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**International Marketing Strategies for Small Firms in a  
Globalized Economy.**

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## **I – Introduction**

Renewed interest in developing exports has been attributed to four major global trends: slowing growth in many economies due to internal fiscal problems and reduced domestic market opportunities; persisting trade deficits, coupled with the ineffective use of corrective measures such as currency devaluations, capital transfers, and import restrictions; liberalization of the world trading system resulting from pressures by international agencies to minimize foreign market entry barriers; and intensified worldwide competition due to the growing integration and globalization of the business environment.(Leonidas, C.L.; Constantine; S.K; Piercy, N.F., 1998)

These global trends have contributed to Brazil adopting efficient economic policies in the past several years, when Brazil had to face the challenges of the globalization phenomenon. In 1997, the Brazilian Government declared that the target would be USD 100 billion in exports up to 2002. Although those figures were impossible to meet, many actions have been taken in the last few years to increase exports. Because of that, an improvement in the growth of exports was observed.

However, Brazil has to mature in several segments of its economy to accompany the complex international markets in its globalized business operations. Like some emerging countries, Brazil has the disadvantage of competing for new international niches and keep dealing with them. There are some reasons for this, for example, most small firms have no experience in

making their profits based on foreign trade. There is a lack of export culture. As a result of that, the Brazilian government has been emphasizing export promotion in the last few years. The government is providing the framework to encourage the firms to export. However, the firms also have a burden to bear to the success of this plan .

Export incentive schemes are ways to offset the balance of trade , to reduce unemployment, to optimize internal resources, to increase the overall level of technological development of the country in terms of production techniques management, marketing methods and economic development. The governments have to consider the national export situation to elaborate their export strategies, the factors to be pondered on trade promotion which are described in the appendix.

Internationalization means to the Brazilian firms a change in the production process and in dealing with their goods. They need to be prepared for the constant competitiveness of the global markets.

It is important to analyze what the foreign trade policies adopted in emerging and developed markets are and using these experiences to improve the Brazilian condition.

## **II- Overview of Brazilian Foreign Trade**

In 1950 the value of Brazilian exports was around US\$ 1.4 billion and in that time, the aiming for exports is based on occasional tax incentives, surrounded by complex bureaucratic requirements .

By the early 1960s, Brazil faced an increasingly severe crisis in the balance of payments, as Brazil had to import the intermediate inputs and primary products that it could not produce itself and it could not stimulate exports effectively. In consequence, the imports were limited to only the most essential capital goods and inputs and the exports were concentrated in a few commodities that had a high price variation.

At the beginning of 1965, the government started to offer several export incentives, for example the exemption from taxes if the production was directed to export.

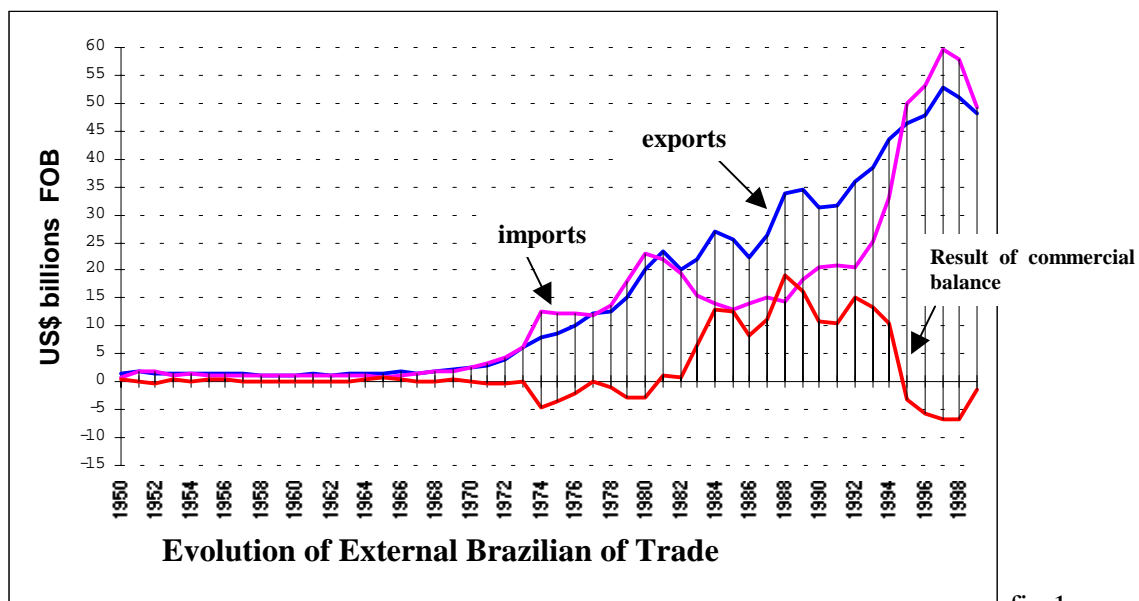


fig.1

Source:<http://www.mdic.gov.br>

Even though Brazil enjoyed a big export growth in the early and mid-1970s(fig.1), it had to confront an oil crisis and as a result, promote economic stabilization. Development strategies were adopted in Brazil to encourage exports, but those strategies were not efficient, because Brazil failed to pursue

long-term-investments in upgrading either manufacturing or agriculture, resulting in the loss of competitiveness on international markets.

During the 1980s , conflicts between state and business (especially exporters) were intensified, occasioned by two factors: the increasingly severe crisis in state finances that made it more difficult to support exporters, and the overall policy direction of export promotion in Brazil, which indiscriminately promoted industrial exports without a strategic vision, without a long-term commitment to using exports as an opportunity to develop new technologies and improve living standards.

In the early 1990's , the Brazilian government applied a plan to remove the trade barriers against imports . With foreign financial liberalization, the Brazilian economy became integrated with the capital flows in search of profitable investments sources in developing countries, including post renegotiation of foreign debt in Latin America. The implementation of MERCOSUR was an important reaction from Latin America to adjust its markets to the globalized economy. The economic openness resulted in increased imports. The renegotiation of foreign debt and intense inflow of short term capital eliminated the trade surpluses from the Brazil's agenda of priorities.

In 1994, the Real Plan ( a Brazilian economic stabilization program) instituted an exchange rate base, forcing down the price of tradable goods.

In 1995 , there was a mega-increase in Brazilian imports , and associated with the Mexican crisis in 1994 ( Mexico was a model of stability at that time), provoked a debate of sustainability of the exchange rate and trade policy

performed in Brazil. The Asian financial crisis in 1997, followed by Russia's moratorium in mid 1998 altered the exchange rate regime, turning more flexible. Recently, Pedro Malan, Brazil's finance minister, argued that a free-floating exchange rate regime reduces the country's vulnerability to external shocks.

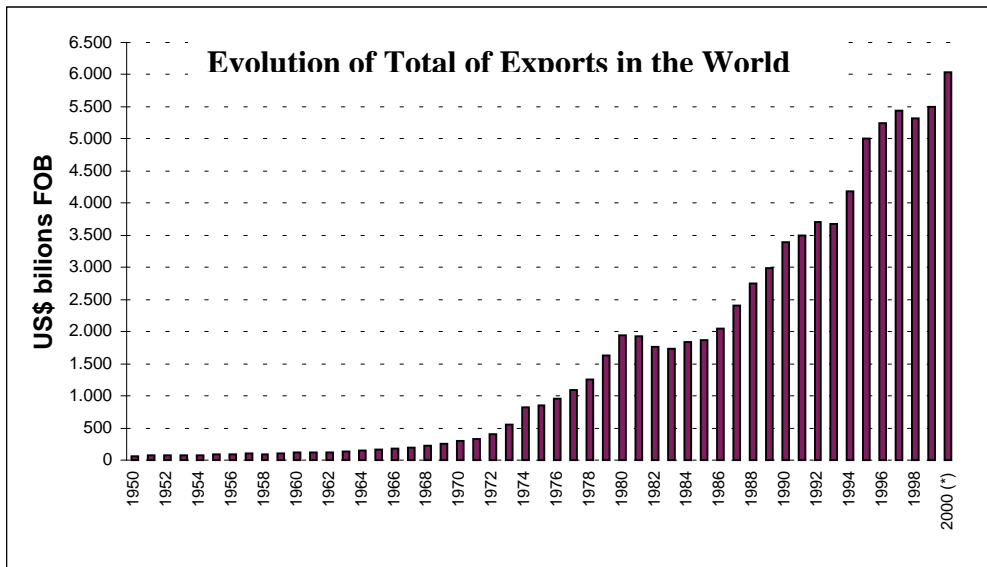


fig.2

Source: <http://www.mdic.gov.br>



fig.3

Source: <http://www.mdic.gov.br>



From 1995 to 1998, Brazil's exports totaled US\$ 198,3 billion and the accumulated import reached US\$ 222 billion. Exports totaled in 2000 US\$ 55,09 billion , presenting a growth of 14.74% if compared with the year 1999. Manufactured products exports had an increase of 19.3% in relation to 1999. Brazil has been participating 0.9% in the total of exports in the world. Brazil lost competitiveness since mid-80s (fig.2 and 3), losing the main market-shares as US, Japan and Germany to other countries .

Nowadays the Brazilian economy presents a general trade perspective. Exports of manufactured and semi-manufactured product lines using natural resources and energy are expanding and becoming strongly competitive. Besides , there is a boost of specialization in industrialized products. Brazil's foreign trade is improving its integration in world market circuits, as a matter of survival.

### **III- Brazilian incentives for exports.**

The government has a target to double its exports by the end of this year or at least to increase its exports by 20% over the year 2000. Regardless of the costs to support exports, the incentives offer important advantages to the country, encouraging innovation, variety and quality of products and increasing the scope of competition. The government is conscious that throwing monetary resources to increase exports can be wasteful and the outcome is that the

country has been spending its money more wisely. Brazil is under pressure to increase the exports and is taking several actions to develop its exports.

There is a variety of activities or services to promote exports that Brazilian public organizations are providing to the firms. The role of the following Public Organizations will be described:

MDIC – Ministry of Development, Industry and Foreign Trade

CAMEX – Chamber of Foreign Trade

MRE – Ministry of Foreign Relations

Banco do Brasil

BNDES - National Bank of Development

SEBRAE - Brazilian service to support micro and small companies

SBCE - Export Credit Insurance Company

- Technological capacitating & IPT (Institute of Research and Technology)
- Brazil's Cost (Custo Brasil)

### **III.I. – MDIC – Ministério do Desenvolvimento, da Indústria e do Comércio Exterior**

MDIC is responsible for the policies adopted to the development of industry, commerce and services. The following issues concern to MDIC: intellectual property rights and technology transfer, industrial standardization and its quality, policies and regulation of foreign trade, commercial defense,

international business, policies adopted to micro, small and handcrafted business. MDIC is also an executive to commercial registers matters.

### **III.II. – CAMEX – Câmara do Comércio Exterior**

CAMEX is a Brazilian Agency directly vinculated to the Brazilian government . Representants of MRE, MDIC, MF (ministry of Finance), Civil Office of The Presidency and Ministry of Agriculture form CAMEX, because the government understands that foreign trade is a multidisciplinary matter. CAMEX is responsible for the policy and coordination of Brazilin Foreign Trade, including import and export taxes. CAMEX has initiated several actions to develop exports in Brazil since its creation. In 1998 CAMEX initiated the PEE (Special program to the exports) to reach US\$ 100 billion of exports in 2002.

Last February, the president Fernando Henrique Cardoso signed the new regulation of Camex structure and function, enhancing the role of CAMEX in foreign trade.

### **III.III. MRE – Ministério de Relações Exteriores**

The ministry is responsible for advising the President of the Republic of Brazil on the Formulation and execution of Brazilian foreign policy, the Foreign Office – Itamaraty.

At the MRE Web site, there is the Braziltrade net, an important tool to implement Brazilian exports and investment opportunities. The firms can divulge their products to the several Brazilian Foreign Offices all over the world. Beyond

of that, the site provides international market studies in different countries and information about business opportunities.

MRE is also responsible for the presence of Brazil in trade fairs and exhibitions.

### **III.IV.- BNDES – Banco Nacional de Desenvolvimento Econômico**

BNDES is the main federal agency for long-term funding to promote the country's development. It was created in 1952.

The Bank supports foreign trade, preserving environment, industrial restructuring, improving competitiveness of agriculture and services, at last operating in every sector of economy. It finances the exports and imports of industrial equipments and machinery as well as provide funding for exports of goods and services manufactured in Brazil, through accredited financial agencies.

BNDES offers three credit lines to support exports of good and services as follows:

- Special Pre-Export : It finances the production of export goods that are not linked in specific shipments.
- Pre-export : It provides the necessary funding for goods that are not linked in specific shipments.
- Post-export: It provides the funding required for the overseas commercial operations involving manufactured goods and services, by refinancing the exporter through the discount of exchange note or the granting of letters of credit.

These operations take place through authorized Brazilian financial institutions and foreign banks. In 1999, BNDES lent US\$ 2.100 million and 81% of this amount represented the operations destined to micro, small and medium companies. These credits generated exports to more than 30 countries, mainly to US and Argentina.

#### **III.V. SEBRAE – Serviço Brasileiro de Apoio às Micro e Pequenas Empresas**

SEBRAE is a technical institution created in 1990 by the federal government to give better conditions to the development of the micro and small firms. SEBRAE is administered by a private initiative and it is an independent social service, nevertheless its creation was a governmental act. Sebrae is not vinculated to the federal public structure. There are several SEBRAE agencies spread over Brazil.

SEBRAE created a program destined to e-commerce for micro to small companies and in the first semester of 1999 , Brazil could sell US\$ 2.081 million to US.

In 1998 the federal government created the PEE – Programa Especial de Exportações (Special Export Program) and APEX – Agência de Promoção de Exportações (Export Promoting Agency), to give a special support to small firms to start exporting, or increase the volume and kind of the exported goods. APEX runs in each SEBRAE agency, aiding actions to capacitating and training

specialized staff in foreign trade, making market surveys, assisting trader's symposia, trade missions, fairs and exhibitions.

A very important role of APEX is to support the consortia formation. APEX developed the consortia program, based on the Italian model as shown in item IV. To get help from APEX, the consortia must be presented by an official office of the commercial area that the companies take part.

The consortia formation was an intelligent way to put many small firms in foreign trade at once so that, APEX finances the debts referring to the development of export consortia such as installations, trade missions and fairs exhibitions. Taking part in this process is also Banco do Brasil in the PAE program. See chart 1 for detailed information about the export consortium supported by APEX in March/2001. There are many consortia running in Brazil without APEX's support, nowadays. Unfortunately there is a lack of data to present in this paper.

SEBRAE offers training courses to the companies to improve their competitiveness. Nowadays the biggest project is the "Brazil Entrepreneur" that has already trained 2.9 million of Brazilian entrepreneurs. There is also a training to the companies reach the ISO 9000 standards.

### Consortium supported by APEX

Representant*	Products	STATE	Nr.Consortium created
<b>ABRAVEST</b>	Clothes	10 est. UF	12
S.José Rio Preto/SP		SP	1
Brás-Bom Retiro/SP		SP	1
Patos de Minas/MG		MG	1
Muriaé I/MG		MG	1
Muriaé II/MG		MG	1
Vitória/ES		ES	1
Colatina/ES		ES	1
Recife/PE		PE	1
Fortaleza/CE		CE	1
S. J. Rio Preto II/SP		SP	1
Campina Grande/PB		PB	1
Goiânia/GO		GO	
Rio de Janeiro/RJ		RJ	
Porto Alegre/RS		RS	
Pantanal/MS		MS	1
<b>FIESC</b>	Clothes/Shoes	SC	
	Clothes	Brusque	1
	Shoes	S.João Batista	1
<b>IBGM</b>	Gems and jewels	States	
		3RS,DF,5SP,	5
		3MG,RJ	8
<b>FIEMG</b>	Miscellaneous	MG	
<b>SEBRAE/MG</b>	Miscellaneous	MG	1
	Shoes, fruit, fireworks, furniture, clothes and food		
<b>FIERGS</b>	Domestic Utensils	RS	
	Marble/Granite	RS	
<b>SEBRAE-PR</b>	Clothes	Maringá	1
<b>FIIPA</b>	Furniture	Belém	1
<b>ALACE</b>	Services	SP, Campinas	1
<b>HTA</b>	Parts and pieces to airships	S.J.Campos/SP	1
<b>APEMEBI</b>	Clothes	Birigüi - SP	1
<b>Cooperatex</b>	Clothes	RJ	1
<b>ASSINTECAL</b>	Miscellaneous	RS	6
<b>COOCACHAÇA</b>	Liquor (Cachaça)	MG	1
<b>ABRAFLEX</b>	Packages	SP	1
<b>CIESP</b>	Clothes	Jacarei - SP	
<b>CIESP</b>	Machinery/Equipments	S.J.Campos/SP	
<b>TOTAL</b>			<b>39</b>
<b>TARGET</b>			<b>69</b>

Representant\* - Always an official industry agency is the representant in APEX for each consortia.

The total presented does not reflect the number of consortium in Brazil. According to information received from APEX there are many already running without its support. APEX is planning to gather additional data about the results of the consortium supported by it.

### **III.V.I. Brazilian Export Consortia**

The export consortiums are in the early stages in Brazil. Considering that the majority of the firms participating in export consortia are beginners, they can expect returns in a medium-run term.

The Tropical Spice Consortia is the most successful case reported in Brazil. Sixteen small clothing companies join this cooperative in São Paulo city, and their first appearance in an international fair was in February 2000, in Las Vegas. They intend to export by 2002 the amount of US\$ 3.3 million.

Since 1998 the export consortia program has grown very much. Small companies from different economic sectors are taking part on that and the results are optimistic.

### **III.VI. Banco do Brasil S/A**

Founded in 1808, Banco do Brasil S/A is a commercial-stated-owned bank. It started its operations abroad in the nineteenth century, setting up representatives offices in London and elsewhere to support Brazil's coffee exports. Banco do Brasil has a historic mission to develop foreign trade, and for that reason, it developed an expertise in foreign trade and international financial operations like no other Brazilian bank. The related expertise is a fundamental differential in market competition. Besides, the bank has invested heavily in technology to ensure that it holds a competitive advantage over the private banks in this key sphere.



Nowadays, Banco do Brazil has approximately 70,000 employees serving 11.1 million customers through its 7,000 outlets spread across the country. It operates directly within 2,090 cities nationwide (Euromoney, 2000). It has an established presence in the US, Europe, Asia and most South American countries, placed to assist commercial opportunities. With a customer-oriented mind, Banco do Brasil, created the special branches to deal with international business responsible for giving all the assistance to its internal (ordinary branches) and external clients. Each International Business branch takes care of the clients pertaining to a specific area in Brazil and associated with PGNI and PAE programs which are helping to implement the foreign trade in the country.

As a partner of the MDIC and MRE, Banco do Brasil is involved actively in almost every governmental action to support exports.

The bank encourages in its clients an export-oriented mentality which goes beyond merely taking advantage of temporary cost advantages and assumes that exporting is a permanent aspect of a company's business that must be built on the continuity of the relationship with the foreign part. Promoting the export capabilities of small and medium firms is in part a governmental-led initiative. Banco do Brasil has long been responsible for managing economic, social and development programs on behalf of the federal government. As a government agent, it manages the export financing program (PROEX). The number of exporting companies receiving such assistance has doubled from 1999 to 2000. Beyond that, Banco do Brasil launched programs to support its clients: the PGNI (Program for Increasing International Business) – destined to

middle market companies and the PAE (Program of Support for Exports) - destined to micro and small firms.

- PGNI (Program for Increasing International Business )

The international business managers visit prospective clients in the international area to aim them to reach foreign markets. As a result of this program, Banco do Brasil is increasing the Brazilian exporters' basis and increasing the international trade.

- PAE (Program for Increasing International Business)

Considering that the expansion of export basis is a enormous business opportunity, Banco do Brasil supports the micro and small companies to initiate or expand their business to overseas. Mainly, the bank is working as a partner with the Federal Government to increase exports and one of the focuses is the formation of export consortia or co-operatives of smaller companies, which can band together to promote their products and sell them abroad. The program offers a specific training to dissemination of exports culture.

The main products and services offered by Banco do Brasil to assist the exporters are :

- Consultancy in Foreign Trade

Banco do Brasil helps the exporters offering technical and operational support in the international business as well as searches for new business

opportunities and alternatives to the exporters. A good example of the consultancy's activity was that more than 15,000 Brazilian businessmen have signed up for a training program of Banco do Brasil over the first six months of past year covering all aspects of setting up an export business.

- International Trade Office (sala de negócios internacionais)

These are special locations to better give better assistance to the companies that need help in their international business. The International Trade Office, "Sala de negócios internacionais" gives information about market, goods, logistics, taxes, credit lines, and are a door to abroad markets. They are located in strategic locations in Brazil and in the world.

- ACC/ACE (Advanced Payment under Foreign Exchange

Contract/Advanced Payment under Export Documents) - These credit lines are also available in other commercial Brazilian banks to the exporters. The difference between ACC and ACE is that in the ACC, there is a promise to export in contrast, ACE is the credit line where the exporter already shipped the goods. The financing can be made up to 360 days before or from the shipment date of the goods(ACC) or 180 days after shipment date (ACE).

- BNDES-Exim

Banco do Brasil and other Brazilian banks offer this credit line to support goods and services with BNDES' financial resources, as mentioned in item III.IV.

- PROEX

This is a special program for financing exports with National Treasury resources and it is operated in two systems: equalization and financing. In **Proex-financing**, it is possible to finance up to 100% of export value in the negotiated INCOTERM and from 3 months up to 10 years, depending on the domestic content and aggregate value of the goods. The interest rates are the international market rates and the LIBOR is the reference. The exporter pays for the difference of exchange rate. In order to obtain a credit, it is necessary that the merchandise must be eligible by determination of MDIC and the exporter needs to present a guarantee such as a letter of credit to financing's approval. ON the other hand, **Proex-equalization** implies the payment to the financing banks the difference between the interest rates agreed upon by exporters and importers and those actually paid for the funding. The financing banks have to raise funds in the market. The Brazilian Central Bank controls the percentage to be equalized according to market conditions and terms of the transactions. The beneficiaries of the equalization are the commercial, multiple, investment and development banks authorized to operate with the foreign exchange rate in Brazil, BNDES-Brazilian Development Bank and foreign financial institutions.

### **III.VII. SBCE – Seguradora Brasileira de Crédito à Exportação**

Only in 1997 was the SBCE created as a result of action of CAMEX.

SBCE is a Brazilian Export credit agency (ECA) that plays the same role as the overseas ECAs, as described in item IV. SBCE was established in 1997 and it is a private agency. The SBCE shareholders are COFACE – Compagnie D’Assurance pour le Commerce Extérieur (the biggest ECA in the world ) ,Banco do Brasil and other important insurance Brazilian companies.

### **III.VIII. IPT – Instituto de Pesquisa Tecnológicas**

Understanding that technological capacitation to the companies is very important to inserting them in the international markets, MDICE started the PROGEX in January ‘99. PROGEX is a program developing technological capacitation to micro and small businesses . The main objectives of the program are :

- improving quality of the tradable goods;
- reducing costs;
- compliance to international technical standards;
- passing by foreign technical barriers
- adapting the design and packing .

PROGEX is generating new exports, opening international markets and increasing exports.

The program has been effectuated by IPT – Institute of Research and Technology. IPT is a state-owned institution vinculated to the Science, Technology and Economic Development of Sao Paulo State Agency. Its main function is to give technological support to the industries.

IPT developed several capacitation programs to textiles, shoes, accessories, odontological and medical equipments companies. In November '00, IPT announced that companies before PROGEX exported about US\$ 830,000 and after PROGEX they could export US\$ 8,229,000, as a result of 95 projects developed and concluded from Jan '99 to Nov '00. By the end of last year, IPT was developing other 55 new projects and several others firms were waiting for IPT capacitation program.

IPT is also training other state institutions in Brazil and the goal is the capacitating of 500 products in 2001, 1000 products in 2002 and 1500 products in 2003.

### **III.IX. Brazil's cost (Custo Brasil)**

Since 1995 the National Confederation of the Industries has been planning the deregulation of 6 topics of relations between private sector and government, as they have to face up to the inefficiencies of the Brazilian productivity as a result of the economy openness. The topics are:

- Tax system
- Social Security and Workers Regulation
- Infrastructure(Transports, telecommunications, energy and ports)

- Financial Cost
- Education and Health
- Costs of Excessive Controls

The main objective of the plan is improve our competitiveness in terms of productivity and price of our products overseas. Although there are a lot of proposals in the Brazilian Congress to be approved, many solutions have been provided to the several inefficiencies. The main grievance of the Brazilian exporters is the excessive taxation of the products, causing a price elevation.

#### **IV- Highlights of some incentives for exports**

Small business plays a important role in countries that have a healthy economic growth. Considering that, some facts and cases are related in this item to enhance the singularity of such a business as taker of incentives for exports.

##### **IV.I. The consortia case**

###### **IV.I.I. Italian case**

From 1981 to 1987 there was the development of export consortia in Italy . The Italian firms' participants in consortia were generally small, with limited experience in exports. Nowadays, there are 384 consortia in Italy with 18,000 small firms associated. They exported US\$ 41 billion only in 1998 (Exportacao Mundo Grande , Desafio Maior, 1999).

The Italian consortia phenomenon was unique and because of that this experience has been repeated these days in many countries.

Export consortia is a kind of cooperation between firms, that brings more opportunities to smaller firms in international markets, firms that have limitations dealing with foreign trade. The Italian case was well-studied by Ricardo Lanzara, Riccardo Varaldo and Patrizia Zagnoli and they reported many characteristics and conclusions concerning export consortia . These will be described below.

There are several benefits to a business enterprise of joining an export consortium as follows: i- Penetration of new exports markets; ii- Access to new types of buyers; iii- Security through market diversification; iv- Turning seasonal fluctuations to advantage; v- Making long-term planning possible; vi- Reducing unit cost production; vii- Better prices and better profit margins; viii- Foreign currency earnings; ix- Gaining international market know-how; x- Improved company morale; xi- Gaining a stronger voice for industry; xii- Spreading export selling overheads, xiii- Alternative to export agents.

The problems encountered by export consortia are: i - lack of consortium entrepreneurship; ii – lack of delegation of firm management authority; iii- disagreements in defining consortium strategy; iv- decision making; v- sales allocation among members; vi- distribution of profits. Problems within/by the consortium stem from differences among members and between members and the consortium itself. These problems can be solved with a manager, who is able to resolve disagreements.



Generally, firms that participate in export consortia have limited export experience and are in the early stages of export market entry or expansion. Firms type 4 and 5, avoid participating in consortia, because they are compelled to share their previous experience and know-how with other member firms. Even smaller firms avoid to participate of consortia, as reason of they do not want to share their secrets. For example , in Italy, some managers were originally artisans and they did not want to share their manual and technical capabilities.

The structural characteristics of consortia include:

1. The number of associated firms gives the dimension of a consortia. From 0-10 associated firms makes a small consortia; from 10-50 associated firms makes a medium consortia and more than 50 associated firms makes a large consortia.
2. The consortia can have private and public nature of constituent parts. Ex.: Chamber of Commerce or the Regional government can take part of the consortia in the early stages.
3. If the associated firms represent several industrial sectors, the consortia is multisectorial. A monosectorial consortia has a homogeneity of its products.
4. The consortia can share the debts relative to promotion , installations of the trade office.

#### **IV.I.II. The South Carolina Case of Consortia**

The South Carolina Export Consortium is a different case from the previous Italian Case. That consortium's role is to prepare companies so they can export – and use services of other companies and government agencies that can provide individual sales leads, no matter if the providers are from public or private sectors. The consortium is a non-profit organization that today involves 60 entities in the state, including the South Carolina Department of Commerce and the U S Department of Commerce, offering free advice, free research and free assistance to small and medium sized companies interested in expanding or entering export markets. Over the past two years, the center has assisted more than 800 companies in all parts of the US and began to build on a number of partnerships and international relationships. The consortium's core partnership with the international business programs of the University of South Carolina's Darla Moore School of Business has worked very effectively. The 15 graduate students are able to bring top export market studies, business plans and other consulting to companies that would not have the resources or otherwise would have not experienced the export transaction. Beyond that, the consortium also helps the companies realistically evaluate their potential for foreign trade (Lenti, J.M.; 1998) (Dance, J.B., 1999).

#### **IV.II. The SBA (Small Business Administration) in US**

The SBA was established in 1953 in answer to the pressure of the Great Depression and World War II. Small businesses have become a driving force in the US economy. They employ 54% of the private work force, produce 50% of private sector output and create 2 out of every 3 jobs. Small business represents 96% of all U.S. exporters.

Considering the power of the small business in US, the SBA is an American agency of the federal government and SBA has a specific plan to assist small business and take advantage of export markets.

SBA works together with other American agencies like Office of International Trade (OIT), Dept of Commerce, Export-Import Bank of the US, etc. They offer several programs to exporters so can play a significant role in improving the US balance of trade while protecting their competitiveness and improving their profits.

According to the web page of SBA ([www.sba.gov/oit/export/whyexport.html](http://www.sba.gov/oit/export/whyexport.html)), the main programs are:

1- Federal Programs: Small business exporters may benefit from a variety of services provided by the SBA and the U.S. Department of Commerce. Types of services include :

- export counseling
- workshops and training conferences
- publications

- financial assistance.

- SBA Assistance

2 - Export Working Capital Program: The EWCP provides short-term, transaction-specific financing. The SBA guarantees up to \$750,000 or 90 percent of the loan amount, whichever is less. Exporters may use this program for pre-export financing of labor and materials, financing receivables generated from these sales, and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers.

3 - The International Trade Loan Program: The ITL helps small businesses that are engaged or are preparing to engage in international trade, as well as small businesses adversely affected by competition from imports. The SBA can guarantee up to \$1.25 million, less the amount of SBA's guaranteed portion of other loans outstanding to the borrower under SBA's regular lending program.

4 - U.S. Export Assistance Centers: USEACs offer a full range of federal export programs and services under one roof. Clients receive assistance by professionals from the SBA, the Department of Commerce, the Export-Import Bank of the United States, and other public and private organizations.

5 - Service Corps of Retired Executives: SCORE, with 400 locations and 13,000 members throughout the country, offers individual counseling by retired executives, providing access to years of international business experience.

6 - Small Business Development Centers: SBDCS, operating in cooperation with local colleges and universities, offer in-depth business counseling and training.

7 - Export Legal Assistance Network: Through ELAN, exporters can receive a free, one-time consultation from an attorney experienced in international trade law.

#### **IV.III. The role of export credit agencies (ECAs)**

Export credit insurance protects commercial accounts receivables against non-payment, so that it promotes export sales by allowing more flexible payment term options. It minimizes the risks of selling in international markets and it accelerates cash flow by facilitating financing (McLaughlin, L.; 2000).

As always exporters face intense pressure to offer their customer more liberal terms of payment to compete with foreign suppliers. They are using the export credit insurance as a tool instead of letters of credit.

Credit insurance is a way of enhancing a securitization, replacing some of the overcollateralization that traditionally has been required. The main risks that the companies can incur in foreign markets are the non payment for commercial, political and transfer risks.

As a result of having an export credit insurance, exporters are able to increase their borrowing against foreign receivables and offer credit terms to overseas buyers.

The ECAs are the export credit agencies, responsible for offering the credit insurance.

As production is going global, the ECAs are continuing to support exporters, adapting themselves to the new conditions. They are working in cooperation. For example, UK's Export Credits Guarantee Department (ECGD) signed deals last year with Spain Cesce (Spanish Export Credit Insurance Company) and Italy's Sace (Special Section for Export Credit and Insurance) (Mc Callin, J.; 2000).

ECAs are also having to look inwards to rise to today's challenges. As there is a growing number of small and medium sized firms that want to export, Canada's ECA is adapting its policies to suit smaller companies operating in more niche markets. Canada is especially focusing on what kind of insurance these companies need when exporting to the US.

Meanwhile, Italy's Sace considers that is very important to it to support small business, and they are trying to do that, reinsuring private companies who insure small and medium firms.

The US Eximbank recent focus is supporting the growth of exports to developing countries, supporting and enhancing exports by small businesses in U.S.

The important role of ECAs is that they create stability and confidence in global trade, as the liberalization process leads to more risks and opportunities.

#### **IV.IV. Some aspects of the exports growth in the world.**

According to the studies about exports growth in the world by World Bank, there are several microeconomic reasons to have an industrial export boom. At first, the countries should convince the producers that future profits from exporting will be large enough to over start up costs, as happened in Colombia and Mexico from 1984 to 1991. In those countries more than half the growth in manufactured exports came from new exports. Certainly, parallel to the idea to convince producers to export, common export schemes were created: export insurances agencies, export assistance, credit subsidized and exemption from taxes.

Meanwhile, South Korea has built its industrialization process on an export drive led by large business groups and conglomerates. On the other hand, Taiwan's development process has had a greater role for smaller firms interlinked via various social networks and anchored in the domestic market. Taiwan had a relative immunity to the recent crisis compared to the significant turmoil which has engulfed South Korea. One of the reasons for the Korea's failure was the large business groups blocked the economy restructuring efforts ( Grabowski, R.; 2000) .

Large-scale manufacturing organizations are an unusual form of enterprise in Taiwan. Export prosperity has been impelled by small firms linked to each other in horizontal networks based on personal relationships between owners and their families in Taiwan . While South Korea has established "producer-driven" links to the global economy, Taiwan has developed mostly

demand-responsive connections. Taiwanese firms take orders from foreigner retailers and manufacturers responding to shifts in markets demands. They collaborate as networked firms : each firm produce one part of the product. This form of “cooperative” economic organization is ideally suited to the production of high quality aftermarkets autoparts components. In fact, Taiwan is a leading exporter of such goods (Biggart, N.W.; 1999). In a broad view, the taiwanese production as a “cooperative” was easily achieved because the producers are always from the same family, prevailing relations of trustfulness and also managerial difficulties are smoother to solve, as a consequence of the familiar links.

Ninety-eight per cent Taiwan domestic industry is composed of small to medium firms and exports account for two-fifths of Taiwan’s total economic output (Frazer, 1999).

In a recent seminar occurring in São Paulo city, Mr.Lee, president of Kitech (Korean Institute of Industrial Technology) exposed what Korea is doing for the SMEs (small to medium firms). He said that for a stable increase of Exports by SMES, a continuous development of technology is required. In Korea there are several organizations supporting SMEs : SMBAs (Policy formulation), SMIPC (Financial Support) and Kotra (Export Promotion). The Korean technological support consists of enhancing the existing technology, developing advanced technology and global joint development of new and future technology.



## **V- The role and behavior of small firms in exports.**

Brazil and many countries in the world have several programs to support small to medium firms in the international markets; such policies have reasons to occur, according to some examples related in this paper. It is also important to explain the role of these businesses and their behavior in the markets as preceding the conclusion.

### **V.I. The role of small firms in international markets**

Small firms promote the perfect competition, and they do not bring the well-known-deleterious effects of the monopolies. It is already proven that small firms generate more jobs than big ones (big businesses have their services and production rationalized). Larger firms may be the most influential actors in the enterprise world, although they do not create so many jobs directly. The links between large and small is one of the important ways for different countries to participate in the global economy. The big firms stimulate small enterprises to raise product and quality, better working conditions, social protection, and training.

Since 1953, the US has its agency for small firms, the SBA (Small Business Administration), as a result of rewarding of the government to small firms considering their importance. In SBA Web site, it is explained in detailed the role of the small business:

- provide approximately 75 percent of the net new jobs added to the economy.

- represent 99.7 percent of all employers.
- employ 53 percent of the private work force.
- provide 47 percent of all sales in the country.
- provide 55 percent of innovations.
- account for 35 percent of federal contract dollars.
- account for 38 percent of jobs in high technology sectors.
- account for 51 percent of private sector output.
- represent 96 percent of all U.S. exporters.

Considering the data above and the situation of the US over the world we can realize the power of such business. The US example of program to assistance of small business can be followed by any country , because wherever the small businesses are swifter, more flexible and often more daring than big businesses. Small firms can produce the items that attend personal needs.

## **V.II. The export behavior of small enterprises.**

Encouraging exports is a primary concern of most governments, nevertheless only the government assistance itself is not sufficient to a company that decides to make an export decision process. The companies are the central role when there is a foreign trade operation. They decide whether they want to be

in the internal markets or they want to expand their horizons, beyond of domestic markets.

There is some academic research identifying several aspects of the behavior of the small firms which influences in export strategy:

Commitment of the firm. Firms that are intending to export start to gather foreign market information (see figure 4), to hire and to train additional staff and to make international visits. They also want to know about export procedures and documentation as well as all about financing sales. Every small to medium enterprises in emerging markets always needs a specific education in exports essentially if they are exporters beginners. The areas that the firms always present knowledge deficiency are: export documentation fundamentals, customs procedures and practices, transport requirements, financial requirements and practices, transport requirement, countertrade practices and training in English language. If the deficiencies are minimized, the enterprises will be encouraged to make exporting business commitment for the long-term.

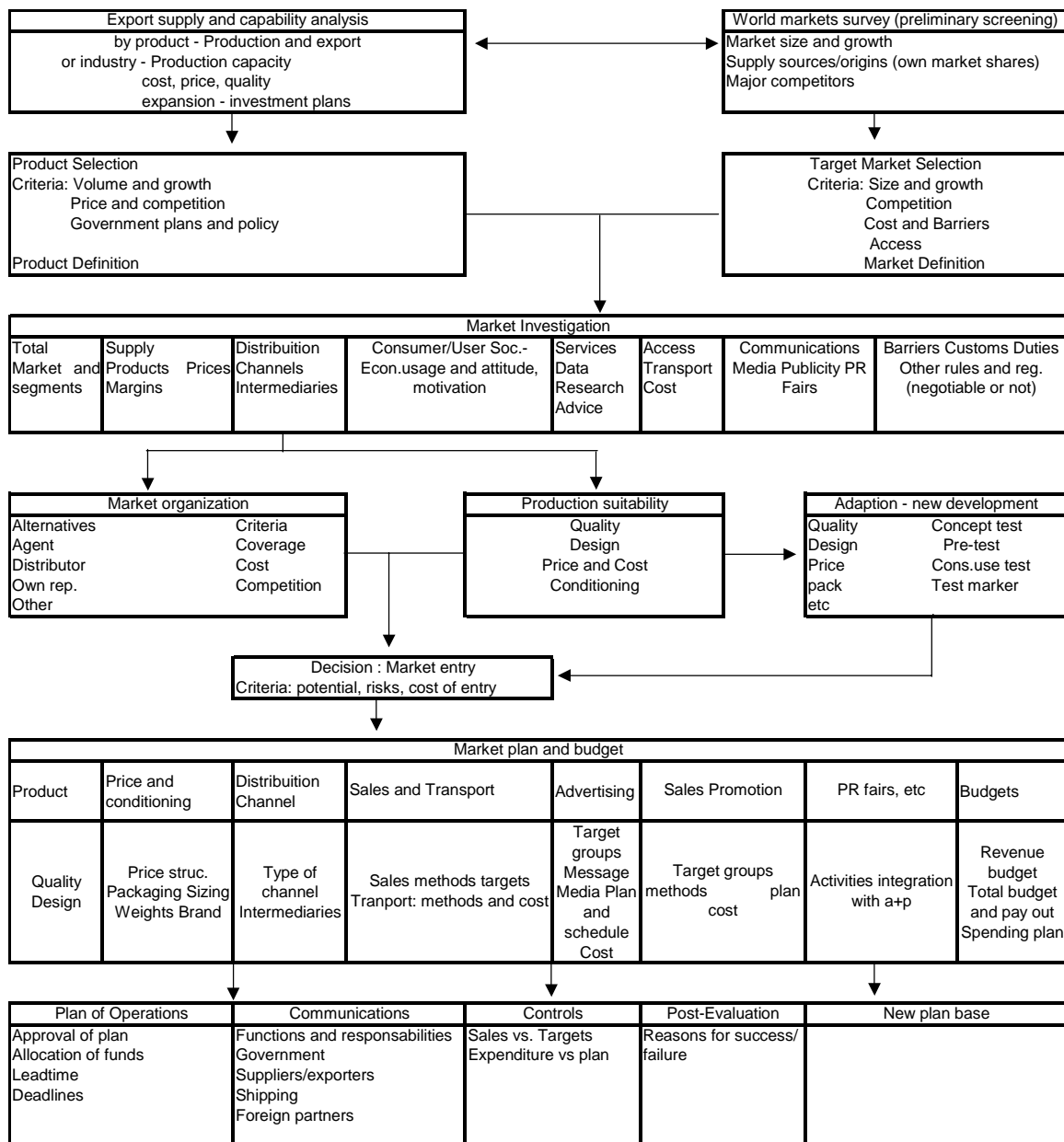


Figure.4. Export Supply and capability analysis

Source: Hibbert, E.P.; 1990

Motivation of the firm. Export motivation may come in many forms, a combination of factors. Generally, firms are motivated to export in order to make their sales volumes more stable via diversification.

Management capabilities and perceptions. If a manager has an orientation towards export marketing, certainly the firm will export. Managers are responsible for the mode, direction, and speed with which the company advances along the export development path. Managerial perceptions of risks, costs, and profits in overseas markets, have a strong association in the context of export initiation.

Firm Size. Small firms are more flexible to adapt to environment changes than larger enterprises. Small firms tend to be poorly equipped to compete over the long term, unless adequate support is given by the country.

There are some external influences under firms impacting in the export decisions of the firms. Firms need to know about the foreign market environment, if the international markets are attractive for business, including the tariff and non tariff barriers to entry. Another important point to consider is the policies of the government. Governments help provide information, sale leads, tax incentives, insurance and financing programs.

Most small to medium firms have a lack of knowledge concerning the support services offered by the various institutions, perhaps because of the scarcity of specialized and qualified employees in existing support services and their uses. Adding to that, the public and private institutions offer generic services non-customized and each institution offers its own range of services without

taking into consideration similar services carried out by another institution. This generates a lack of confidence in the exporters.

In order to apply an export plan, it is important to identify what type a firm is, as described below (Seringhaus, 1990):

1. non-exporters – firms with exportable products/services that never thought of, or have shown no desire to export;
2. failed exporters – firms with previous export experience that led them to withdraw from foreign markets;
3. first-time exporters – firms that are aware of foreign market opportunities and sense that these might help them meet their growth objectives;
4. expanding exporters – firms that wish to move their products/services into one or more new markets;
5. continuing exporters – firms that are interested in fine tuning their export operations as a result of current and projected performance level.

Depending on the context of the firm, the incentives for exports must be different. Firms type 4 and 5 are not pointed out in this analysis. The cases of incentives for exports, described in this paper, in a broad view, are firms type 1 and 3 .

## **VI – Conclusion**

No matter the size of the firm or where in the world the firm is located, basically there is a flow to plan an export strategy and the export situation as demonstrated in the appendix 1 and 2.

The small firms have to have entrepreneurship. Always there is risk as there is in every business venture, and those firms have to do their homework to be competitive. They cannot wait only for the external assistance, and they are not mere spectators, because they play a role in the international markets as shown in this paper. Finally, every strategy adopted to improve the small and medium firms performance in a globalized market will benefit the country in the future, because there is a long process ahead.

We enhanced the consortia because this is the kind of interaction between firms that only brings benefits, essentially if the firms are small business. The consortia case in Brazil is keeping up with the process of the successful consortia known. The Brazilian firms are not only working to minimize costs of promotion and share experiences. They are producing in scale to export some standard products. Today Brazilian firms are joining on the productive process. By the end of 2002, it will be possible to have some statistical data about the exports growth supported by Apex.

Brazil leads much of the world in the percentage of adults starting a business (12,8%), being followed by US (9.8%) and Australia (8.1%), according to the Global Entrepreneurship Monitor 2000. So, everyday there are new small

businesses in the market – a good reason for Brazil to give an additional attention to the SMEs (Hopkins, J.; 2001).

Another concerning matter about the incentives for exports in Brazil, are Brazilian taxes. The first incentive offered for export was the exemption of federal administered value-added tax (the tax on industrial products, or IPI) on export production, in 1965. Since 1967 it has been an exemption from a state-administered, circulation of goods tax or ICMS. Brazil has 27 states and 27 different pieces of legislation on the ICMS, the equivalent of value-added tax at state level. Despite the release of direct export from that tax, the indirect companies in the export process are not benefited by releasing of state tax. The Brazilian industries wait anxiously for elimination of taxes in every case of Brazilian exports and expect a decreasing of bureaucracy to get the exemption of some others taxes.

Meanwhile, Brazilian government has as main objectives in 2001, to make commercial promotion more effective, to sustain of Brazilian Mark and to elevate of the exporter basis (only 15 thousand firms are exporting by the end 2000).

The Brazilian Mark (Marca Brasil) has as objective to strength the Brazilian presence in the international markets improving quality and competitiveness of the products together with PROGEX. Brazil should expand their technological capacitating program, creating a specific R&D center. There is no time to lose, what seems to be a new product in Brazil, already has a perfect, improved substitute made by the new technologies and processes, somewhere else in the world.



Ultimately, small Brazilian firms have good perspectives to develop their relations with foreign markets, facing to the facts presented in this paper, showing the importance of SMEs (it is a world wide consensus) and the strategies to enhance their business in the international markets.

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## VIII - Appendix

Source: E. P. Hibbert, "The Management of International Trade Promotion" – 1990

### VIII.I. Outline of subjects covered in the analysis of the national export situation

#### A. The export trade

##### 1. Evaluation of the trade

(a) By market: analysis of the prevailing and foreseeable conditions with regard to, inter alia, foreign exchange system, import regime, custom duties and preferences, import quotas, non-tariff barriers, demand trends, activities of competitor countries, distribution channels and practices, consumers' preferences:

- (i) Markets covered by regional or subregional or subregional integration schemes
- (ii) Countries covered by bilateral agreements
- (iii) Border countries
- (iv) Rest of the world

(b) By type of product

- (i) Traditional
- (ii) Non-traditional (manufactures and other)

##### 2. Present and potential export supply

(a) Traditional products



(b) Non-traditional products (manufactures and others)

(c) Current investments in expanding export capacity

(i) In free zones

(ii) Others

## B. Economic policies and export developments

### 1. Foreign Exchange policy

(a) Exchange rate:

(i) By market

(ii) By product (if varying policies exist)

(iii) Actual (incentives less taxes and restrictions affecting exports; this is the core of the analysis of foreign exchange policy).

(b) Restrictions on foreign currency for

(i) Imports of raw materials or capitals assets

(ii) Export

(iii) Foreign technology

(iv) Production

(v) Investment

### 2. Tariff policy

(a) Import tariffs

(i) By type (ad-valorem; specific; surcharges; and port charges)

- (ii) By regime (resulting from integration schemes; imposed by bilateral agreements; affecting border countries; and affecting other countries)
  - (iii) Tax exemptions (by sector; for state purchases; in free zones; for international subcontracting (assembly); for special contracts with the government; for export(drawback); and others).
- (b) Quantitative import restrictions (prohibitions; prior licenses; and others)
- (c) Export Tariffs:
- (i) By type of product (traditional and non-traditional)
  - (ii) By market (those covered by integration schemes; countries covered by bilateral agreements; and other countries)
- (d) Export Restrictions
- (i) Prohibitions
  - (ii) Prior licenses
  - (iii) Special Permissions(sanitation requirements; and quality certification);
  - (iv) Quotas
  - (v) Others
- (e) Export procedures
- (i) Customs
  - (ii) Foreign exchange requirements
  - (iii) Export restrictions
  - (iv) Others

### 3. Fiscal Policy

#### (a) Export Incentives

- (i) Tax certificates
- (ii) Special bonus for export increases
- (iii) Export tax
- (iv) Exemptions to exporters
- (v) Duty drawbacks
- (vi) Others

#### (b) free zones

#### (c) other fiscal incentives

### 4. Monetary and credit policy

#### (a) The monetary program

- (i) Expansion of liquidity
- (ii) Expansion of credit for production sector
- (iii) Credit for export activities

#### (b) Export financing funds:

- (i) Public
- (ii) Private
- (iii) Contributions of international financial system (multinational banks; the World Bank; regional development banks; others; and government agencies)

#### (c) Interest rates for export

#### (d) Credit allocation

- (i) For export production
- (ii) For export marketing (pre-shipment; post shipment; and others)

(e) Export credit insurance

5. Investment policy for export

(a) Promotion of domestic Investment

(b) Promotion of foreign investment

- (i) In free zones
- (ii) International sub contracting
- (iii) In exploitation of natural resources
- (iv) Others

(c) Promotion of investment in export infrastructure

(d) Investment in trading companies

C. Production policies for export development

1. Industrial Sector

2. Agricultural Sector

(a) Traditional

(b) Non-traditional

3. Others sectors

D. Policies on the infrastructure for export development

1. Transport

- (a) Sea
  - (i) Ports
  - (ii) Shipping Lines
- (b) Air
  - (i) Airport
  - (ii) Airlines
- 2. Creation of free zones
- 3. Ware housing
- 4. Others

#### E. Export promotion policies

- 1. Institutional structure
  - (a) National trade promotion organization
  - (b) The central bank and financial system
  - (c) Ministry of economy and trade
  - (d) Ministry of foreign affairs
  - (e) Ministry of public work
  - (f) Free zones
  - (g) Other public agencies and state trading firms
  - (h) Exporters' associations
  - (i) Industrial associations
  - (j) Other private organization

## 2. Export promotion activities

### (a) Domestic promotion

- (i) Development of export supply (production for export)
- (ii) Promotion for priority sectors (selection of sectors; and specific activities)
- (iii) Market studies
- (iv) Specialized technical support
- (v) Training and motivation
- (vi) Promotion and trading companies
- (vii) International sub contracting
- (viii) Trade information services
- (ix) Others

### (b) Foreign Promotion

- (i) Dissemination of information on export supply (trade offices)
- (ii) Fairs and exhibitions
- (iii) Trade missions
- (iv) Promotions for trade contacts
- (v) Others

## F. International trade negotiations and opening of export markets

### 1. Institutional system for negotiations

- (a) The role of ministry of foreign affairs

- (b) The role of ministry of foreign trade
- (c) The role of trade promotion organization
- (d) Other public organizations
- (e) Private organizations
- (f) Government enterprises

## 2. International trade negotiations

- (a) Multisectoral negotiations
  - (i) GATT
  - (ii) UNCTAD
  - (iii) Generalized system of preferences
  - (iv) Others
- (b) Bilateral agreements
- (c) Developed countries
- (d) Others

## **VIII.II. Factors to consider in the elaboration of export strategies**

1. Concerning the domestic supply and the national export potential, modifications that can be expected as a consequence of:

(a) Foreseen changes in domestic demand/supply relationships for individual products.

(b) Developments in transportation, shipping, warehousing and port facilities.

(c) Further processing of products to increase the value added

(d) The generation of additional production for export through:

- (i) Changes in the business sector's attitudes to export operations;
- (ii) Study of information available at development bank and other organizations on pre-feasibility studies and projects;
- (iii) Completion of investments under way; support to initiatives presented by the business community;
- (iv) Removal of labor and other regulations that adversely affect export development or competitiveness
- (v) Improved links between market research and product generation activities.

(e) Foreseen changes in the availability of raw materials as a result of:

- (i) Price alterations
- (ii) Changes in, or additions to, sources of supply;
- (iii) Provision of electricity and other public utilities



(f) The implementation of plans creating institutions specializing in quality control, packaging, and training

(g) The implementation of plans for the creation of consolidated market mechanisms.

## 2. Foreign demand and supply situations

(a) Expected changes in target markets as a result of:

(i) New legislation

(ii) The setting up of tariff and non-tariff barriers

(iii) Negotiations under way or foreseen for the establishment of regional integration schemes and bilateral/multilateral agreements.

(b) Main changes in traditional key markets and foreseen alterations in demand trends.

(c) Technological developments which will alter existing demand/supply in foreign markets.

(d) Improved knowledge of foreign market

(e) Supply changes in competing countries as a result of:

(i) Establishment of incentives or implementation of promotional programs

(ii) Changes in their social environment

## 3. Governmental measure:

(a) Foreseen changes in the government's export policy and strategy.

(b) Permanency of measures, i.e., whether they allow medium-and long-term planning.

- (c) Regulations regarding free zones, drawback mechanisms and other incentives
- (d) Legislative, regulatory and operational changes expected in the area of foreign trade.
- (e) Changes in exchange rate administration.
- (f) Foreseen changes in credit policies and guarantee systems.
- (g) Type and nature of measures/programs/activities of an official/diplomatic nature that will be required to have access to new markets.
- (h) Efforts made to improve the institutional set-up