criteria looks at whether the application is complete/incomplete and whether the exporter has been blacklisted because of a failure to report back on the results of previous assistance.

Included in the product criteria is:

- the suitability/appropriateness of the product

- product ranges
- product quality (technology used/design/packaging)
- new/unique products
- market access/restrictions/duties
- local market success (quantity and value of sales)
- foreign office comments/remarks
- whether the product duplicates other products
- the local content of South African products.

The applicant/firm criteria considers the export readiness and export capacity of the company, any previous exports, agents/distributors already appointed abroad and financial suitability (number of employees/turnover/total assets). Factors such as whether the applicant is a manufacturer-exporter, previously disadvantaged individual (PDI) or its black economic empowerment status, the number of previous uses of assistance (less than three times) and the export marketing plan are also taken into consideration. After the points have been added up (out of 100), the other considerations are sometimes reviewed. Whether or not the applicant is a member of an export council/business association/provincial investment promotion agency (PIPA), what successes/monetary value of exports have been achieved due to previous participation and previous behaviour at exhibitions or cancellations after approval are included among other considerations. After taking all of the above into account an applicant can be recommended for approval to make use of the DTI's export promotion incentives.

5.5.3 Questionnaire at the event

Another form of feedback from exporters is the questionnaire that has to be completed at the export promotion event. Some questions included in this questionnaire include whether it was the exporter's first time taking part in such an event, how it compares to other similar events, the exporters objectives for taking part, how the exporter rates his/her participation and what sales/orders originated as a result of the participation. This information will then be used by the project manager for the compilation of the report on the event.

5.5.4 Report writing

The six-month report (mentioned in section 5.5.1) consists of the export promotion activities that occurred during the past six months and the information is based on data received by participating exporters. Six months after a trade mission or pavilion took place, a questionnaire is sent to the exporters and, from this, a monthly and six-monthly report is compiled. The problem is that exporters do not complete this evaluation form as accurately as possible and its format is not user-friendly according to Jansen van Rensburg (2005). Exporters do not have the appropriate training to complete these forms and therefore data gets lost and the statistics are not verifiable.

Another problem is that a six-month report is not always sufficient to attain viable results. In sectors such as mining and defence, contracts for export production are only secured approximately twelve months (or even longer) after a company has participated in an export promotion event. For this reason, the results concerning export contracts obtained through such an event will not be accurate after a period of six months and consequently some results will be omitted. Then again, for the DTI to compile a twelve-month report, they need more resources. According to Jansen van Rensburg (2005) they did not have enough resources to compile such a report and the report just served as feedback, it was not quantifiable.

As can be seen, the DTI has various challenges concerning the evaluation process of their export incentives. In the next sections, the examination of data and the results of this study will be discussed. In order to make a contribution to the DTI's evaluation process, the examination will explain the way in which the DTI's quantifiable evaluation results will be examined and make relevant and valuable suggestions.

5.5.5 Examination of data

Initially, this study set out to compare the best practice for the evaluation of export promotion programmes in the countries where such measures exist. The countries were selected on the grounds of literature stating that these countries have evaluation criteria to measure the return of the export incentives provided by their governments. Based on the literature, Denmark, Australia, the United Kingdom and the United States of America were selected. The evaluation processes followed, and results obtained by these countries were discussed in section 5.3. The results of evaluation, though, aren't readily available, because each country sees it as their

intellectual property and they are therefore reluctant to share this information (Milner, 2005). Consequently, the methodology of this study had to change to incorporate the confidential nature of information.

To evaluate the DTI's export promotion results, the TISA six-monthly reports from September 2004 until September 2005 (based on the trade missions and pavilions that took place from March 2004 until March 2005) were examined and analysed. According to Saaiman (2006) this data is not accurate but it can serve as a good approximation of possible returns on past export promotion activities. The TISA monthly reports are compiled from data obtained through questionnaires sent out to exporters who participated in trade missions and national pavilions six months before.

When analysing this data, the main measures that were used were the cost of EMIA assistance per sector, actual export sales per sector and, eventually, total ROI per sector. The cost of EMIA assistance per sector as well as the actual export sales per sector was used in the calculation to determine total ROI per sector. This was calculated as follows:

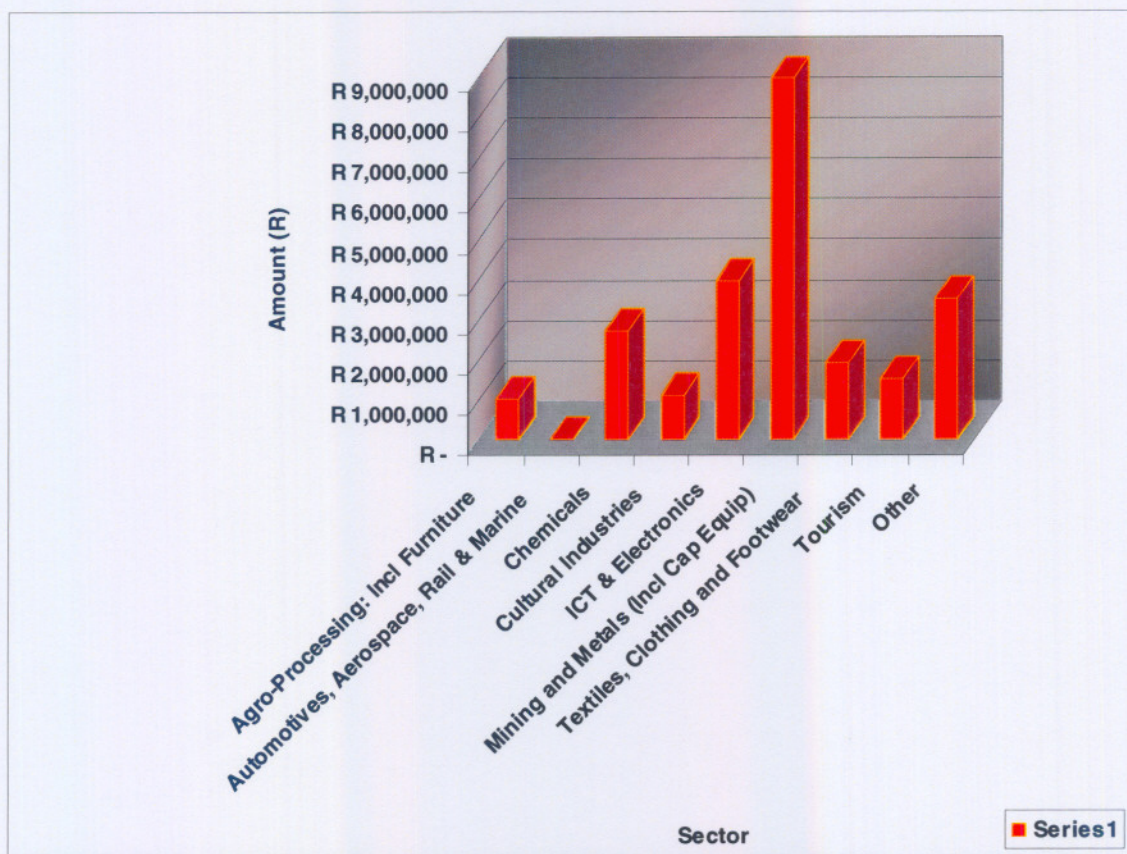
$$\text{Total ROI per sector} = \frac{\text{Actual export sales per sector}}{\text{Total cost of EMIA assistance}}$$

In the next sections, these measures will be graphically presented and discussed for national pavilions and trade missions.

5.5.6 Results

5.5.6.1 National pavilions

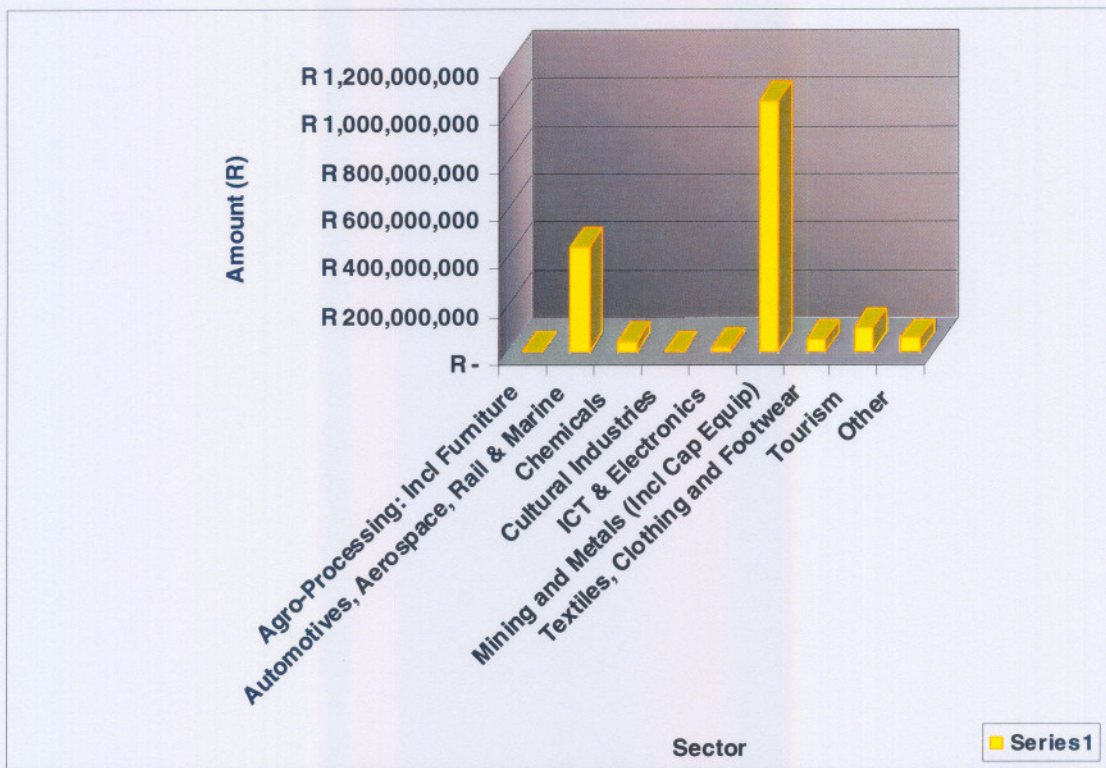
Figure 18: National pavilions – Cost of EMIA assistance per sector



Source: Own calculations, adapted from DTI data.

It is clear that the mining and metals sector (which includes capital equipment) enjoys the highest investment per sector (R8, 932,074), with ICT and electronics coming in second (R3, 930,993) and other sectors (R3, 500,000) being the third largest investment for the DTI.

Figure 19: National pavilions – Actual export sales per sector

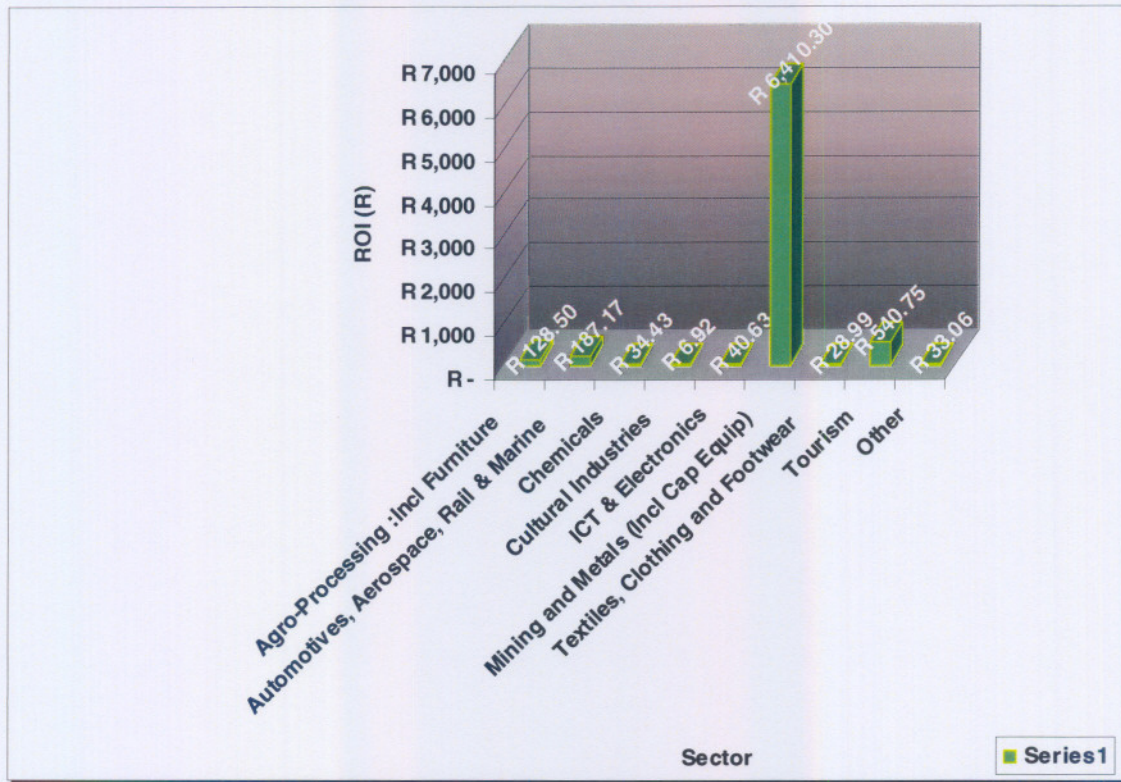


Source: Own calculations, adapted from DTI data.

From the above graph, it can be seen that the mining and metals sector (including capital equipment) has generated the highest export sales (R1, 044,993,949), with the second largest being the automotives, aerospace, rail and marine sector (R437, 387,600) and the third largest being the tourism sector (R100, 000,000).

The reason for the mining and metals sector (including capital equipment) generating the greatest value of export sales is that this sector has the highest price per unit sold, because it deals with capital equipment and mining machinery. The same can be said for the automotives, aerospace, rail and marine sector.

Figure 20: National pavilions – Total ROI per sector

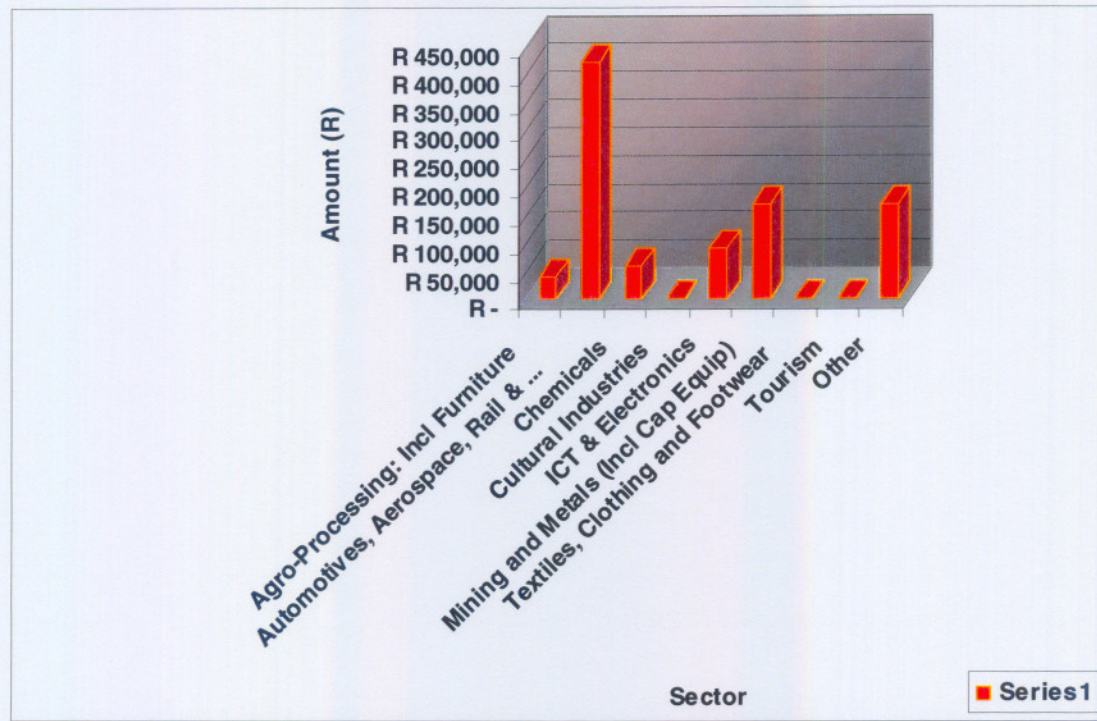


Source: Own calculations, adapted from DTI data.

As can be expected, the mining and metals industry (including capital equipment) has the largest ROI per sector (R6, 410), followed by the tourism sector (R541) and the automotives, aerospace, rail and marine sector (R187).

5.5.6.2 Trade missions

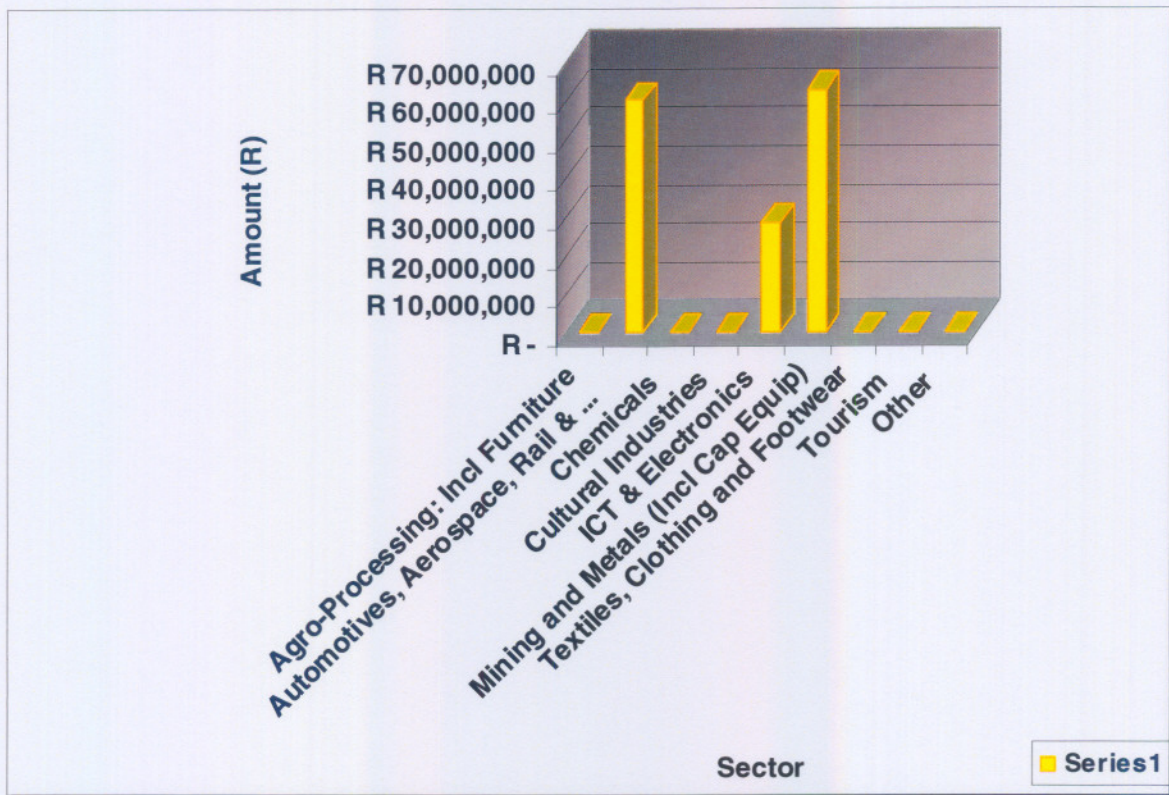
Figure 21: Trade missions – Cost of EMIA assistance per sector



Source: Own calculations, adapted from DTI data.

It is clear that the automotive, aerospace, rail and marine sector enjoys the highest investment per sector for the DTI (R419, 163), with the other sectors coming in second (R166, 625) and the mining and metals sector (including capital equipment) (R166, 055) ranking third.

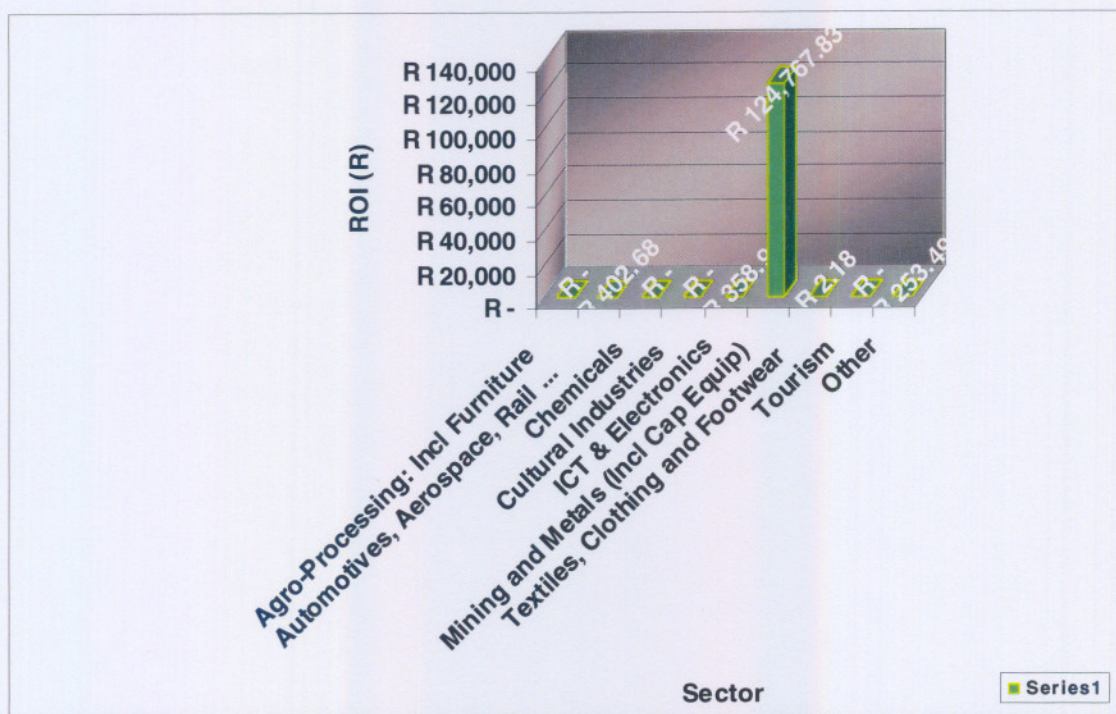
Figure 22: Trade missions – Actual export sales per sector



Source: Own calculations, adapted from DTI data.

From figure 22, it can be seen that the mining and metals sector (including capital equipment) has generated the highest export sales (R62, 700,000), with the second largest being the automotives, aerospace, rail and marine sector (R59, 911,400) and the third largest being the ICT and electronics sector (R28, 426,587).

Figure 23: Trade missions – Total ROI per sector



Source: Own calculations, adapted from DTI data.

As can be expected, the mining and metal industry (including capital equipment) has the largest ROI per sector (R124, 768), followed by the automotives, aerospace, rail and marine sector (R403) and thirdly the ICT and electronics sector (R359).

When examining the results for national pavilions and trade missions, it is clear that the country is still predominantly investing in the mining and metals industry (primary exports). This attests to the fact that South Africa is rich in natural resources and part of its dualistic economic nature is characterised by dependence on the primary sector. However, from the above results it can be seen that the DTI is making the effort to divert export investment into other manufacturing sectors (ICT and electronics and aerospace, rail and defence). The outcome of these sectors' results is influenced by the high price per unit sold; therefore the ROI for these sectors doesn't reflect a balanced export environment.

Although the data provided by the DTI are in some cases only an estimate and not verifiable, it is encouraging to see that the DTI's efforts in evaluating export incentives are yielding positive results. The ROI per sector for national pavilions produced 100 percent positive results, whereas the ROI per sector for trade missions

yielded 56 percent positive results. For sustainable export growth, the DTI will have to focus on manufacturing as well as services industries to promote a supportive export culture and to attain positive results in terms of ROI.

5.6 Conclusions

Governments around the world are under increasing pressure to validate their expenditure, even in the area of export promotion incentives. Therefore they are examining evaluation measures to justify this type of support to exporters and potential exporters. Evaluation exercises are undertaken to validate expenditures and to assist in allocating resources more effectively. Specific criteria have been recommended in export literature to develop such an evaluation approach and certain countries have been successful in implementing the evaluation of export incentives. The South African approach to evaluating export promotion has provided some positive results, but there are still areas of development that require attention and improvements.

The rationale and criteria for evaluation of export promotion initiatives and the results of such an evaluation exercise were the focus of this chapter. For South Africa, the emphasis fell on the national pavilions and trade missions, because these two programmes are the largest in the EMIA scheme and data was readily available. In the next chapter, the conclusions from this study will be discussed and recommendations will be made.

CHAPTER 6

SUMMARY AND RECOMMENDATIONS

6.1 Introduction

The importance of exports is being recognised by more and more countries. When exporting effectively it enables a country to use its scarce resources in those areas in which the country enjoys competitive advantage. This creates the opportunity for specialisation and focusing on those products which the country is best in producing. To support exporters in their activities, the South African Department of Trade and Industry (DTI) provide a number of export promotion programmes under the Export Marketing and Investment Assistance (EMIA) scheme. The two largest programmes of this scheme, national pavilions and trade missions, were evaluated to determine their Return on Investment (ROI). It is the aim of this chapter to summarise the recommendations from this study.

6.2 Summary

In the initial stages of this study, it was necessary to define export promotion and the rationale therefore and then examine the different types of promotion provided. It was found that export promotion is a unique development to each country and it is not just influenced by a country's economic need, but also by the country's history and its economic and social structure. When examining the different views regarding export promotion, it is clear that there is no shortage on the rationale for export promotion and that these incentives have many benefits. Two different types of export promotion programmes exist to support exporters, export service programmes and market development programmes. A prerequisite for making use of these programmes, however, is that exporters need to be aware of them.

Not only does the country concerned benefit from these programmes, but the international community can also gain substantial profits from the proceeds generated by stimulating exports and international trade. The successes and failures of many companies during the course of internationalisation depend on the nature of the export incentives. When examining the different export stages during the internationalisation process, it is clear that at each stage a different type of export

promotion programme is required. Therefore, although exporters are becoming more experienced, they still make use of export promotion assistance.

Governments can play a vital role through the different export promotion programmes in helping companies and the economy to grow and to be more competitive in the foreign market place. The South African economy, characterised by its dualistic nature, which encompasses both first and third world characteristics, creates an uneven playing field for exporting. The DTI's aim is to provide exporters and potential exporters with appropriate resources to encourage their export activities. The EMIA scheme, provided by the TISA (the export promotion department of the DTI), consists of individual exhibitions, foreign direct investment research schemes and sector specific assistance, among others. In this study, the two largest export incentives provided by the EMIA scheme, trade missions and national pavilions, were examined in more detail.

The rationale for the evaluation of export promotion programmes can be seen in the way that evaluation procedures have been successfully applied in other countries. Denmark, the United Kingdom, the United States and Australia are countries that have been able to implement export promotion evaluation procedures successfully. Criteria for the evaluation process were discussed and it was found that this process is characterised by continuous information gathering and the quantification and verification of objectives. After examining the criteria presented in the literature, the South African evaluation process was discussed. Although an evaluation process is in place, the DTI is still faced with many challenges in this regard.

Although the data provided by the DTI are, in some cases, only an estimate and not verifiable, it is encouraging to see that the DTI's efforts in evaluating export incentives are yielding some positive results. The ROI per sector for national pavilions produced 100 percent positive results, whereas the ROI per sector for trade missions yielded 56 percent positive results. For sustainable export growth, the DTI will have to focus on manufacturing as well as services industries in order to promote a supportive export culture and to attain positive results in terms of ROI.

6.3 Recommendations

An evaluation exercise with the objective of determining the ROI for export promotion programmes requires a continual process of information gathering. To gather the relevant information, evaluation forms must be created that are in line with the strategic objectives. Other countries with which South Africa has good international relationships, for example Canada, can be visited to learn more about the evaluation forms created by them to attain the most accurate export promotion information. The criteria used by other countries, discussed in Chapter 5 (section 5.3) should also be considered and implemented. The information obtained should be as accurate as possible in order to make the measurement of export promotion programmes more exact.

It is recommended that the DTI should investigate the establishment of a permanent evaluation unit to gather information on export promotion activities and export sales on a continual basis and as part of everyday business. The benefits of such an evaluation exercise should be recognised by government and investment should be made towards establishing a permanent evaluation and measurement unit.

Further to government investment in this area, the benefits of such an evaluation exercise should be leveraged in order to justify the need for more resources being allocated to incentives and to identify where value has been added. When areas where value has been added are identified, the DTI will be able to focus their resources to attain a higher growth in ROI. This will meet the needs of exporters in the market and provide sufficient support for their export activities.

Not only should an evaluation exercise be done for national pavilions and trade missions, but also for the other programmes in the EMIA scheme. Although the national pavilions and trade missions are the two largest programmes of the EMIA scheme, the support provided to exporters by the other programmes should not be overlooked. The DTI has made some progress in evaluating these two programmes, therefore the lessons from their efforts may be applied to the other programmes in the EMIA scheme.

The ROI from export promotion programmes should be part of the DTI's growth strategy. Growth should not only be measured by the number of exporters that have made use of the DTI's assistance, but ROI should be considered as a measurement

of growth. Consequently, the evaluation exercise should be aligned with the DTI's strategic objectives. If the results of these export promotion programmes can be accurately measured, they can be managed more effectively.

6.4 Conclusions

Given the need for export promotion incentives to increase South Africa's export volumes, more attention should be given to demonstrate the success of the different export incentive schemes. To demonstrate this success, a scientifically justifiable evaluation of clear objectives/criteria should take place.

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