Export promotion policies reflect the interest of national governments to stimulate exports. Subsidies, tax exemptions, and special credit lines are the main instruments used to promote exports. The regulatory aspects of export promotion changed significantly in the late twentieth century. In the past export promotion activities were not substantially regulated, but increasingly since the creation of the World Trade Organization (WTO) in 1995 some export promotion activities have been identified as trade-distorting practices. The WTO has devised rules that allow countries that have been affected by the export promotion practices of their trading partners to use the WTO’s dispute-settlement procedure and in some cases retaliate.

Export promotion is sometimes seen as a complementary development strategy to import protection. While import protection usually allows infant industry to develop, export promotion allows access to external markets. Foreign demand is often required by the limited size of domestic markets and the need to achieve economies of scale, essential in many productive activities. In a 1984 article Paul Krugman argued that, under increasing returns to scale, import protection may act as a form of export promotion, because in this case protection would allow considerable gains in terms of productivity that would enhance the possibilities of exporting. However, in policy circles export promotion or export oriented industrialization (EOI) is seen more often as an alternative development strategy to import substitution industrialization (ISI).

There are two main interpretations about the advantages of export promotion. One has a laissez-faire bias, while the other emphasizes the role of state intervention in promoting exports. Conventional wisdom suggests that an emphasis on exports forces integration into world markets and a more efficient allocation of resources, because external markets impose discipline by eliminating uncompetitive firms. In other words, exports affect positively the supply side of the economy. This view, exposed by Ian Little, Tibor Scitovsky, and Maurice Scott in 1970 and by Bela Balassa in 1971, was influential within the World Bank and the International Monetary Fund (IMF), and it shaped the Structural Adjustment Programs (SAPs) of the 1980s and influenced the liberalization strategy of the Washington Consensus. The studies by Anne O. Krueger and Jagdish Bhagwati, both in 1978, and by Demetris Papageorgiou,
Michael Michaely, and Armeane M. Choksi in 1991 suggested that ISI policies generally did not produce sustainable increases in income per capita and that export promotion policies were more appropriate for achieving that goal. Export promotion, in this view, is associated with liberalization and market reforms.

Defenders of outward orientation tended to argue that EOI was behind the successful experience of the Asian countries. The World Bank’s 1993 report *The East Asian Miracle* supported the view that East Asian economies’ successful export performance resulted from the implementation of market-friendly policies. Several authors have shown the limitations of the World Bank position. Ajit Singh, in his 1995 paper “The Causes of Fast Economic Growth in East Asia,” argued that despite the strong export orientation, the East Asian economies were not fully integrated with the world economy and that ISI was an integral part of the East Asian strategy in the 1950s and the 1960s. The equalization of export orientation with free trade is also misleading. In her 2001 *The Rise of “the Rest”*, Alice H. Amsden argued that the state intervened heavily in the economy of successful least developed countries (LDCs). In the East Asian economies, protection, conditional on export promotion, allowed import-substituting infant industries to become internationally competitive export-oriented industries. More generally Francisco Rodríguez and Dani Rodrik, in an influential 2000 article published in the *National Bureau of Economic Research (NBER) Macroeconomics Annual*, showed that the evidence for a negative relationship between trade barriers and economic growth is weak at best.

The alternative view emphasizes the role of exports in expanding demand, in contrast with the conventional view that emphasizes supply effects associated with improved resource allocation. Higher demand provides an outlet for producers in economies with relatively limited domestic markets. The foreign trade multiplier, developed by Roy Harrod, indicates that net exports have a positive effect on the level of activity. Nicholas Kaldor argued that higher levels of exports lead to strengthening productivity, lowering unit costs, which would then positively impact exports. This positive effect of exports on productivity, known as the VerdoORN effect, reduced unit costs and led to further increases in export in a cumulative process of economic development formalized by Robert Dixon and Anthony Thirlwall in their 1975 paper. The notion of a circular and cumulative process of growth led by exports harks back to Adam Smith’s vent for surplus principle.

The alternative view also differs from conventional wisdom in that it
does not equate export promotion with free market policies. Raúl Prebisch, in a United Nations 1964 report, emphasized the importance of export promotion and access to the markets of developed countries to promote industrialization in LDCs. More importantly, to avoid recurrent balance of payments crises, LDCs should diversify their exports rather than rely on commodity exports. Prebisch argued that LDCs should replace traditional commodity exports with manufactures or semi-manufactures exports. Industrial policy would have a central role in promoting export diversification. State selective intervention, by providing support for research and development (R&D), imposing restrictions on licensing and royalties, and coordinating with and among private sector agents, is central to increase and diversify exports.

Several authors have also emphasized the limitations of the EOI strategy. Robert A. Blecker, in his 1999 essay “The Diminishing Returns to Export-Led Growth,” noted that export-led growth is a strategy that cannot be pursued by all countries at the same time. Export promotion requires that at the other end there is an importer of last resort, in other words, a country with the international reserve currency and an incredible appetite for imports. Also the integration of China into the world economy and its relatively low labor costs suggest that countries with higher labor costs would find it increasingly difficult to pursue export oriented development strategies. The global imbalances that result from simultaneous export promotion efforts around the globe are a threat to the stability of the global economy.

**Implication of WTO on India’s Trade Policy**

India is founder member of World Trade Organization (WTO) and its predecessor - the General Agreement on Tariffs and Trade (GATT) system. The multilateral trading system has significantly affected India's export and import during 1995-2004. India's global export has increased from US$ 30.63 billion during 1995 to US$ 71.79 during 2004 an increase of 10 per cent per annum. India's corresponding import has increased from US$ 34.7 billion during 1995 to US$ 94.1 billion in 2005, i.e. annual growth of around 11.9 per cent. However, it is difficult to say that the growth in India's import and export is mainly due to various decisions in the multilateral trading system of the WTO.

**I. Removal of Quantitative Restrictions**

GATT/WTO does not allow imposition of quantitative restrictions (QRs). However, India (and few other countries) had maintained quantitative restrictions on its imports under provisions of article XVIII:B of GATT system/WTO. This article allows
member countries whose economies are in the earlier stage of development to 'apply quantitative restriction for balance of payment position'.

During 1999/2000, India has successfully renegotiated the binding rates under the WTO framework on select agriculture products (with zero bound tariffs) with its principal trading partners. The negotiations have been conducted mainly for those agriculture commodities whose bindings have been made at rounds earlier than the Uruguay Round. Under Article XXVIII of GATT, the renegotiated agreement would enable the country to change the import duty on 17 items such as sorghum, jowar, maize, rice, split wheat, skimmed milk powder, etc. The deal was a part of a trade-off with agriculture exporting countries under which India has given more access on other items by decline/restructure in tariff bindings like groundnut oil. As mentioned earlier India had to begin renegotiations of the bound rates with principal suppliers of the commodities in the light of removal of QRs. As a part of these renegotiations, India will impose a custom duty of 15 per cent on import of skimmed milk/whole milk up to 10000 tonnes under the tariff-quota deal. Imports above 10000 tonnes would attract a 60 per cent duty. Similarly, the bound rate for inquota of maize is 15 per cent up to 3,50,000 metric tonnes, while the corresponding rate for outquota is 60 per cent.

II. Safeguard Measures and Anti-Dumping Duties

The WTO agreement allows for imposition of trade restrictions for a temporary period under certain circumstances. These restrictions can be in the form of additional custom duties, which can be classified in the form of safeguard duties or anti-dumping duty, etc.

Safeguard duties can be imposed under article XIX of GATT 1994 on a particular product if there is a significant increase in its imports, which can cause or threaten to cause domestic products on directly competitive products.

In WTO terminology, dumping means exporting product in a foreign market below the price at which goods under consideration are sold in the domestic market of originating country. This may be due to many factors like capturing market share in other countries' markets by selling products at price which is lower than cost of production. Anti-dumping duties can be imposed on such products under WTO, to remove this unfair trade practice. Such practice certainly threatens domestic industry.

A large number of WTO member countries have been using such temporary safeguard measures. The process has accelerated after formation of WTO.

During 1st January, 1995-30th June, 2005, 2743 cases of anti-dumping
have been initiated in WTO. 47 member countries of WTO, against different exporting countries, have initiated all of these. The initiative was taken against 98 countries. Out of these 98 countries, maximum initiatives were taken against China, P.R. (434 cases), followed by Korea, Rep. (212), United States (158), Chinese Taipei (155), Japan (121) and India (115). Hence, India was the sixth largest exporting country facing maximum number of anti-dumping duties (Figure 1).

During January 1, 1995-June 30, 2005, anti-dumping duties on India's export were imposed by 17 importing countries/regions. The following paragraphs give some information from Indian sources.

Indian exports are facing a number of antidumping and anti-subsidy cases against them from other countries. Almost all the anti-dumping and anti-subsidy cases against Indian exports were initiated in the latter half of the 1990s. This follows from the data given in Table 5.1. In the following paragraphs is give product-wise and country-wise analysis of these cases.

**Table 5.1 : Year Wise Break up of Anti-Dumping & Anti-subsidy cases faced by Indians export till 2003**

<table>
<thead>
<tr>
<th>Year</th>
<th>Anti-Dumping Cases</th>
<th>Anti-Subsidy cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1993-94</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>1994-95</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>1998-99</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>1999-2000</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>2000-01</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>2001-02</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>2002-03</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>32</td>
</tr>
</tbody>
</table>

First, a country-wise analysis of the cited cases is given in Table 5.2. Out
of a total of 82 Anti-dumping cases initiated against exports from India, the highest numbers of cases are seen to have been filed by EU (33 per cent), followed by USA (17 per cent), South Africa (13 per cent), Indonesia (7 per cent), Canada (6 per cent), and Brazil (5 per cent).

**Table 5.2: Country wise Break up of Anti-Dumping Cases against India, till 2003**

<table>
<thead>
<tr>
<th>Country</th>
<th>Anti-dumping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>4</td>
</tr>
<tr>
<td>Canada</td>
<td>5</td>
</tr>
<tr>
<td>EU</td>
<td>27</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>11</td>
</tr>
<tr>
<td>Turkey</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
</tr>
<tr>
<td>USA</td>
<td>14</td>
</tr>
<tr>
<td>Korea</td>
<td>1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1</td>
</tr>
<tr>
<td>Russia Federation</td>
<td>1</td>
</tr>
<tr>
<td>China</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total cases</strong></td>
<td><strong>82</strong></td>
</tr>
</tbody>
</table>

**Source:** Government of India, Director General of Anti-Dumping and Allied Duties, Annual Report 2002-2003.

A product-wise analysis of cases facing Indian exporters (table 5.3) indicates that the highest number of anti-dumping cases for a product are engineering products (including steel products), which account for 32 per cent of the total cases, followed by textiles and articles (19 per cent) thereof, drugs and pharmaceuticals (18 per cent), rubber/plastics and articles thereof (13 per cent), and consumer industrial goods (12 per cent). In the anti-subsidy cases again engineering products (including steel products) account for 38 per cent of the total cases, followed by rubber/plastic
articles (25 per cent) and textiles/articles and drugs (13 per cent each).

Table 5.3 Product-Wise Distinctions of Cases Facing Indian Exporters

<table>
<thead>
<tr>
<th>Product</th>
<th>Anti-Dumping Cases</th>
<th>Anti-subsidy cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering including steel products</td>
<td>27</td>
<td>12</td>
</tr>
<tr>
<td>Textile and articles</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Drugs &amp; pharmaceuticals</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Electronics</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Rubber, plastic, glassware and articles</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Consumer industrial goods</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Agri products</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Government of India, Directorate of General of Anti Dumping and Allied Duties, Annual Report, 2002-03.

III. Removal of MFA for Textiles and Apparel Industry

Up to the end of the Uruguay Round, a major portion of textile and clothing exports from India and other developing countries to the developed countries was subject to quotas. These quotas were negotiated on bilateral basis at regular intervals, and governed by the rules of multi-fiber agreement (MFA). The multi-fiber agreement was adopted in the mid-1970s. This agreement allows selected quantitative restrictions when there was surge in import of particular product cause, or threatened to cause, to the textile industry of the importing developed country. MFA was a major departure from basic GATT rules of most favored nation (MFN). On January 1, 1995, MFA was replaced by the WTO agreement on textiles and clothing (ATC), which set out the process for ultimate removal of these quotas by December 31, 2004. This WTO agreement can be summarized as 'The ACT is transitional instrument, built on the following key elements: (a) the product coverage, basically encompassing yarns, fabrics, made-up textile products and clothing; (b) a programme for the progressive integration of these textile and clothing products into GATT 1994 rules; (c) a liberalization process to progressively enlarge existing quotas (until they are removed) by increasing annual growth rates at each stage; (d) a special safeguard mechanism to deal with new cases of serious damage or threat thereof to domestic producers during the transition period; (e) establishment of a Textiles Monitoring Body (‘TMB’) to
supervise the implementation of the Agreement and ensure that the rules are faithfully followed; and (f) other provisions, including rules on circumvention of the quotas, their administration, treatment of non-MFA restrictions, and commitments undertaken elsewhere under the WTO's agreements and procedures affecting this sector'.

Textile and clothing is an important sector in developing economies like India. It has played a developmental role on several dimensions. India's export has a substantial share in global trade of textile and clothing. It ranks seventh in world export of textile, and corresponding rank of apparel is 6th. In terms of India's global export by commodity groups, textiles and clothing constitute around 20 per cent. In this context it is worth noting that China is top exporter of textile and clothing in world market.

Countries like India have been waiting for 40 years for removal of multi-fiber agreement (MFA) to enhance its export in developed countries. The main objective of this section is to understand the implication of removal of MFA on India's textile and clothing industry, in one of major exporting countries, i.e. the U.S. market. It has been carried out through trend analysis. Import statistics of the U.S. for first eight months (Jan.-Aug, 2005) of 2005 have been collected and compared with corresponding period of 2004. January to August 2005 is called post-MFA period in this sub-section. U.S. global import of textile and clothing (as defined by Harmonized System of trade classification system, i.e. HS chapters 50-63) during Jan.-Aug. 2005, was US $ 61.7 billion an increase of more than 9 per cent over Jan.-Aug. 2004. US total import of the textiles has increased by 6.4 per cent during Jan.-Aug. 2005 as compared to Jan.-Aug. 2004; while corresponding US import of clothing has noticed growth of 9.4 per cent (Table 5.4).
Table 5.4: Trend Analysis for Study of Implication of Removal of MFA on India’s Textiles & Clothing Industry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Comm.</td>
<td>947531</td>
<td>1075464</td>
<td>13.5</td>
<td>10153</td>
<td>12002</td>
<td>18.22</td>
<td>121486</td>
<td>152832</td>
<td>25.8</td>
</tr>
</tbody>
</table>

| Category wise imports | | | |
|-----------------------| | | |
| Textiles              | 7433 | 7914 | 6.46 | 538.49 | 595.9 | 10.6 | 741.71 | 1008.4 | 35.9 |
| % share in US Global imports | | | | | | | | | |
| Clothing              | 49182 | 53819 | 9.43 | 2105 | 2747 | 30.54 | 8858 | 14551 | 64.26 |
| % share in US Global imports | | | | | | | | | |
| Textile & Clothing    | 55616 | 61733 | 9.04 | 2643 | 3343 | 26.49 | 9600 | 15559 | 62.08 |
| % share in US Global imports | | | | | | | | | |

**Note:** All figures are in US$ million.

**Source:** World Trade Atlas

U.S. import of textile and clothing from India increased from US$ 2.6 billion during Jan.-Aug. 2004 to 3.3 billion during Jan.-Aug. 2005, i.e. increase of 26.5 per cent in post-MFA period. Most of this increase was noticed in apparel sector. The biggest winner in the U.S. market (by countries) during post-MFA regime was China. US import from China increased from 9.6 billion $ during Jan.-Aug. 2004 to 15.5...
billion $ - a big jump of 62.1 per cent in post-MFA regime.

Significant growth of India and China in U.S. market shows that they have not only captured increased import demand of US, but also market of other countries (in the US). It is due to this reason that the share of China in the US global import of textile and clothing has increased from 17 per cent during Jan.-Aug. 2004 to 25 per cent during Jan.-Aug. 2005. Similarly, India's share in US market has increased from 4.7 per cent in Jan.-Aug. 2004 to 5.4 per cent in Jan.-Aug. 2005.

The impact of the ATC on India's export of textile and clothing has been positive and increasing. This increase has been due to (i) increased import demand, and (ii) trade diversion of 'other countries' in destination (developed) countries. Further, the increase has not been restricted to a few commodities, but almost all commodities.

IV Conclusion

In the Uruguay Round, India and other developing countries took part in the multilateral trade negotiations in a comprehensive way. The impact of the WTO on India's trade policy has been very significant. Some concluding observations based on the findings of this paper are:

1. India's imports of almost all quantities were subject to QRs for more than fifty years. In the WTO regime, India was forced to remove all types of quantitative restrictions on its imports. In other words, any importer in India, without any restriction, can import any commodity. It is all due to QR removal as per US dispute settlement with India under provisions of the WTO.

2. The negotiation process in WTO is not simple or easy. In the Uruguay Round India had bound number of important agriculture items like rice, maize, millet and sorghum etc., at zero per cent. Sudden sharp increase in import of these select items in QR-removal and zero-tariff regime made it necessary for India to re-negotiate (zero) bound tariffs of these items. India learned the negotiation tactics through such processes. India has been taking part in the present process of negotiations carefully with a pro-active agenda.

3. India's exports and imports have been consistently and sharply increasing since the past two decades. However, its export has been subject to large number of non-tariff barriers, by its principal trading partners. More than 40 per cent of India's exports to the U.S. has been subject to at least one type of non-tariff barrier. This has been illustrated by number of anti-dumping cases against India's exports in major destination partners. India has also imposed anti-
dumping duties against number of imports/commodities.

4. The removal of MFA has provided opportunities and challenges to India's exports of textile and clothing sector. The results show that the removal of MFA has been advantageous to India's exports. India's export of textile and apparel has significantly improved in the post-MFA regime. It has not only captured increased import demand of developed countries, but has also captured market share of other countries in destination markets of developed economies.

5.1 **Denmark**

Denmark is a prosperous exporting nation that is now facing some challenges in maintaining its position relative to international peers. The Danish Government's response has been centred on a series of initiatives to improve the "framework conditions" for growth. At the same time, it is withdrawing from the direct provision of business services. This is reflected in the activities of the export promotion body, the Danish Trade Council (DTC), which is predominantly a coordinating agency for externally delivered, user-pays, export consulting services. While, 80 percent of DTC's income still derives from government, this share is declining and is much lower than in the other benchmark countries.

5.1.1 **Economic and Export Context**

Denmark is one of the world's most prosperous nations. Its GDP per capita, measured by current exchange rates or by purchasing power parity, is the sixth highest in the OECD (OECD, 2003c). However, its economy has been underperforming. Real GDP growth since 1973 has averaged a modest 1.8 percent, although it has risen to 2.5 percent per annum in the past decade. As a result, Denmark's GDP per capita has generally been trending down toward the OECD average, although this has been arrested since the mid-1990s.

The story is similar for exports. In isolation, Denmark's real annual average growth of 4.6 percent since 1973 is impressive. Moreover, exports have increased from 28 percent to 46 percent of GDP in that period. Yet, Denmark's share of world trade has consistently declined in recent years. Two-thirds of Denmark's exports have grown more slowly than the world average.

The reasons for Denmark's declining performance are not clear-cut. A recent report by the Danish Government goes some way to explaining the underlying "story":

It is a story of a Danish corporate sector which, although enjoying a high
rate of activity, has in recent years lost its competitive edge internationally. It is a story of companies experiencing difficulties finding qualified workers in sufficient numbers. It is a story of young people in need of better education. (Government of Denmark, 2002:8)

Other factors besides competitive decay and inadequate human capital must be considered. One is Denmark's heavy reliance on the European market: in the past 30 years, the proportion of Danish exports sold into Europe has not fallen below 70 percent. While there are patent benefits to having such a large and accessible market on the doorstep, slow growth in key European countries (e.g., Germany) in the past 10 years has contributed to the stagnation of Danish exports (Schwartz, 2001).

Figure 5.1.1: Danish Exports by Market, 1973-2002 (% of Total)

Source: United Nations COMTRADE database

Another feature of the Danish economy that receives significant attention in the literature, and which may be a handicap to export growth, is the prevalence of small enterprises. Of those SMEs who do export, exports account for 24 percent of their total turnover. Both proportions are higher for large firms.

There are two possible inferences from these figures. The first is that SMEs are a major source of untapped export potential in Denmark and should be a focus of promotional activity. The alternative conclusion is that, even when favorable conditions exist for small firms to export (that is, when large and easily accessible markets exist nearby), their contribution to exports will still be only a fraction of that achieved by large firms.
5.1.2 Recent Developments and Government Responses

While the precise explanation for Denmark's fading performance may not be straightforward, it is clear that it faces a considerable challenge in trying to maintain and improve its position. The Danish Government is well aware of this:

In short, it is a story of a country that in ten years time will not necessarily occupy a leading position, unless something is done now to remedy the situation. Signs already suggest insufficient preparedness in several fields to guarantee prosperity and welfare in the decades ahead. (Government of Denmark, 2002: 8)

In response, the Government has developed a clear strategy for economic and export growth. This is articulated in four recent publications: Government Industrial Development Strategy (May 2000), Danish Growth Strategy (August 2002), Promoting Entrepreneurship (January 2003), and Growth Through Globalization (October 2003). The first three of these documents define a long-term aspiration to be ranked in the top-five OECD nations in terms of prosperity, employment, productivity, and efficiency. To get there, the Danish government sees its role as a "facilitator" that develops the necessary "framework conditions" for growth, rather than acting as a direct provider of services to business. That is, its task is to establish a favorable economic and administrative environment for businesses to succeed, but to leave them to negotiate their own path to success. The most important of these "framework conditions" are: budgetary restraint; education and training to ensure a skilled, flexible and entrepreneurial workforce; investment in R&D, as well as incentives for public-private collaboration in this area; improved access to venture capital; fewer barriers to competition and trade; and limited bureaucracy or administrative burdens on companies and entrepreneurs. Recent major initiatives in the last four areas are summarized in Table 5.1.2.
Table 5.1.2: Initiatives to Improve "Framework Conditions" for Growth in Denmark

<table>
<thead>
<tr>
<th>Increasing knowledge &amp; competence</th>
<th>Providing venture capital</th>
<th>Reducing barriers to competition</th>
<th>Reducing administrative burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>University reform - management of universities restructured to increase links with private sector</td>
<td>Norwegian Venture Capital</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business academies and IT schools - specialized training facilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IT &quot;lighthouse&quot; in N Jutland - developing &amp; commercializing ventures in digital technology</td>
<td>Technology incubators - seed capital plus ongoing advice on management, financing, patenting, etc</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Regional entrepreneur parks in S Jutland &amp; Arhus - office space plus advice/contacts through sponsors, Board of Directors &amp; management</td>
<td>Government finance available for joint public/private R&amp;D projects with commercial focus</td>
<td>Amendment to Competition Act - proposed changes to encourage pension increased fines for companies to invest in breaches of fair trading small &amp; innovative legislation; Competition Council given greater voice in commenting on legal restrictions to competition</td>
<td>198 proposed simplifications to processes through which firms deal with Government</td>
</tr>
<tr>
<td>Danish Investment Fund - state-owned financial liberalised on 1 Jan 2004 company with DKK2.4bn on canned beer and equity to invest in soft drink licensed innovative SME start-ups</td>
<td>Book market liberalised (Jan 2001) - publication &amp; sale now open to non-Danish companies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electricity market opened to full competition on 1 Jan 2003; gas market to be liberalised on 1 Jan 2004</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax breaks for foreign workers filling skills shortages</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The government's shift away from direct provision of services can be clearly seen in its restructuring of business advisory services. Technology Information Centres, which were established in the early 1970s, traditionally provided a comprehensive range of free advice and expertise to firms. Since 1999, however, these and other regional services (e.g., Contact Points for Entrepreneurs) have been integrated into a single business service centre in each of 15 regions and now serve a mainly mediatory role. That is, they identify the problems and the needs of entrepreneurs and businesses, provide some basic subsidized courses, but then refer firms to a network of private advisers for any further assistance they may need. The motives are financial - one interviewee acknowledged that "it is a way to save public money" and a belief that "the private sector prefers private sector advice."

5.1.3 Overall Approach to Export Development and Promotion
This philosophy of facilitation rather than provision also informs the Danish Government's approach to export promotion, and has done so for some time. In the late 1980s and early 1990s, it offered financial incentives for small firms in the same industry and geographical region to self-form into cooperative networks. The purpose was to encourage firms to collaborate and so "artificially" create the critical mass in production, marketing and finance that they needed to compete internationally. Within 3 years (1989-1991), over 3,000 of Denmark's 7,300 mid-sized manufacturing firms were part of one or more networks. As this number, as well as export earnings, continued to grow, the Ministry of Trade and Industry withdrew funding for the scheme. The assumption was that the networks had become self-sustaining. In reality, and in contrast to their reputed impact, the network's contribution to export growth proved limited. Many of the short-term benefits were due to Danish firms taking a lead in entering the newly unified German market, which soon became far more competitive. The quality of network brokers was also highly variable, which handicapped the scheme's effectiveness, and by 1996 approximately three-quarters of the networks had dissolved.

Denmark's current export strategy is articulated in its recently published action plan, *Growth Through Globalization*. It finds, on the basis of a survey of Danish businesses, that firms face three main types of barriers to exporting. In order of significance, these are:

- Excessive direct costs posing prohibitive risks, especially for SMEs (cited as a barrier by 43 percent of firms surveyed);
- Administrative, technical, or political barriers in foreign markets (30-40 percent for a range of different barriers); and
- Difficulties finding foreign partners or understanding market conditions (26-28 percent).

Tellingly, the vast majority of initiatives proposed by the action plan address the second category of barriers, which relate to framework conditions. These include: applying pressure in WTO negotiations for reduced customs duties, quotas, and technical regulations; standardizing labeling requirements and testing in the EU; and creating a single EU market for services based on a common system for approval and licensing. By comparison, initiatives to address the first and third categories of barriers, which concern more business-specific factors, do not go much beyond existing practices. The main commitments are to continue regionalizing the Danish Trade
Council's international operations, to focus on emerging markets in China, Russia, and the EU accession states, and to keep "strengthening the export competencies of SMEs ... [through] existing export initiatives and the establishment of new target areas," but "based on the resources already allocated."

The last phrase is decisive. The Danish Government's focus will be putting into place the framework conditions for export growth by liberalizing trade barriers at home and abroad, and creating the conditions for competitive firms, rather than investing significant public resource in helping exporters to enter or expand in overseas markets. The resources it does invest will principally be used to provide a signpost to the assistance and capacity-building services that exporters may require, rather than the provision of services per se. In that respect, and beyond rather limited support for targeted markets (presently China and Eastern Europe) and firms (i.e. SMEs), it will be guided by the principles of private provision and user-pays. As will be seen, these principles fundamentally inform the operations of the national export promotion agency.

5.1.4 Danish Trade Council

Governance and Organization

The Danish Trade Council (DTC) was established as an independent department in the Royal Danish Ministry of Foreign Affairs (MFA) on 1 January 2000. It centralized export promotion and investment functions, which had previously been fragmented across a range of ministries, including Trade and Industry, Food and Agriculture, Foreign Affairs, and Environment and Energy. While MFA has overall responsibility, more immediate governance is provided by an independent Board comprising chairmen, directors, managing directors, CEOs, and CFOs of Danish companies. These arrangements were the product of a working group involving government and relevant private organisations such as the Confederation of Danish Industries.

Performance Evaluation

DTC's Objectives and Strategy document for 2003-2005 defines its export promotion goals and the performance indicators against which they are assessed. These are summarized in Table 5.1.3 and the foremost objectives discussed below.
Table 5.1.3: Strategic Export Promotion Objectives and Performance Indicators

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Indicator</th>
<th>Result 2002</th>
<th>Target 2003</th>
<th>Target 2004</th>
<th>Target 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial effect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A: Socio-Economic benefit</td>
<td>A: Direct additional exports</td>
<td>DKK 3.1b</td>
<td>DKK 3-4b</td>
<td>DKK 3-4b</td>
<td>DKK 3-4b</td>
</tr>
<tr>
<td>B: Revenue ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A: Satisfaction with paid-for projects</td>
<td>15%</td>
<td>17%</td>
<td>19%</td>
<td>21.5%</td>
<td></td>
</tr>
<tr>
<td>B: Revenue ratio</td>
<td>B: Earnings as percentage of costs</td>
<td>15%</td>
<td>17%</td>
<td>19%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A: Satisfaction with paid-for projects</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>B: Satisfaction with participation in shared export initiatives</td>
<td>83% (base measurement)</td>
<td>85%</td>
<td>87%</td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>C: Number of companies reporting positive effect on export turnover</td>
<td>46% (base measurement)</td>
<td>49%</td>
<td>52%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>A. Number of customers</td>
<td>2633</td>
<td>2600</td>
<td>2600</td>
<td>2450</td>
<td></td>
</tr>
<tr>
<td>B. Number assisted through Danish Trade Council SME programmes</td>
<td>408</td>
<td>550</td>
<td>550</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial crisis standby capacity</td>
<td>Response time</td>
<td>An action plan for further work must be available within 24 hours, if the crisis has not been resolved within this time frame.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff development</td>
<td>Staff satisfaction</td>
<td>62%</td>
<td>66%</td>
<td>70%</td>
<td>74%</td>
</tr>
</tbody>
</table>

The first objective is a broad aim to "promote financial growth in Denmark by contributing to the internationalization and export turnover of Danish companies." The target is to assist with export earnings of DKK3-4b a year. In order to measure its success on this front, 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." 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 DTC's services increased a firm's turnover by DKK217. Such measures are always the subject of contention but the "hotspots" strategy of rapid opportunity identification employed by the DTC could be a contributing factor to short-term impact.

DTC also emphasizes customer satisfaction. It seeks to "ensure that increasing numbers of companies are highly satisfied with its efforts." Measurement is undertaken systematically. Two to four weeks after they have received services, firms are asked to complete an online evaluation. The survey asks them to rate DTC's performance overall and on six dimensions: understanding of company's needs; precision of written offer; advisers' communication; whether service delivered on what was promised; whether it was delivered on time; and whether it represented value-for-money. Current satisfaction levels are 89 percent for consulting projects and 83 percent for joint export promotion. UK target is "very satisfied", Denmark is "satisfied".

The final objective demanding elaboration is DTC's target for revenue generation. Given the steady decline in Government funding, DTC's efforts to grow fee revenue are increasing. In support of these efforts, DTC sets performance targets for each of its international missions. It has an overall goal for global consulting hours billed, which it disaggregates into a quota for each mission and individual staff members by applying a market-specific value to each available person-week. This value is higher in more accessible European markets (~DKK 8,000 per week) than in more difficult Middle Eastern (DKK 5,200) or North African (DKK 3,500) markets, for instance. Since the rate that foreign missions can charge Danish firms for their services is constant across the globe (DKK 675 per hour), staff in "easier" markets must bill a greater number of hours per week to achieve their targets.

Each mission prepares an annual sales and marketing plan, in which it explains how it intends to meet its targets for the year. It identifies the industries or
sectors on which it intends to focus. Individual commissioners will frequently concentrate on one of these areas for the year, before moving on to more fertile ground. Interviews indicate that the plans are not followed rigidly and are, to a degree, seen as "another unnecessary report sitting on the shelf." Commissioners are certainly not hidebound by their annual plans; if the market changes, target sectors struggle or new openings emerge, they will change focus.

Trade commissioners are set a higher man-week price, since embassies and consulates are supposed to perform most of the general business service tasks. Sector experts' price is also higher, some 30 percent above the norm, reflecting their specialist capacities and higher rewards structure.

As DTC's revenue expectations rise, so too do performance targets. Person-week prices (and by connection billing targets) increased by 16 percent in 2003.

Bonuses of up to 25 percent are paid to international staff on three criteria: meeting personal targets; meeting mission targets; and meeting targets for the country or region (some countries have multiple missions). The aim is to encourage cooperation and discourage competition between missions.

As noted, critics have suggested that DTC's focus on revenue generation creates short-term behaviors to the detriment of longer-term development of products and markets. DTC is cognizant of this danger and has put measures in place to counter it. Notably, no more than 60 percent of a mission's resources are allocated for chargeable tasks (actual hours charged to clients are usually closer to one-third of a consultant's time). The remaining resources are earmarked for "general business services." Missions must engage in diplomacy and networking to promote Denmark and open official doors, and they are required to investigate new sectors and niches for Danish companies to enter or expand within. Also, no more than one third of bonuses may be paid for achievement of personal earnings targets. The remainder is to encourage successful efforts in other "general business" tasks. Despite these incentives, there is still a strong sense that longer-term goals are being neglected. To alter this, a "Balanced Scorecard" system is being piloted at five missions. It places a more formal emphasis on non-chargeable tasks. Service-wide rollout is planned for 1 January 2005.

5.1.5 Conclusions

An important message from the Danish experience is that, while export promotion is certainly considered worthwhile, it is also clearly used as a complement to more fundamental policies to encourage export growth. This is evidenced by the Danish
Government's move away from direct service provision towards its current focus on developing the necessary "framework conditions" for growth. Most importantly, it is promoting openness to trade and international competition; high standards of education and training to create a skilled, flexible, and entrepreneurial workforce; encouragement for R&D and innovative ventures with high-growth potential; and few bureaucratic burdens on business. These are seen as the core ingredients of a recipe for export growth, with export promotion as the "icing on the cake".

In its export development and promotion efforts, the Danish Government has clearly adopted a "facilitator" approach. It sees its role as developing an environment in which export growth will take place, rather than providing export-enhancing services directly to business.

With regard to Denmark's export promotion activities, the main insights do not come from DTC's programmes, which are fairly standard, but from its commercially oriented structures and processes. In its governance and organization, DTC operates more like a private than a public sector entity. It sits at arm's length from government and its Board comprises successful business people. These features are not unique - we observe them in other countries' export promotion agencies - but DTC does appear to have a stronger culture of independence than that seen in similar bodies in the other benchmark countries.

Most of the agents who deliver DTC's services are drawn from the private sector. This model appeals to exporters because the agents use methodologies and have mindsets that are familiar to them, and because they do not display the bureaucratic tendencies that tend to bedevil public sector providers. The general observation, therefore, is that:

- High-quality human resources are essential to effective export promotion;
- Employing people with private sector experience is generally a plus in this respect;
- However, private sector people must still be effective and capable.

It is clear that DTC has a rigorous culture of performance measurement, but the accuracy and utility of these evaluations are not so clear. DTC has gone to uncommon lengths to mitigate the distortions that often occur when measuring outcomes of, and satisfaction with, export promotion services. It has engaged an external consultant to conduct an independent assessment of the impact of its efforts, which may lend more weight than usual to the findings. Moreover, the feedback it
receives from firms relates mainly to user-pays rather than subsidized services. This should remove the incentive for users to exaggerate the value of those services simply so that they can benefit again in the future; in theory, firms' responses should be matter-of-fact judgments of whether they have received value-for-money. Nonetheless, a degree of caution should still be exercised in interpreting evaluation results. The linkage between programme and outcomes may not be as direct as is suggested. For instance, the claim that DTC’s services increase a firm's turnover by a factor of 217 assumes that these services are the sole reason for the increase. Furthermore, it is doubtful that each additional krone spent by a firm would have the same effect; that is, returns to an individual firm are almost certain to diminish at the margin and be a function of firm size.

Rigorous evaluation may also lead to undesirable short-term behaviors within the export promotion network. In particular, there is evidence that export advisers' performance contracts encourage them to concentrate on meeting their immediate targets for fee-revenue, and to neglect their more strategic and long-term market development roles. Efforts to combat this bias at the level of the individual consultant (e.g., through initiatives such as a "balanced scorecard") may struggle to outweigh the fiscal drive. This makes higher-level strategic development essential if export promotion is not to consist solely of useful but lower-value intelligence and marketing services.

5.2 Malaysia

Exports have played a very important part in the growth of the Malaysian economy. Export success has been supported by strong macroeconomic fundamentals, intra-regional development in trade and large inflows of FDI initially leveraging low labor costs. Malaysia has focused on three levers to drive exports: enhancing export competitiveness through bottom-line incentives, building the capability of SMEs, and developing new sources of growth in sectors and markets through its major export promotion agency, MATRADE, which is predominantly focused on in-market activities.

Malaysia's export development and promotion activities have had a dramatic effect, largely through the impact of FDI and export incentive programmes. Today, however, Malaysia faces some challenges as its traditional advantages in labor intensive and low technology products are eroding. This has led to a falling away in FDI and a slowdown in export growth. The Malaysian Government has responded with a series of initiatives designed to "reboot" the economy and provide further incentives
to export.

5.2.1 Economic and Export Context

Malaysia has pursued an aggressive export-led growth strategy since the 1970s. Since the early 1990s, in particular, exports have played a very significant role in economic growth.

Export growth has been fuelled by an expansion of the manufacturing sector. Malaysia has enjoyed particular success in the manufacture and export of electronic products and components.

Three factors have contributed strongly to Malaysia's export success:

- Macro-economic environment conducive to exports;
- The development of ASEAN as a significant pan-regional market; and (most importantly)
- The provision of FDI incentives and subsequent export incentives.

**Macro-economic Environment**

Malaysia has driven the development of its economy through a series of 5-year economic plans. These have helped to create an environment conducive to business development and export growth, including:

- Political stability;
- Price/exchange rate stability;
- High savings/investment;
- Low lending rates;
- Investment in physical infrastructure and human capital; and
- Trade liberalization.

**Development of ASEAN into an Economic Region**

The development of the ASEAN region from a multi-country market to an economic region has also been crucial to Malaysia's economic and export success. Regional agreements include internal tariffs, investment regulations and a framework agreement on services and infrastructure linkages. This has allowed companies to establish production centres in Malaysia that export to the region. For example:

- Samsung Corning (Malaysia) provides tube glass as a major input to Samsung Display's Malaysian color picture tubes factory, and sells intermediate products to Samsung electronics (Thailand) and affiliates in Indonesia and Vietnam (for color televisions) and in Malaysia (for computer monitors).
- Volvo (Malaysia and Thailand) and Isuzu Motors (Thailand and Indonesia)
produce and exchange automotive completely-knocked-down packs through their affiliates in these countries.

- Samsung Electro-Mechanics (Thailand) supplies tuners, deflection yokes and fly-back transformers to affiliates in Malaysia, Thailand and Vietnam. It also supplies tuners to its Indonesian operations (for VCRs), oil capacitors to its Malaysian operations (for microwave ovens) and deflection yokes to Samsung Display Devices in Malaysia (for color picture tubes).

**Aggressive FDI Attraction and Export Incentive Policies**

The most potent drive of Malaysia's export growth has been a very aggressive FDI attraction policy and subsequent export incentives initially leveraging Malaysia's low cost wage position.

The impact of the FDI and incentive programmes has been dramatic. Both the US and Japan have provided significant FDI inflows and the US and Singapore have become major export markets.

Since initiating its FDI attraction and export incentive programmes, Malaysia has been particularly successful in growing its electrical products sector (17.7 percent per annum). In total, 78 percent of Malaysia's exports have grown faster than the world average.

**5.2.2 Recent Developments and Government Responses**

Today Malaysia faces some significant challenges as its traditional source of advantage in "labor intensive" and low technology products declines. As a result, FDI inflows have fallen away and export growth slowed. In response, the Government has produced the Eighth Malaysian Plan (2001-05) and the second Industrial Master Plan (1996-2005), which highlight initiatives designed to "reboot" the economy.

The Second Industrial Master Plan introduced two new strategies:

- The "manufacturing plus-plus strategy", which is designed to
- Move Malaysian industries along the value chain from assembly-based and low value-added activities towards higher value-added activities, such as R&D and product design, and distribution and marketing; and
- Shift the whole value chain to a higher level through productivity-driven growth through the utilization of high technology and an increase in total factor productivity, with emphasis on knowledge-based and capital intensive manufacturing.
"Cluster-based industrial development", which focuses on:

- The development of competitive industry clusters through the integration of key industries, suppliers, supporting industries, critical supporting business services, infrastructure and institutions; and
- Adding value to Malaysian industrial production by creating upstream and downstream links - i.e., by promoting upstream development such as R&D and downstream development such as sales and marketing - and further developing domestic SMEs.

Initiatives in the Eighth Malaysian Plan are intended to:

- Reinforce macroeconomic fundamentals, including the aggressive promotion of exports (especially services);
- Bolster the nation's economic resilience to withstand shocks by raising the performance of the financial sector, improving corporate governance and improving risk management capabilities in the private sector;
- "Retool" the economy to enhance its competitiveness by creating a pro-business environment that supports wealth creation, increasing productivity to reduce costs and boost quality, and increasing marketing capability;
- Reactivate private investment to drive growth;
- Venture into new sources of growth to sustain economic dynamism; particularly in the services, manufacturing and agricultural sectors; and
- Accelerate the transition from a low technology, input-intensive economy to one based on high technology and knowledge industries.

5.2.3 Overall Export Development and Promotion Approach

In Malaysia today, export growth is driven by three main policy levers. The export incentives provided for both SMEs and MNCs are significant, as summarized in Table 5.2.1.
### Table 5.2.1: Overview of Malaysian Export Incentives

<table>
<thead>
<tr>
<th>Tax Relief</th>
<th>Duties &amp; Sales Tax</th>
<th>Financial Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Double deduction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- For promotion of exports (G&amp;S)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- For promotion of Malaysian brands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- On export credit insurance premiums</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Single deduction</strong></td>
<td>Drawback or full exemption on import duty</td>
<td>Export financing</td>
</tr>
<tr>
<td>- For quality certification</td>
<td>Drawback of excise duty on parts, ingredients or packaging materials</td>
<td>Market development grant</td>
</tr>
<tr>
<td>- For registration of patents</td>
<td>Drawback on sales tax for materials used in manufacturing</td>
<td>Bilateral payment arrangement</td>
</tr>
<tr>
<td>- For hotel accommodation</td>
<td>Tax exemption on educational equipment</td>
<td>Export credit insurance</td>
</tr>
<tr>
<td>- On cost of developing websites</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax exemption</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- On the value of increased exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- For &quot;Malaysian International Trading Companies”(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- For tour operators, convention and fair organizers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Tax incentives for offshore trading via websites**
- Up to 50 percent income tax exemption for exporters
- Incentive to acquire a foreign company

(1) To qualify for MTC status a company must have been incorporated in Malaysia, achieve an annual sales turnover of >RM10 million, have equity holdings of at least 60 percent Malaysian, and export manufactured goods

Source: MATRADE Handbook

Incentives will continue to play a significant role in developing Malaysia's economy. Recent efforts include incentives for R&D, human resource promotion and brand promotion. In addition, a raft of new incentives has been created for SMEs (discussed below) and there has been investment in and incentives related to the Multimedia Supercorridor in an effort to promote ITC FDI.

**Export Development and Promotion Agencies**

Malaysia has a network of public and private organisations that promote trade. Involvement in export promotion starts at the highest level of government.
Mahathir Mohamad, Malaysia’s former Prime Minister, was extremely active in the "hands-on" promotion of trade, especially to developing nations. The Minister of International Trade and Industry, YB Dato' Seri Rafidah Aziz, is heavily involved in the promotion of trade and investment in key mature and developing markets. In 2002, she led trade delegations to China, Japan and ASEAN, providing Malaysian firms with access to new opportunities in these markets. The Ministry of International Trade and Industry (MITI) is the ministry responsible for the strategic support and promotion of trade in Malaysia.

MITI's mission is to "promote and safeguard Malaysian interest in the international trade arena, to spur the development of industrial activities and to further enhance Malaysian economic growth towards realizing Vision 2020."

MITI administers and funds three agencies that work together to support Malaysian trade and investment.

- The Malaysian External Trade Development Corporation (MATRADE) is responsible for promoting export growth in Malaysia. MITI formulates policy and provides high-level monitoring of the export industry, while MATRADE is responsible for the hands-on development and delivery of programmes.
- The Small and Medium Industries Development Corporation (SMIDEC) coordinates the development of small and medium enterprises.
- The Malaysian Industrial Development Authority (MIDA) is the Malaysian Government's principal agency for the promotion and co-ordination of industrial development in Malaysia. It is the first point of contact for investors who intend to set up manufacturing and related services projects in Malaysia and aims to promote foreign and local investment in the manufacturing and related services areas.

MITI, MATRADE, SMIDEC and MIDA are building IT infrastructure to link the databases of the four organisations to enable access to comprehensive export and industry information. While the databases will continue to be independently maintained, each agency will be able to access the others' information resources in real time. This is the first step in an attempt to harness and leverage the informational resources of every Malaysian Government body that supports trade and investment.

5.2.4 MATRADE

MATRADE is responsible for liaising with private sector trade promotion organisations, business councils and chambers of commerce to gather input and
coordinate trade delegations. As a government agency, MATRADE has its own set of expertise and limitations, and recognizes the need to collaborate with the private sector to maximize Malaysian firms' exposure to international trade opportunities. Sector representative organisations represent the interest of Malaysia's key export sectors, namely palm oil, rubber, timber and textiles. Malaysian Chamber of Commerce organisations and Business Councils promote trade through business networking, especially through leveraging the international business contacts of the Chinese and Indian Malaysian communities, as well as expatriate communities.

MATRADE was established in March 1993 to aggressively promote trade. It differs from its predecessor MAEXPO in that it is an independent agency (and therefore considers itself more dynamic) with a more comprehensive approach to strategy and planning. It is also more coordinated and broader in scope, and undertakes a wider range of activities. Membership has grown to 6,000 organisations and it is seeking to move towards more private sector funding.

MATRADE's functions are:

- To promote, assist and develop Malaysia's external trade, with an emphasis on the export of manufactured and semi-manufactured products and services;
- To formulate and implement marketing strategies and promotion activities to promote Malaysia's exports;
- To undertake commercial intelligence and market research, and create a comprehensive database of information for improving and developing Malaysia's trade;
- To organize training programmes to improve Malaysian exporters' international marketing skills;
- To enhance and protect Malaysia's international trade investment abroad; and
- To promote, facilitate and assist in service areas related to trade.

MATRADE is governed by a board comprising public and private sector leaders. It has six divisions: two each for handling corporate affairs, specific promotion services and particular geographic regions. Its 27 overseas offices and trade centres are an integrated part of its operations.

While there is little evidence of strong partnerships with the private sector, MATRADE works closely with other public development organisations such as
SMIDEC, the Export-Import Bank, the Export Credit Insurance Board, and the Technology Development Corporation.

**Targeting**

MATRADE’s 2002 export promotion strategy is focused on market development for Malaysian products and services as well as the development of the Malaysian export community. Major initiatives include:

- Sustaining and expanding exports in traditional markets through the adoption of new promotion tools, enhancing the effectiveness of existing tools, and diversifying the products promoted in those markets;
- Expanding exports to new markets, focusing on China, ASEAN and West Asia through "Malaysia" image building programmes and the promotion of Malaysian brands, as well as targeting niche opportunities in Islamic finance and the *halal* food industry;
- Generating new investment opportunities in marine, defense, aerospace, food and bio-technology related industries; and
- Creating greater awareness of export opportunities for companies in the services sector, and developing targeted approaches to the promotion of services exports.

Resulting from a review to enhance the effectiveness of exports, MATRADE is introducing new strategic planning and analysis activities. The aim of these is to enhance the evaluation of supply side promotional needs and to provide a holistic and deeper (read more focused) insight into opportunities for Malaysian trade.

**Programme Portfolio**

Most of MATRADE’s programmes are similar to those offered by other export promotion agencies.

Malaysian authorities are very enthusiastic about MATRADE’s in-market activities. The commitment to improving the nation's economic wellbeing through its export performance emanates from the top. The Prime Minister and other senior government members are very visible in trade development. This makes for a very active set of programmes. In 2002 there were 650 registrations for trade fairs and missions. Fifty missions or fairs were held; nearly 40,000 enquiries were received; and potential sales were reported at nearly 1.3bn Ringgit.

The importance of the enthusiasm that characterizes these events should not be downplayed; nor should the second tier effects of building business relationships in a business culture that values personal contact.
Resourcing

MATRADE’s annual budget is US$17 million, with all but US$0.5 million (derived from service charges) coming from Government via MITI. This budget excludes tax deductions.

Forty percent of MATRADE’s funds are devoted to programmes and the rest to operating, property and salary costs. Approximately two-thirds of this funding is spent overseas, but staff numbers are distributed two-thirds in Malaysia and one-third abroad.

To deliver its programmes, particularly trade fairs and missions, MATRADE teams with other public/private sector organisations. In addition, some export promotion activities (e.g. trade and investment missions) are jointly organized with MITI.

Performance Evaluation

It would be hard to say that Malaysia is a role model for evaluation. This is recognized in the organization. As one senior MATRADE official told us, "There are no clear KPIs … this is a problem."

Accordingly, MATRADE takes the feedback from trade fairs "with a pinch of salt". Given all the variables involved, it considers trade performance as an indicator but not a good measure of programme success. However, MATRADE does capture feedback from members and consults extensively with private sector organisations and their member firms.

5.2.5 SMIDIC

The Small and Medium Industries Development Corporation (SMIDIC) was established in 1996 in recognition of the need for a specialized agency to promote the development of small and medium industries in the manufacturing sector. This initiative was to build upon the primarily multinational manufacturing cluster and develop second tier firms capable of supplying these larger firms and becoming significant businesses (and exporters) in their own right. Manufacturing companies or companies providing manufacturing related services with annual sales turnover not exceeding RM25m and not having more than 150 fulltime employees have been targeted.

SMEs are increasingly important to the Malaysian economy as FDI inflows stall. Currently, only 20 percent of SMEs export.

SMIDEC's vision sees SMEs as a dynamic and integral part of the
Malaysian industrial community linked to the international supply chain. Its mission is to enhance the competitiveness, efficiency and productivity of SMEs.

**Targeting**

SMIDEC targets key industry sectors, as outlined in the SMI Development Plan 2001-2005 (SMIDP) and shown Table 5.2.2.

**Table 5.2.2 : Focus of SMI Development Plan**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Industry Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Clusters</strong></td>
<td></td>
</tr>
<tr>
<td>Electrical &amp; Electronics (E&amp;E)</td>
<td>Semiconductor &amp; electrical components, computers &amp; peripherals, Communications equipment, Consumer electronics, Electrical appliances &amp; apparatus</td>
</tr>
<tr>
<td><strong>Automotive</strong></td>
<td></td>
</tr>
<tr>
<td>Transport equipment</td>
<td></td>
</tr>
<tr>
<td>Marine transport</td>
<td>Ship building, Ship repair, Leisure craft</td>
</tr>
<tr>
<td></td>
<td>Offshore marine structures</td>
</tr>
<tr>
<td></td>
<td>Sawn timber, Panel products,</td>
</tr>
<tr>
<td>Wood-based</td>
<td>Mouldings &amp; joinery, Furniture,</td>
</tr>
<tr>
<td></td>
<td>Paper &amp; paper products</td>
</tr>
<tr>
<td>Machinery &amp; engineering</td>
<td>Non-electrical machinery, electrical machinery, apparatus, services</td>
</tr>
<tr>
<td></td>
<td>appliances &amp; supplies</td>
</tr>
<tr>
<td><strong>Secondary focus group</strong></td>
<td></td>
</tr>
<tr>
<td>Food processing</td>
<td>Convenience food</td>
</tr>
<tr>
<td></td>
<td><em>Halal</em> food</td>
</tr>
<tr>
<td>Rubber based</td>
<td>Rubber products (not elsewhere classified)</td>
</tr>
<tr>
<td>Textiles &amp; apparel</td>
<td>Made-up textiles, garments</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Traditional medicines &amp; herbal products</td>
</tr>
</tbody>
</table>

In the electrical and electronics sectors, the presence of MNCs provides opportunities
for technology transfer and linkage. These sectors have stimulated the growth of SMEs in supporting industries such as machinery and equipment, precision engineering, plastic injection moulding and metal fabrication industries.

Programme Portfolio

To encourage and support SMEs to venture into exporting, international trade programmes have been put in place to enable SMEs to benefit from a broad set of incentives (Table 5.2.3).

Table 5.2.3: Incentives Available to Malaysian SMEs

<table>
<thead>
<tr>
<th>Tax Incentives</th>
<th>Grant Assistance(^{(1)})</th>
<th>Loans,(^{(2)}) Credit &amp; Equity Participation</th>
<th>Infrastructure &amp; Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer status</td>
<td>Industrial Technical Assistance Fund</td>
<td>Minimum lending guidelines for SMEs</td>
<td></td>
</tr>
<tr>
<td>Investment tax allowance</td>
<td>Skills Upgrading Programme Technology</td>
<td>Government-funded financing facilities</td>
<td></td>
</tr>
<tr>
<td>Reinvestment allowance</td>
<td>Acquisition Fund</td>
<td>Credit guarantees for SME borrowers</td>
<td></td>
</tr>
<tr>
<td>Double deduction of expenses incurred on own brand advertising, export promotion, export credit insurance premiums &amp; R&amp;D</td>
<td>Commercialisation of R&amp;D Fund</td>
<td>Equity financing &amp; venture capital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>e-Commerce Grant Factor Auditing Scheme</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Grants 2002=RM33.1 million

\(^{(2)}\) Soft loans 2002=RM73.3 million

5.2.6 Future Challenges for Malaysian Exporters

MATRADE identifies Malaysia's eroding relative cost position as the crucial challenge for the nation's exporters. It believes that Malaysian businesses will
have to reposition their goods and services in mid-to-high-value global market segments. To do this, Malaysia will have to:

- Upgrading perceptions about the quality of Malaysian goods and services;
- Build Malaysian brands; and
- Build confidence in local markets.

At present, Malaysian businesses are hesitant to invest in Malaysian brands due to their lack of experience and the uncertainty involved in this type of investment. Very few Malaysian brand success stories are available to give confidence to businesses.

In this context, MATRADE sees its major challenges as:

- Targeting companies with the capabilities to lead Malaysian business into a new era;
- Building a strong brand "Malaysia";
- Getting the right people; and
- Funding.

5.2.7 Conclusions

The Malaysian export development and promotion story is about a relatively small, developing economy fuelling export growth through the strategic support of selected industries. These have generally been low technology, labour-intensive manufacturing industries in which Malaysia has traditionally enjoyed specific advantage of low labour costs. In parallel with this, the nation has boosted economic and export growth through strong and successful FDI attraction policies and fundamental macroeconomic stability, supported by the increasing integration of the ASEAN region.

Two elements of Malaysia's export development and promotion activities stand out. First, it offers generous financial incentives to MNCs and local firms to begin or expand their export activities. These incentives have been and will continue to be the main drivers of Malaysian export growth, especially for large and for new exporters. Second, Malaysia has designed and executed trade promotion programmes that support and leverage the nation's strengths, and that have produced strong growth in sectors where world demand is also growing.

Malaysia's network of public and private export promotion agencies is actively supported at the highest levels in government. Senior government members, including the Prime Minister, are very visible in trade development activities. The
nation's main export promotion agency, MATRADE, operates a strong portfolio of active, in-market export promotion programmes, while SMIDEC targets SMEs to link them into the supply chains of large MNCs.

Some issues remain to be resolved. MATRADE's impact is limited by its funding and a relatively traditional portfolio of programmes, so that most of its impact is on the margin. That being said, MATRADE executes its in-market programmes with enthusiasm, based on sound strategy to target East, South and West Asia as new opportunities for growth. Its recent organizational restructure suggests that MATRADE is attempting to reposition itself as a more dynamic organization that plays a stronger strategic role in the design and execution of Malaysia's export promotion programmes.

Malaysia has been very successful at growing its exports and attracting FDI inflows. However, as its traditional sources of advantage erode, the Malaysian Government has shifted its focus towards boosting more value-added manufacturing activities. MATRADE's role is now to support Malaysian businesses, especially SMEs, as they compete in the global market without their traditional cost advantage. It is worth monitoring MATRADE as it responds to the needs of an economy transitioning to a more sophisticated manufacturing base.

5.3 Chile

The discussion on Chile is divided into four sections. The first explores the reasons for Chile's strong economic and export growth since the early-1970s, and the current challenges that it faces in trying to sustain that performance. Two main factors are found to explain historic growth: far-reaching economic deregulation and trade liberalization; and extensive State financial support to exporters. Chile's principal challenge now is to expand its export base beyond raw natural resources and so reduce its dependence on fluctuating international commodity prices.

The second section analyses the role and impact of the state export promotion agency, ProChile, within this context. It is concluded that, while ProChile has at times provided useful services to mainly small exporters, it appears to lack the flexibility and resources needed to create impact in a mature export industry.

5.3.1 Economic and Export Context

Chile's economic performance in the past three decades is impressive. Despite external shocks in the early-1980s and late-1990s, Chile's GDP has grown at a real average annual rate of 4.6 percent since 1973. This has enabled a sustained catch-up relative to the OECD average. Furthermore, Chile is distinguished by stable and
consensual macro-economic policies; a liberal and competitive institutional environment for private enterprise; an advanced financial system; high rates of savings and investment; and a relatively open economy (trade to GDP ratio is 68 percent) which is continuing to liberalize in line with WTO accords and several bilateral free trade agreements.

Exports have played an important role in Chile's economic success. From 1973 to 2001, exports of goods and services grew by over 10 percent a year, and increased as a share of GDP from 14 percent to 36 percent. In that time, the number of exporters increased from fewer than 200 to over 6,000; the number of export products jumped from around 400 to around 4,000; and the number of export markets burgeoned from below 50 to well above 150 (Macario, 2003).

**Export Growth, 1975-1980**

Chile's export growth in the late-1970s was built on two foundations. The first and less significant was the emergence of lucrative new agricultural export sectors, due largely to significant State investment in the 1960s. Fresh fruit producers, for instance, benefited from investment loans from CORFO (the State Development Agency) to plant lemon, almond, and walnut trees for export. The 1966 Fruit Development Plan offered further assistance, including major state spending on infrastructure (especially irrigation), research (including establishment of an Agricultural Technological Research Institute), technology transfer, and training programmes to develop technical and entrepreneurial skills (e.g., sponsoring students to complete a California-based course in agricultural economics). In the fishery industry, the Chilean government invested in technical assistance and infrastructure, as well as the establishment of a specialized R&D Institute. Finally, government-owned enterprises organized the planting of vast tracts of forest, peaking at 40,000 hectares in 1971-1972.

The second and more powerful driver of Chile's export growth in the 1970s was the programme of deregulation and liberalization implemented after General Pinochet seized power in 1973. Previously, the Chilean economy had been heavily controlled and protected. Copper mines and a large part of the banking system were owned by the State. In addition, Chile's import substitution regime had included an average tariff of 94 percent on a total of 5,125 different products; bans on 300 goods; and a compulsory 90-day non-interest-bearing deposit of 10,000 percent by value on the majority of imports.
After 1973, quotas and bans were removed completely, and tariffs were cut back to an average of 10 percent by 1980. The direct effect of these changes was to compel Chilean producers to increase their efficiency in order to compete against the influx of international products. An important flow-on effect was also to encourage exports. That is, high tariffs and low quotas prior to 1973 had artificially raised the competitiveness of local businesses vis-à-vis overseas firms and so encouraged sale on the domestic rather than international market. With the removal of protection and the concomitant improvement in productivity, exporting became both a more necessary and a more feasible activity for Chilean firms. Their productive efficiency was further stimulated by financial deregulation, tax cuts, suppression of labour rights, reprivatization of national assets, and an end to price controls. Finally, firms' capacity to sell abroad was enhanced by moves to make export processes less bureaucratic. The customs service was rationalized and decentralized; air transport was modernized and public controls relaxed; and private companies were set up to administer the ports, with exporters permitted to use foreign shipping companies for the first time.

**Export Growth, 1984-1990**

A major recession and debt crisis in 1981-1982 halted Chile's export expansion. The government responded by focusing on creating the conditions to achieve current account surpluses. A series of initiatives undertaken as part of this strategy became the main drivers of renewed export growth during the mid- and late-1980s. First, the peso was devalued, then regularly depreciated by a crawling peg system of adjustments. This resulted in a consistently undervalued currency that enhanced and maintained the international competitiveness of Chilean products. At a micro-economic level, private investment in export sectors was encouraged by downward pressure on real interest rates and incentives for higher savings rates (e.g., tax cuts and the establishment of private pension schemes). State support mechanisms for exporters increased markedly and public investment in schemes to create new export industries began to bear fruit. For instance, *Fundacion Chile*, a joint venture between the Chilean government and the US multinational ITT, introduced innovative new technologies from abroad by building and then selling businesses based upon them. This was the main catalyst for new export trades in gourmet mini-vegetables, prestige branded timber products, and salmon (introduction and commercialization of new techniques increased the number of salmon producers from two in 1980 to 14 in 1986). Finally, output from State-owned copper mines was significantly boosted.
<table>
<thead>
<tr>
<th>Measure</th>
<th>Established</th>
<th>Assistance and Scale</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vat refund</td>
<td>1974</td>
<td>Refund of VAT on imported materials used to manufacture exports</td>
<td></td>
</tr>
<tr>
<td>Export warehouses</td>
<td>1976</td>
<td>Facility for firms to store imports tariff - and VAT - free for max 180 days if they are able to be used in manufacturing of products for export</td>
<td>Warehouses can be located in the firm's plant</td>
</tr>
<tr>
<td>Compensation for Anti-Export Bias</td>
<td></td>
<td>Refund of tariffs on materials used to manufacture export products. $US30m refunded in 1997. Petrochemical industry has benefited most (43% of total refunds from 1988-93), followed by mining (26%)</td>
<td>Complex compliance means large firms benefit more than SMEs</td>
</tr>
</tbody>
</table>
Graduated subsidy on \textit{fob} value of non-traditional exports, declining as all firms' exports of the specific good increases (threshold = \textasciitilde\$US25m). Initial subsidies of 10\%, 5\% or 3\% now reduced to unified rate of 3\%. Goods must have a maximum of 50\% imported inputs. Accounted for 78\% of all reimbursements to firms in 1992. Total cost of \$210m in 1996. used by approximately 2,200 firms in 1999, mainly food/beverage, wood-processing, paper, printing and chemicals. Designed to encourage diversification of non-traditional exports.

Encouraged growth of new export firms, particularly SMEs.

Payment of duties on imported capital goods can be delayed for 7 years, exempted altogether if firm's exports exceed first 10\% then 60\% of sales. Can also borrow up to 73\% of the tariff of capital goods bought domestically. \textasciitilde\$US30m spent on these instruments in 1999. Established to encourage investment in productive capacity.

Loans to exporters qualify for 0.2\% exemption for maximum one year.

Export Subsidies

Simplified drawback of tariffs on imported inputs 1985

Stamp Tax Exemption 1985

Delayed Payment of tariffs on imported capital goods 1987

Export

Subsidies
Collateral for Non-traditional Exporters 1987

Banco del Estado has US$5m to fund up to 50% of collateral on loans to exporters of non-traditional products. Max ~US$0.2m per firm

Facility rarely used; only 2 arrangements in 1996

Max 10-years' credit for foreign firms buying Chilean goods/services

Financed by CORFO

Overseas Purchases --

Long-term loans (capped at US$3m) to Chilean companies to invest in production inputs, overseas marketing, or establishment of sales and distribution facilities abroad.

Firm's annual sales must be < US$30m

Export Finance

Export Investment --

50% subsidy on cost of export insurance for firms with annual sales under US$10m, subject to a cap of one percent of the export invoice

Financed by CORFO

Export Insurance 1995

Export Growth, 1990-2001

In terms of the rate of export growth, the distinction between the periods 1984-1990 and 1990-2001 is an arbitrary one; there was no intervening stagnation of export earnings as there was between the first two periods. However, in terms of the reasons underpinning that growth, the distinction is significant, as three new factors became important. The first was foreign direct investment (FDI). FDI in Chile rose sharply in the 1990s, and in the first half of the decade accounted for 75 percent of all investment in exportable goods and services. The mining and service sectors were the main recipients of FDI, and as a result were also the major contributors to export growth in the early- and mid-1990s. In 1990 Chile's mining exports were worth US$4.6b and services US$1.1b, but by 1995 they contributed US$7.8b and US$3.4b respectively to export earnings.
The second factor driving export growth in the 1990s was bilateral liberalization. Chile signed free or preferential trade agreements with Mexico (1992), Venezuela (1993), Bolivia (1993), Colombia (1994), Ecuador (1995), and Peru (1998). As Figure 5.3.2 shows, Latin America was taking over 20 percent of Chile's exports by the late-1990s, compared to 12 percent at the beginning of the decade, and trade between Mexico and Chile increased by 500 percent between 1992 and 2000 (Dowling, 2002).

Figure 5.3.2: Destinations for Chilean Exports, 1970-2001 (% Value)

Finally, in the mid-1990s the Chilean government developed several instruments to help domestic businesses become more productive. With one exception, these schemes did not target exporters (and therefore did not contravene WTO regulations). Nonetheless, part of their rationale was certainly to increase Chilean firms' international competitiveness. They were delivered mainly through the Centre for Industrial Productivity, as well as through business associations such as ASEXMA (Association of Manufactures Exporters).

5.3.2 Recent Developments and Government Responses

Chile continues to enjoy reasonably sound economic and export performance. Its real GDP continues to grow at 3-4 percent a year and real export growth has recovered to about 10 percent a year. Nevertheless, it faces a significant challenge in attempting to maintain this growth, namely its ongoing reliance on a few
natural resource-intensive exports.

Chile cannot rely on the subsidies it has offered in the past to diversify and sustain its export performance. This is especially true of the simplified drawback scheme, which has been scaled back to the WTO limit of 3 percent and must be phased out entirely under the terms of some free trade agreements (e.g., USA, signed 2002).

The response of the Chilean government has been two-pronged. One element is described in the "Pro-Growth Agenda," developed in consultation with the private sector (e.g., SOFOFA, the Manufacturers' Alliance) and released in January 2002. Its core proposal for economic development is to improve the overall competitiveness of the economy through reforms in four areas: encouraging domestic and foreign investment to finance growth; revising labour laws to increase flexibility and capability; further developing human capital through better quality public health and education; and improving competition and regulation of product markets. The Agenda articulates no specific initiatives to develop exports. The rationale, instead, is that a more efficient, productive and competitive economy is the key to unlocking export potential.

The more direct element of Chile's plan for export growth is bilateral and multilateral trade liberalization. Chile now holds free trade or preferential trade agreements with eight individual nations, as well as Mercosur and the European Union. The most important of these are the agreements reached in 2002 with the EU and the US. The first, which became operational in February 2003, grants immediate tariff-free access for 85 percent of Chilean exports to the EU and provides for annual reductions in import tariffs on the remainder, culminating in zero tariffs for 96 percent of exports by 2007 and 100 percent tariff-free access by 2013. The provisions of the agreement with the US, which entered into force in January 2004, are similar: tariff-free access for 87 percent of bilateral trade immediately, 95 percent after four years, and 100 percent after 12 years.

5.3.3 Overall Export Development and Promotion Approach

Aside from the macroeconomic policies described above, designed to boost economic development and liberalize trade, Chile has a major, Government run and funded export promotion agency in ProChile, as well as an increasing number of independent agencies. These are described below.

5.3.4 ProChile

ProChile was established in 1974 to stimulate growth and diversification
in Chile's non-traditional exports. However, tight budgetary constraints limited its impact in the 1970s. After 1982, and in line with the government's emphasis on export growth to generate trade surpluses, ProChile's budget was increased and more offshore offices were opened. It also pursued more selective export promotion, focusing on supplying information on foreign markets and customers, promoting Chilean exports through generic publicity and targeted missions, and working to resolve the administrative problems faced by exporters (Pietrobelli, 1998:179).

ProChile's period of greatest efficacy was probably the 1980s, when many new firms were entering the export market and needed basic in-market intelligence and network support. Since the early-1990s, funding cutbacks (consistent with the general government direction discussed above) and a failure to gain greater independence from the State have seriously weakened its operations. It is still considered to offer reasonably sound export information, but has not been able to develop more value-added promotional services. Increasingly, private associations in Chile are adopting that role.

**Organization and Governance**

ProChile is a fully public-funded export promotion agency sited within the Ministry of Foreign Affairs (MFA). It has four internal divisions. The International Division encompasses managers overseeing global regions (such as Asia Pacific, EU and Emerging Markets) and a network of 52 overseas offices. The Trade Information Division is responsible for overseas market intelligence and web-based services, and the International Marketing division co-ordinates overseas promotion and bi- or multi-lateral cooperation. Managers within the Sectoral Division are responsible for the development of specific sectors (e.g., tourism, manufactures, SMEs) or products (e.g., fresh fruit, wine). Sitting below this national structure are several regional branch offices, which are the principal points of contact for exporters.

It is widely argued that the main impact of ProChile's public sector structure is to hamper its effective operation. While ProChile's ability to leverage the Ministry of Foreign Affairs' international network is a significant asset, that could be achieved without being part of the Ministry. Several interviewees commented that a lack of independence from government has made it inflexible to the changing needs of firms and loaded it with unhelpful "political baggage". In the view of one:

Being a government agency means that priorities are sometimes driven by political agendas. For example, the decision about where to open a new office, or
where to plan a trip has little to do with what exporters truly need.

**Resourcing**

ProChile is fully financed by the Chilean Government. As Figure 5.3.3 shows, this funding has steadily declined. ProChile does not generate fee revenue, since current law decrees that all monies collected by government agencies must go to the Common Fiscal Fund. However, as part of an agenda centred around "fiscal prudence, responsible spending, and greater efficiency", the newly appointed Director is attempting to devise mechanisms through which private sector firms can be billed directly for external services provided.

**Figure 5.3.3: ProChile Export Promotion Expenditure, 1998-2003 (US$m)**

![Figure 5.3.3: ProChile Export Promotion Expenditure, 1998-2003 (US$m)](image)

Source: USDA Foreign Agricultural Survey; APEC TPO Core Characteristics Survey 2001; CHIP News, 15 Nov. 1999; Carla Macario, *Export Growth in Latin America*

ProChile currently has 320 staff, 40 fewer than in 2001. Almost half of the staff is based in Santiago, with 120 employees located offshore in 52 offices. There is a view from within ProChile that its external network is too big to be effective and that it should be pared back to focus on the most attractive markets only.

**5.3.5 Independent Export Promotion Agencies**

Private associations in Chile are taking increasing responsibility for export promotion. This is partly by the government's design. In 1997, the Intermediary Operating Agents initiative transferred responsibility for international marketing campaigns to the business associations. However, the shift is also the unplanned by-
ASEXMA, a business association that represents over 700 exporters of non-commodity manufactures, has been especially active in this respect. Founded in 1985, it has two aims: to press for "an economic policy for external trade with adequate incentives to manufactured exports" and to "support and provide technical assistance to exporters." In the first instance, ASEXMA has acted as a pressure group, using discussions and feedback from members as the basis for input into government policy through public criticism or involvement in policy committees. More pertinent is ASEXMA's second aim, which has encouraged it to engage in a growing range of export promotion services. Some of these are similar to ProChile's, such as information on export regulations, support instruments, and overseas markets, and assistance to participate in fairs and missions, but it has also developed a number of complementary services. These include collective bargaining with input suppliers to secure volume discounts; creating integrated packages of members' goods; quality control and export certification; and overseas representations. ASEXMA also runs the Project to Promote SMEs, a joint venture with a German agency that provides technical assistance to 40 small firms on quality, technology, market entry and the design of marketing strategies.

Other examples of independent export promotion include the National Export Corporation's recent agreement with the World Trade Center Corporation to provide user-pays consultancy services to Chilean businesses operating around the world. Another, more specific case is the wine industry. In the early 1990s, cuts to ProChile's budget meant diminished support for overseas promotion of wine. This precipitated the formation of an independent and self-funding body, Wines of Chile, to represent several of the main wine producers on a generic level. More latterly, ProChile's support for the wine industry is reported to have "evaporated completely" and private associations' activities have increased accordingly.

There is some evidence that alternative export promotion activity has been more effective than ProChile's operations. Carlo Pietrobelli writes that:

Prochile studied international markets and highlighted opportunities to export, whereas [ASEXMA] utilized this information, processed it, and supplied it to Chilean manufacturers with a variety of other complementary services. The evidence suggests that ASEXMA played a larger role in determining the success of non-traditional manufactured exports than [ProChile], as it intervened to overcome some obstacles that are typically encountered by potential exporters in difficult international
markets. (Pietrobelli, 1998: 179)

5.3.6 Conclusions

In certain areas and at certain times, ProChile has performed the basics of export promotion fairly well. Its information services, leveraging of MFA's international network, collaboration with private sector agencies, and execution of specific promotional activities such as "Tastes of Chile" have contributed to Chile's export success to a degree. However, the fundamental bases of this success have undoubtedly lain elsewhere, notably in extensive State financial support for exporters, and the programme of far-reaching economic deregulation and unilateral and bilateral trade liberalization.

It is also apparent, as ProChile officials have admitted, that the current export promotion arrangements are far from ideal. The current leadership, however, has shown an encouraging willingness to bring about changes to these arrangements. In particular, the newly appointed Director has a long private sector trajectory (ex-CEO of Chile's 5th largest bank, ex-partner of a major multi-national accounting firm) and is eager to apply his experience from these positions to improve ProChile's operations.

The major implication of the Chilean experience for India is to confirm some of its decisions with respect to export promotion. In governance and organization, all four benchmark countries strongly agree that the lead export promotion agency should not be subsumed in the core of government, but rather at arm's length from it with significant private sector influence. The former option can lead to inflexibility to firms' needs, political capture of objectives and actions, and variable service delivery by bureaucratic staff. It is also important that the agency has a well-defined role within a well-coordinated overall government approach to export growth. Fragmentation leads to conflicting rather than focused and cooperative export promotion.

In the sphere of promotional programmes, basic offerings have a place but tend not to address firms' core export challenges. In Chile, not unlike India, the challenge is to broaden the base of export products and reduce the transience of export firms (one-third of exporters change from year to year). Yet ProChile's services do not develop elemental export skills or stimulate adoption of longer-term horizons. Resources are also an issue. Limited fiscal capital and uneven human capital invariably restrict the scope and quality of services.

Finally, organizational performance expectations and incentives are important elements in effective export promotion. The Chilean experience shows that
without clearly defined expectations (at a minimum) and probably also output incentives, service standards slip. ProChile has acknowledged this in its intention to introduce a scorecard to track performance of departments and personnel. The challenge will be to create a performance culture that ensures substantive delivery on well-defined export strategies and goals.

5.4 United Kingdom

The UK Government provides an extremely comprehensive set of export promotion measures that have built up over time. Since the completion of a major government review in 1999, there have been extensive changes in the organization and focus of export promotion. A new export development and promotion organization, UK Trade and Investment (first known as Trade Partners UK), has been established to better integrate offshore and onshore support for exporters. There has also been a shift in focus from existing to new exporters, and from offshore activities promoting UK exports to onshore activities to build UK firms' export capabilities. This reflects a change in the rationale for export development and promotion. Rather than increasing exports, it is now seen as improving the business performance of exporters. This change has seen exporting more closely tied to sectoral and regional development initiatives, as well as to steps to improve supply-side conditions for UK businesses.

5.4.1 Economic and Export Context

The UK has a strong export culture and internationalized economy. The UK is the world's fourth largest exporter after the United States, Japan and Germany and it accounts for over 4 percent of world trade. Exports of goods and services equal 28 percent of GDP; 20 percent of UK manufacturing output is exported (National Statistics, 2002: Chart 1.11); and over one-quarter of UK companies export (European Commission, 2002:), most on a regular basis, albeit in small volumes. The UK was the world's sixth largest outward direct investor in the year 2001 and ranked second at attracting inward investment (UNCTAD, 2002: 303-309). It is the headquarters location for more multinational companies than any country except the United States.

UK exports of goods and services have grown at 4.2 percent CAGR (real) over the past 30 years, twice the rate of growth in real GDP. Export growth took off in 1992 as the benefits of economic reform began to kick in, but stalled in 2001 as the global economy weakened.

UK export growth has lagged world export growth since 1973 but the gap has narrowed sharply in the last 10 years. The period from 1973 to 1981 was one of
economic chaos in the UK and the difficulties for exporters were compounded by the appreciation in the Sterling real effective exchange rate (REER) from 1977 to 1981. The subsequent depreciation in the REER for most of the 1980s gave some benefit to exporters in the midst of major economic restructuring; GDP growth recovered also.

The UK's strong export performance since 1992 was achieved in spite of a large appreciation in the REER after 1996. Export growth would have been expected to slow much further during the past 6 years than it actually has.

Escolano et al (2002) attribute the strength of UK export activity in part to a shift toward higher value-added exports, which they equate with "knowledge intensive" goods. The share of UK goods exports that are classed as high technology has risen strongly over the past 10 years and the UK has overtaken Japan and is set to overtake the United States.

Another factor that Escolano et al identify is the marked expansion in traded services since 1996, especially the business, communications and financial services sector (Figure 5.4.1). Services have increased their share of total UK exports from 25 percent in 1996 to 31 percent in 2002, at the same time as goods exports have grown at over 4 percent a year in real terms.

**Figure 5.4.1: Composition of UK Services Exports, 1992, 1996 and 2001**

![Composition of UK Services Exports, 1992, 1996 and 2001](image)

**Source:** OECD, 2003d

An analysis of the UK's goods exports performance from 1985 to 2001 shows that it has a favorable product mix: that is, a large proportion of its exports are products that for the world as a whole, are growing faster than the world average export growth rate. However, in many of those products, the UK growth rate is below the
world growth rate, which is interpreted to mean that the UK has a competitive disadvantage.

The share of UK goods exports to Europe in 1973, the year that the UK joined the then European community, was 51 percent. That share now stands at 61 percent. The US is the only other major market that has increased its share of UK exports. Asia's share has remained static, despite its being one of the world's fastest growing import regions.

5.4.2 Overall Export Development and Promotion Approach

Two themes that have run through UK export promotion since the mid-1980s are the need to better coordinate government support for exporters, and the tying of export promotion to economic policies encouraging entrepreneurship, SME growth and UK competitiveness.

Coordinating Export Promotion

A first attempt to ensure coherence of export promotion policy and practice was made in 1987 with the establishment of a Joint Export Promotion Directorate (JEPD), which brought together the onshore export assistance services of the Department of Trade and Industry (DTI) and the offshore commercial services of the Foreign and Commonwealth Office (FCO).

In 1992 a new coordinating body, Overseas Trade Services (OTS), was established underneath the JEPD. It extended beyond the DTI and the FCO to include the export promotion activities in the industrial development divisions of the Scottish, Welsh and Northern Ireland Offices.

Then in 1993 a Whitehall Export Promotion Committee which reported into OTS was set up to bring together the 22 separate government entities involved in export promotion. None of these coordinating efforts was effective.

Subsequently, Trade Partners UK (TPUK) was established in May 2000 as the single body for the overall direction and management of government support for exporters. TPUK was a unified DTI-FCO operation, drawing its staff from both departments, and structured so as to reduce the existing duplication and lack of coordination.

In parallel with Trade Partners UK, UK Invest was established to promote foreign direct investment in the UK. The two agencies came under the responsibility of British Trade International (BTI) whose board was chaired by the DTI Minister for Trade and the Foreign Secretary and drew its members from the main
government departments involved in export promotion, private organizations and leading companies. As of October 2003, BTI became UK Trade & Investment (UKTI) and the two agencies are now treated as one. In the following discussion, UKTI will be used to refer also to the former Trade Partners UK.

There still continue to be problems of coordination and cohesion in export promotion activities. These arise in part from departmental differences between the FCO and DTI. As discussed below, there is now also strong sectoral and regional (i.e. regions within the UK) dimensions to export policy that require coordination across many more groups and interests than before. The arrangements are complex and are not yet working well.

**Economic Policy**

The thrust of UK economic policy since the mid-1980s has been to improve productivity with a particular focus on encouraging entrepreneurial behaviour which has generally been equated with SMEs. In 1988, the government launched its Enterprise Initiative, which sought to promote entrepreneurship by offering financial assistance to SMEs to use private sector advice and consulting. One element of this programme, which is widely viewed as successful (Wren and Storey, 2002), was an Export Initiative begun in 1989.

In 1992 the government began trials of Business Link, which involves local outlets providing business development advice and services to SMEs. The Business Link offices are in effect a franchise operated by quasi-private organizations. Export promotion is one of the specialized services provided by Business Link, which contracts (indirectly) with the DTI to deliver this service on its behalf. Again in 1992, the government announced the establishment of Export Promoters, a key effort to introduce private sector expertise into government-provided services.

In 1994, the Conservative Government published its White Paper on Competitiveness (by which was meant productivity). The Paper took as its starting point the underperformance of the UK economy and advocated Government's role as being to create the conditions that allow firms to improve their competitiveness i.e. improving the supply-side functioning of the economy.

In 1998, the Labour Government produced its own Competitiveness White Paper. Its intent was to set out "the competitive challenge facing the UK, a new model for how public policy can help business meet the challenge, and flagship programmes to promote entrepreneurship, innovation, business learning and modern,
competitive markets” (Department of Trade and Industry, 1998: 9). While the Paper restated many of the policies in the 1994 White Paper, it attached considerable importance to the knowledge economy, which it sought to promote through (i) enterprise, innovation and entrepreneurial behaviour, (ii) partnerships at the sectoral and regional level, and (iii) increased competition (Wren, 2001).

Elements of the Competitiveness White Papers were taken up by the Wilson Report on export promotion, as seen in a shift of emphasis from promotional work to assisting companies to develop their capabilities to export effectively overseas. The intent was no longer to simply help increase export sales but to improve business performance by ensuring exports contributed to companies' profitability, productivity, competitiveness and attitude changes.

Some UK policy makers have moved further in their thinking and now attach importance to exporting as a catalyst for changes in the general economy. The argument is that in acquiring the skills for successful exporting and through being exposed to new markets, competitors and ways of doing business, British companies will lift their capabilities and competitiveness and in so doing lift the overall economy.

To test this argument, UKTI sponsored a study at Nottingham University (2002) on the business performance of UK exporters that found:

- Firms that export have higher levels of productivity, employment and sales than non-exporters, use more capital-intensive production methods, and pay higher wages
- Firms that increase their share of exports to total sales experience a further increase in productivity, sales and employment.

The research is interpreted as showing that exporting, more than any other factor, improves business performance and productivity in particular.

The UK’s changed emphasis in export development and promotion is seen in that the value of additional exports per £1 of Government spending on export assistance - originally a key performance measure - is no longer being monitored "because the direction of policy has moved away from the generation of additional exports towards the enhancement of the competitiveness of UK firms through overseas sales and investment, and improving their skills and business performance" (Department of Trade and Industry, 2001: 151-2).

There is less certainty that exporting lifts firm performance than the UK’s stance implies. Other studies (e.g., Bernard and Jensen, 1999) have found that it is
the more efficient firms who enter exporting - that is, the higher performance is achieved before, not after, exporting is started. At the extreme, a belief in the advantages of exporting poses the risks of "cargo cult" thinking: that the act of exporting will lift performance, whereas it is the development of capabilities needed to succeed in exporting that is the concern.

**Governance and Organization**

UKTI is a government agency that falls under the dual responsibility of the Ministers for the Department of Trade and Industry and the Foreign and Commonwealth Office and draws its board from officials and the private sector. It has clear lead responsibility within government for the provision in both the UK and overseas of support and assistance to new and existing exporters.

Three main operating divisions were established: Business (sectoral), International and Regional. The Business Group is now the International Sectors Group; the International and Regional Groups have merged into the International Trade Development Group; and there is a new Corporate Resources Group.

The regional dimension to export promotion was expanded, with the creation of the Regional Group and the appointment of an International Trade Director for each of the nine Regional Development Agency (RDA) areas in the UK. The Directors are co-located with the RDAs, work with them in formulating regional export plans, provide export advice to large companies, and were made responsible for the DTI-funded specialist export staff already in the Business Links offices serving small- and medium-sized businesses in each region. The regional focus fitted with the wider move by government to devolve much of the responsibility for implementing economic and social policy at the regional level.

A planning process to tie together the activities of the Business, International and Regional Groups has been put in place.

**Targeting Firms**

Most UK export promotion programmes are available to all firms. This has led to companies using services that they were not capable of benefiting from. The company's efforts are wasted and UKTI's reputation may be damaged if the importing company has suffered also (Pricewaterhouse Cooper, 2000). A self-assessment scheme - *Are you export ready?*- is available on the UKTI website but it is too general to provide effective screening. It is not an alternative to an export-ready audit.
The Wilson Report concluded that too much emphasis was given to supporting existing exporters rather than developing new ones. More recent programmes have sought to target firms according to their level of exporting experience and their size. For example, only SMEs are eligible for Export Explorer and three different packages are provided according to a company's exporting situation. The Passport to Export Success goes much further: the first step is an export-ready audit and for firms that proceed, the programme is customized to their strengths and weaknesses.

There has long been targeting in UKTI's delivery of services. Business Link is the front-line delivery system for advice and consulting and its customer base is small businesses. There is a major gap, though, in the provision of services for what UKTI calls the Middle Market or medium-size firms. UKTI is working on a programme targeting those companies but it is delayed and proving difficult.

**Sectors**

The focus was on countries, not sectors, until the Wilson Report. The market came first and then sectors were identified within that market. Now, priority sectors are identified first and the choice of markets flows from the sector decision. Priority sectors are defined as:

(A) sector in a market in which there are accessible and profitable business opportunities which UK companies are equipped to exploit and which they would be unable to exploit as successfully without British Government assistance (ETEG, 2001:2)

There has been a major exercise to identify priority sectors and the list has been steadily growing, with extensive lobbying on the choices. There are now 34 sectors which is too many to all be priorities. There is a mix of major existing export sectors and potential niches. The long-standing bias of UK export promotion, toward manufacturing rather than services, remains largely unchanged.

**Markets (Countries)**

In 1994, the government instructed Overseas Trade Services to prepare market (country) plans for each of the top 80 export markets for the UK. That was too broad in terms of the number of markets, yet too narrow in that, by focusing on the top 80, important emerging markets and countries in which the UK was under-weighted were excluded. These excluded markets were often where export promotion could yield the best return and where having government status counted most.

The number of markets has been reduced and a distinction made between
markets of interest to more experienced exporters and those that UKTI believes should be the focus of new and inexperienced exporters.

For more experienced exporters, between 10 and 15 Target Markets are identified, there no longer being a fixed number. The Target Markets are chosen largely on the basis of industry consultation, including industry's assessment of where government involvement can make most difference and the importance of those markets to the sectoral strategies. They tend to be either under-exploited or newly emerging. A country remains a Target Market for three to four years and is then replaced by a new country.

For new and inexperienced exporters, Western Europe and North America continue to be the focus.

**Programme Portfolio**

The UK has a comprehensive and for the most part traditional suite of export promotion programmes. More programmes have been added over time than have been eliminated and there is some overlap and inconsistency among them. A major review is underway to rationalize current programmes and introduce new ones. The target date for change is mid 2005.

The diversity of programmes is at odds with companies' fairly narrow requirements identified in the UKTI's Customer Needs Review (Pricewaterhouse Coopers, 2002). The services demanded most by companies are (i) specific information and knowledge on a sector (at times in a target country also), (ii) independent visits to markets, (iii) warm contacts, and (iv) training in exporting for firms new to or inexperienced in exporting. This finding fits with that of the 1996 National Audit Office study, that a raft of programmes accounted for only about 5 percent of usage but incurred 35 percent of programme costs.

Financial assistance in some form is part of most UKTI services. Many services are simply provided free, including some high-value programmes such as Export Promoters. Where UKTI does charge a fee, it is almost always subsidized, but a new charging regime is expected to be introduced in mid 2005. A number of programmes (e.g., Outward Mission Scheme, Support for Exhibitions and Seminars Abroad and components of Passport to Export Success) provide grants.

UKTI also accesses financing for its users from the European Union Structural Fund that is available for small firms and various regions. The largest block of spending in both years is in support of the most conventional forms
of export promotion, trade fairs and conferences. The second main item, International Trade Advisors, is for the provision of advice and support to firms at the regional and local levels. The new sectoral emphasis is reflected in increased spending on "Sector Support in Markets".

**Export Promoter Initiative**

The Export Promoter Initiative entails the secondment of export professionals from private industry, typically for 2 years, to increase the quality and credibility of export advice provided by UKTI. They are expected to bring with them current knowledge of business requirements and practices and extensive networks of contacts. The number of secondments is about 120 each year and is among the largest such schemes across UK government departments. In the opposite direction, about 30 UKTI staff are seconded to the private sector each year to gain first hand business experience.

The programme is not new - it was begun in 1992 - and other countries' export promotion agencies also second private sector expertise. What the Export Promoter Initiative has done that is different is to give secondees a very high profile, make them additional to - rather than simply fill - normal roles, and allow them considerable latitude to act.

The National Audit Office (1996) found the Export Promoter Initiative to be effective in assisting firms to export for the first time or to move into new markets and they were influential in securing visits and contacts likely to lead to exports. The 2002 Customer Needs Survey (PricewaterhouseCooper, 2002) identified Export Promoters as one of the UKTI services that customers see a high need for.

**Passport to Export Success**

The Passport to Export Success programme provides customized export assistance aimed at building the exporting capabilities of small firms that have no or limited export expertise. Passport was introduced in late 2001 and was the first major programme following the Wilson Report of 1999 and the establishment of Trade Partners UK. UKTI sees it as their flagship programme; PricewaterhouseCoopers (2002) believes it is a model for export promotion programmes; and it has a fairly high rate of uptake by companies (about 2,500 in less than 2 years). Passport is innovative in the UK context, in that it focuses on the capabilities needed for export, is customized on the basis of a firm's export weaknesses and strengths, and has a high level of one-on-one mentoring.
The programme comprises seven main elements for each company:

- An assessment of the company's capability to export;
- Attendance at an export workshop covering issues and common pitfalls;
- Help with the development of their own export plan which is the basis for receiving financial support;
- Drawing up and implementing a training plan to develop export skills in the company;
- The help of a locally-based adviser to coach and mentor the company on a one-on-one basis;
- A visit to an overseas market identified in their export plan, and
- "Aftercare" services to help continue their export development.

The programme thus integrates onshore capability development with hands-on knowledge gained in the market.

Firms receive financial assistance in a number of different forms: free services such as export mentoring, skills training and market information; matched funding for areas like translations and market research; subsidization of the market visit; and a low cap on what the company itself has to contribute to additional training and other development costs. Early in the scheme there was a bonus payment for successful completion of it.

Passport is judged to be highly successful but, as it was introduced in late 2001, there is limited evaluation to date. An initial evaluation completed in June 2002 found that 87 percent of participants were satisfied or very satisfied and 81 percent reported improving their competitiveness through changes to their business operations as a result of the programme's training. The extent of the improvement is not known. A full evaluation of the programme was undertaken in 2003 but has yet to be publicly released.

**Export Explorer**

- Export Explorer is an integrated package of help and advice intended to give SMEs experience of new and accessible export markets at low cost. In many ways it was the precursor to Passport to Export Success.
Sector Partnership Fund

The Sector Partnership Fund is intended to increase cooperation - within and across industry sectors - between Government, companies and trade associations. The intent is to lift the quality of the export development and promotion services that the trade associations provide to their members.

The programme has two distinguishing features. One is the building of capabilities in private sector organizations. The second is the programme's underpinning by the Sector Partnership Report, which examined how industry sectors organize and cooperate in trade development and industry promotion. The report identified 11 best practice criteria in areas such as leadership and resourcing, strategy and networking, the identification of opportunities, and marketing and promotion.

British Overseas Industrial Placement (BOND) Scheme

The BOND Scheme entails the placing of overseas business people with companies in the UK for periods of 6 to 12 months, with the purpose of building lasting commercial links.

The business people are from emerging markets and are chosen by the British Council, which administers the scheme, and the local FCO commercial staff, in the expectation that they are likely to be opinion and business leaders in the future in their own countries. In other words, it is about creating personal relationships that businesses will hope to lever off in the future.

5.4.3 Conclusions

After a prolonged period of indifferent growth, the UK lifted its export performance substantially during the 1990s, though the sustained strength of Sterling and the world economic slowdown in 2001-2002 have seen export growth now stall.

Strong growth in exports of high technology goods and business and financial services has been achieved since the mid-1990s, reflecting substantial FDI and the UK's role as a world financial capital.

The UK has a favorable mix of export goods (i.e. sectors growing faster than total world exports) but in many of those sectors it underperforms (i.e. the UK's growth rate in a sector is below the world average for that sector).

Asia's share of UK exports has been static and relatively small over the past 30 years - notwithstanding the region's rapid economic growth - and the share of exports to the Rest-of-the-World has halved over that period. This poor performance is at odds with the extensive FCO presence in the developing world.
The UK Government's export promotion activities have been radically over-hauled since 1999, with the establishment of Trade Partners UK in 2001, in an effort to better coordinate the different government export promotion activities.

That restructuring has seen a large shift in emphasis from offshore export promotion to developing the exporting capabilities of UK SMEs, a strong sectoral and regional (within the UK) focus has been adopted and private-public sector partnering has been intensified.

These changes to export promotion parallel many of the shifts in Government overall economic policy as it seeks to increase the international competitiveness of UK business, focus on initiatives which benefit sectors as a whole rather than individual firms, and push the implementation of economic policy down to the regional level.

The market, sectoral and regional parts to UK export promotion and the increased engagement of the private sector, has created a somewhat complex system that will require time to bed-in.

In all this change, the underlying objective of UK export promotion - and the focus of performance measurement - has shifted from increasing exports or foreign exchange, to exporting as a catalyst for lifting firms' capabilities and so UK overall economic performance.