BRAINSTORMING SESSION ON EXPORT PROMOTION 24 March 1998

The DTI through Faizel Ismail[1] has requested TIPS to bring together a few people to an informal gathering to discuss what kind of strategy the government should adopt to become a more effective agency for export promotion and to try and work out how people from the research community and the private sector can help the DTI in its export promotion strategy by providing tactical support. Through this forum, input from important researchers and stakeholders will help to develop a research strategy.

Challenges of Export Promotion : Faizel Ismail

Faizel has raised a question about the role of the state as to which role should it play to help South African companies to grow and internationalise? which is very important in export promotion even from an institutional background, though there are no similar institutions, there is some general trends and there is a lot of space for the state to play an important role. If there should be those who will act the role of the state, what competence should they have and what kind of enabling environment is required, what services would be required by these companies and how do we package these. He pointed out that there are two extremes:

- The type of institutional formation where the state sub-contracts to some agency which has some kind of a partnership with the state sometimes the state does play a participative role.

- Export promotion still within the state with some sub-contracting (as in the UK), though there is a lot of participation with the private sector.

South Africa still has to decide on the kind of relationship we should adopt, and the kind of the foreign economic officer to create. We need an economic officer with deeper understanding of the development process, and the private sector but who also can create a strong policy orientation and who will have a better understanding of the needs of the economy.

Who should be the Target Group/ Which Companies to Support ?

The Finns have three stages in the development of the firm or its expansion drive.
1. Seed stage (Early development)
2. Growth phase
3. Expansion phase or Mature phase (Moving into the global economy)

The role export promotion is to identify companies who have come into the growth phase having competence, a product or system to sell but not knowing where to sell it.

[1] Chief Directorate of Export Promotion

In South Africa we have six and a half thousand active supporters but how can the government address the situation with the limited resources that it has. We have to **identify clusters of firms** and a cluster co-ordinator appointed to develop the export strategy of that firm. The project undertaken by the cluster need not be the same but should overlap and the companies should be exporting or have a desire to export. The companies need not to be part of an industry association. This is the route which was followed by most countries in the world.

The role of **export information** is very important since it is about developing an export intelligence. Developed IT systems and effective export promotion systems can lead to increased competitiveness and efficient companies in a shorter period.

An **export culture** has to be developed, most countries play a huge role in the early stages of the firm. The Finnish ran seminars around the country providing training programmes and targeted small, developing firms. In South Africa we have excellent private sector training facilities for exporters which needs to be incorporated in a more structure manner into a DTI export training strategy.

Performance evaluation is critical in all countries though it is a complex task as it involve large amounts of money while the impact analysis may take years to show results. However Finland has developed an approach to performance evaluation, they have three key indicators of success:

1. Efficiency (an accounting procedure, time/income and expenses/budget)
2. Quality (customer satisfaction index)
3. Impact (on the economy/growth targets/market share in terms of business plan)

This is a useful way to make sure that one of the above indicators is not too emphasised to the exclusion of the others.

Challenges ahead for the new Chief Directorate: Export and Investment promotion.

An export development section has been created which is divided into the export sector development and the small exporters unit and a help desk is in a process of being created. The DTI website already has a vast amount of valuable information and the export homepage is close to best practice. The gap is still large about where we are and what best practice requires, we have to learn to adapt in order to get there. There is also potential to increase the efficiency of the existing export promotion activities.

There has been tremendous amount of work done even on the human resources side in rebuilding the enthusiasm of the export promotion staff in Pretoria and in the DTI's foreign offices.

The **Mission** of the new Chief Directorate is to:

- Increase higher value - added exports
- Increase participation in exports by small firms
- Increase Foreign Direct Investment (FDI)
- To assist South African companies to win tenders in foreign countries and to invest abroad especially in Africa.

On the services side we need to move the process of developing capabilities further from sector level to national level. The DTI will initiate a process to create a national export council, this will be developed through a process of dialogue and consultation with the private sector and other interested groups. This will bring people from different sectors to the forum to advice the minister on how we can successfully promote exports and it will also bring researchers and academics together to monitor what is going on at a national level and in different sectors. This will create better understanding of the economy and to identify different mechanisms for intervention.

Presentation of Export Survey Results - Imraan Valodia and Cyril ??

This is a presentation of the work done for the SDI team in Kwa-Zulu Natal, it includes 30 interviews with firms in Durban, Pietermaritzburg and Richard's Bay and interviews with local authorities.

Characteristics of the firms

Exporting is becoming an important part of the firm's activities, currently they are exporting 10 to 20 percent of their production and the percentage is increasing. Sometimes there is lack of integration between exports and the local market e.g. they would find one firm with two factories: one for the local market and the other for the export market. The reason for the success of the other firms was due to historical factors - links in the past or have previously produced for the niche markets. The destination of their exports was mainly Europe and they were not thinking much about Asia or America and there was evidence that firms pursue export orders even when the local market seem more lucrative. Seeing that moving into the export market is important, firms saw exporting as the key success. Most firm's decision to move to export focus was triggered by the withdrawal of general export incentive scheme (GEIS) since it was important in shifting firms into export markets.

Existing business associations provided very little concrete services for exporting, the local government had very little capacity for instance the Durban council has a sophisticated economic unit and no services that they provide for exporters. The exporters club is just a social function where people meet and chat, SAFTO is in effective and the provincial government has no export programme. General infrastructure services were good, banking, shipping, and forwarding services though some exporters were complaining that the banking sector was not catering for the needs of small firms.

Barriers to Export

The cost structure is the principal factor since prices of inputs were perceived to be at world prices and the their inputs were of a poor quality, they would not be able to produce for the export market. A number of them were not going to export because they were not sure about the DTI's direction of policy and the other barriers were cited as:

- Dropping of GEIS
- Lack of supply side measures or supply side measures which are not accessible
- Exchange rate volatility, some of the costing would be affected by slight adjustments in the exchange rate
- Finance and finance costs associated with it
- Export credit insurance
- Geography, distance from markets
- EMA was too little
- Enquiry is not a problem only for big firms

International experience

Export promotion has been used in a number of developing countries, for those that have failed the reasons would be: failure to address supply side measures, local market conditions which were not competitive and they generally offer ineffective services.

The cost sharing grant seemed to work the best, making firms to have a stake in the process of providing commercial representatives, autonomy in operations from government, sufficient finance and confidence from business has also worked well.

Weakness revealed by the study is that the firms are inward looking and devoting little resources to promoting exports, there are not enough agencies and consultants to assist firms and there is an urgent need for professional advice. Most of the firms are still small and cannot afford consultant costs existing export centres give support only to members.

Export Trends: Analysis of Trends - Pieter Laubscher
How useful are they for export promotions ?

There is some improvement in terms of manufacturing exports but we are far behind in terms of the world performance. During the period 1992 to 1997, the growth in our export performance has been underestimated, manufacturing exports to our traditional markets make the difference. Successful sectors are:

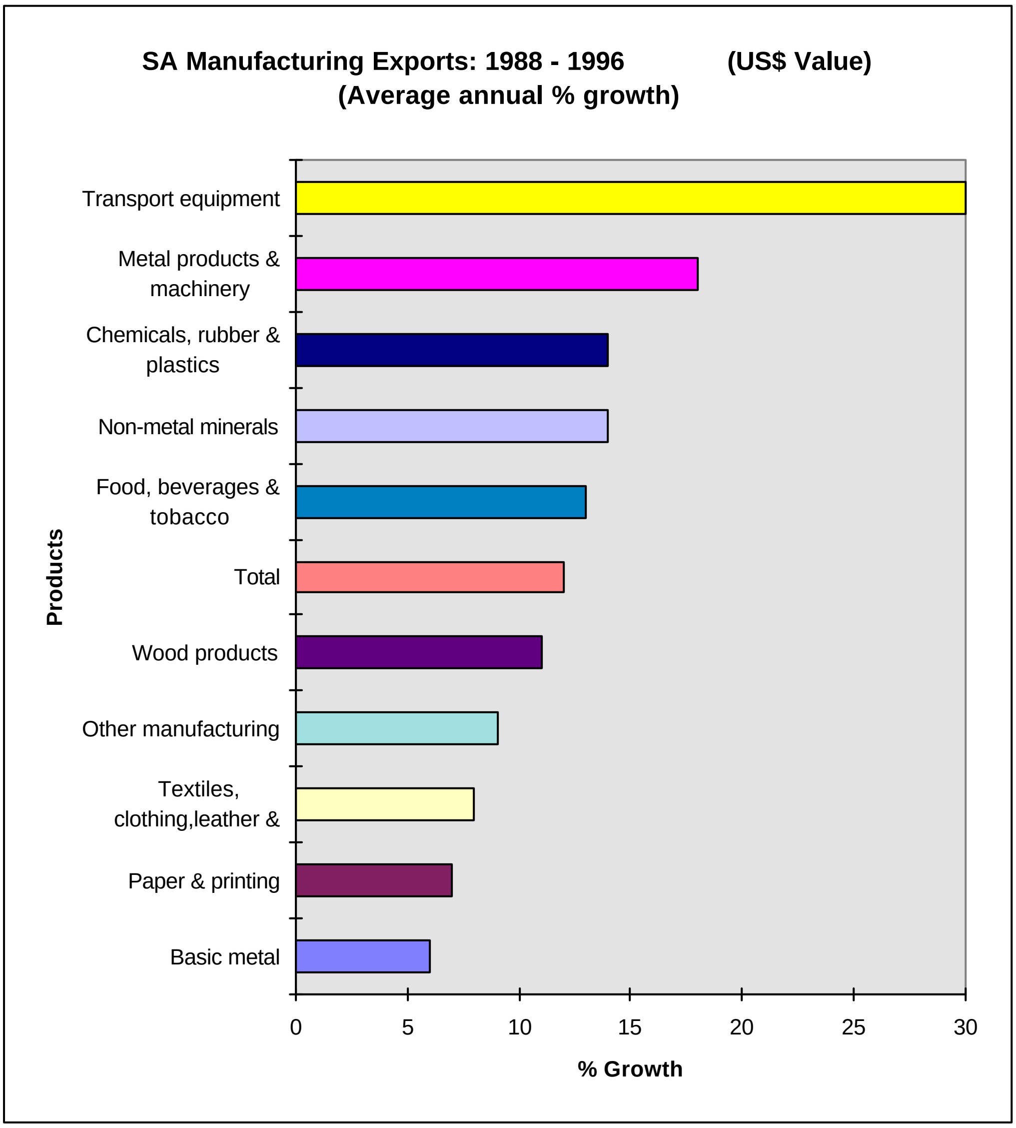
Beverages, Electrical machinery, Iron and Steel, Metal products, Transport equipment and Industrial chemicals. Table 1 show growth in export performance of the sectors from 1992 to 1996 and graph 1 show the average annual percentage growth of South African manufacturing exports.

Table 1. Top Performing Sectors (47.5% of Total)

Iron and steel	(20% p.a.)	Metal products (19% p.a.)	
Beverages	(37% p.a.)	Transport equipment	(19% p.a.)
Electrical machinery	(29% p.a.)	Industrial chemicals	(9% p.a.)

Value	**1992**	**1996**	
& millions	187	381	(doubled
R millions	534	1637	3x

Source: Bureau of Economic Research



A large percentage of our exports go to the European Union, the Far East and Southern Africa as shown in table 1. Countries which have a lot of potential in Africa are: Mozambique, Zambia and Zimbabwe, these are the countries which much of our exports in Africa and we have to look further north, though traditional trading play a very important role in terms of diversification of our export potential. Table 1 shows a large percentage growth in exports to the rest of Africa and to Southern Africa, this shows that we need diversification of our exports basket and the potential for future growth should be to non-traditional markets. Percentage growth of exports to the European Union has been very low, however, the Iron and steel export growth has been positive. Loosing sectors in exports to the European Union particularly to the United Kingdom have been the Non-ferrous metals, Paper and products, Textile and leather, Wood products. These sectors performance has been very poor in terms of growing their exports percentage to the United Kingdom.

Table 2. Manufacturing Exports: Regional Growth 1992-1996

	1996		
Region	**% of Total**	**US$ Million**	**% Growth p.a. US$ Value**
European Union	24.3	3349.3	4.7
Far East	23.1	3184.8	11.9
Southern Africa	17.8	2455.7	15.4
North America	10.1	1394.8	11.6
Rest of Africa	8.5	1170.8	24.3
Total Above	83.8	11555.4	11.1

Source: Bureau for Economic Research

There are some worries concerning the growth of exports to the Far East, because these are countries where we should be expanding our exports to.

Transport equipment: 63.1% of transport equipment go to our traditional markets i.e. the European Union and the Sub-Saharan Africa but the growth is high in exports to North America and the rest of Africa. The 1996 share of exports of **basic metal** to the Far East, European Union and North America is quite high, 46.8, 16.3 and 10.8 respectively, however, export growth to Latin America is high from 1992 to 1996 which shows diversification in exports of basic metal. A large percentage of metal products and machinery is exported to the European Union, Sub-Saharan Africa and to the rest of Africa though there are growing trends of exports to North America and the Far East.

Pieter emphasised the importance of information for the exporter since the exporter will need assistance regarding information about the market. A survey done by the Bureau of Economic Research showed an optimistic export expectation over the next twelve months, and that export volumes will be positive even across regions during the period (1998). With regard to competitiveness: The Government in Belgium has a way interfering as soon as Belgium exporters experience change in competitiveness, however, this needs qualitative as well as quantitative research to find out what is happening in the firms or in specific sectors.

Table 3. South African Manufacturing Exports to Southern Africa

Region	**1996 % of Total**	**1996 % of Total**	**Percentage growth per annum (1992-1996) US$ Value**
Chemicals, rubber and plastics	29.1	717.8	22.5
Metal products & machinery (incl. electr)	25.7	634.6	13.9
Transport equipment	12.8	315.1	16.5

Food, beverage and tobacco	11.9	293.2	10.4
Total above	79.5	1960.7	16.5

Source: IDC, 1997

Exports to the sectors highlighted in table 3 grew at a rate of 16.5 most of these sectors had growth which was above average for the period 1992 to 1996. The fastest growth was experienced in the paper and pulp industry (not shown in the table) and the chemical, rubber and plastics industry which had 30% and 22.5% respectively. Table 4 shows manufacturing growth to the Rest of Africa which has also been fast especially in the chemicals, rubber and plastics sectors and in the metal products and machinery sectors. Export growth pe annum was recorded at 32.9%, this was for sectors which had an above average growth of exports to the Rest of Africa.

Table 4. South African manufacturing exports to the Rest of Africa

Region	**1996 % of Total**	**1996 % of Total**	**Percentage growth per annum (1992-1996) US$ Value**
Chemicals, rubber and plastics	38.4	451.4	46.6
Metal products & machinery (incl. electr)	20.7	243.6	33.0
Transport equipment	13.8	162.4	13.7
Food, beverage and tobacco	6.3	74.0	29.9
Total above	79.2	931.4	32.9

Source: IDC, 1997

Table 5. South African manufacturing exports to the Far East

Region	**1996 % of Total**	**1996 % of Total**	**Percentage growth per annum (1992-1996) US$ Value**
Basic metal	61.6	2017.9	13.5
Chemicals, rubber and plastics	11.5	378.0	15.3
Paper and printing	7.2	234.4	3.7
Metal products & machinery	4.6	149.7	16.3
Total above	84.9	2780.0	12.8

Source: IDC, 1997

61.6% of exports to the Far East consist of basic metal while chemicals, rubber and plastics consist of only 11.5%, however, percentage growth in chemicals, rubber and plastics has been 15.3% and 16.3% in metal products and machinery for the period 1992 to 1996 which is above average.

Table 6. South African manufacturing exports to North America*

Region	**1996 % of Total**	**1996 % of Total**	**Percentage growth per annum (1992-1996) US$ Value**
Basic metal	33.3	465.0	8.9
Chemicals, rubber and plastics	29.5	411.9	10.4
Metal products and machinery (inc. electr).	14.2	197.9	19.8
Textile, clothing, leather & footwear	6.4	89.3	16.9
Transport equipment	6.0	83.6	19.8
Total above	89.4	1247.7	12.0

Source: IDC, 1997

* The category other manufacturing industries (inc. diamonds) - valued at US$ 133 million in 1996 - is excluded here.

The basic metal and chemicals industry and the rubber and plastic industry both accounted for 62.8% of manufacturing exports to North America in 1996 while their sectoral growth has been below average i.e. 8.9% and 10.4% respectively. Table 6 shows more growth in sectors which had the lowest percentage of total in 1996 e.g. the transport and equipment (19.8%), metal products and machinery (inc. electr) (19.8%) and the textile, clothing, leather and footwear (16.9%).

Discussion: The trend reflect a possibility in the economy and an opportunity for us to get involved but how can the DTI bring in this particular analysis and get an extreme version of what is going in the firms and in particular sectors, what will it rely on, the private sector or the government ?

To make a switch to an export market is not easy we have to find out the supply capacity of firms to respond to the export expansion effect. The government has already identified a number of sectors and there is a strategy unfolding, they can even do a parallel strategy with Pieter to identify the sectors and firms to make sure that the correct firms have been identified. DTI does not have the capacity to analyse but can be engaged with people who can do that to assist or complement the them. The DTI strategy involves discussions with people in the industry before they can choose the region and the products they will focus on for a particular year. This depends on how rigorous the analysis was, based on plans that the industry has.

DTI wants to bring to the table those people who are doing the kind of work so that they can find areas where they can collaborate, know what is going on and complement research work. Research has to be backed by quantitative statistics.

At the moment the question of getting economic data is a problem and is quite difficult. Economic data has to become a public good so that we can see more work of this nature being made so that we can be able to compare analysis. The DTI has to work with other institutions to find out what is needed and be able to build capacity where it does not exist.

The option of an Intranet is could be feasible, where people using the data will get a code and know what is available and what is not available to make sure data is duplicated as well and we also need a bulletin which is not technical which will be sent to the DTI with some interesting trends in the economy to make sure that they heed to the research being done.