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THE FOUR SUCCESSFUL EXCEPTIONS

OFFICIAL EXPORT PROMOTION AND
SUPPORT FOR EXPORT MARKETING IN
KOREA, HONG KONG, SINGAPORE,
AND TAIWAN, CHINA

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OFFICIAL EXPORT PROMOTION AND SUPPORT FOR THE EXPORT MARKETING IN
HONG KONG, SINGAPORE, THE REPUBLIC OF KOREA AND TAIWAN, CHINA**

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ABSTRACT

In their export success and in having consistently favorable policy regimes for manufactured exports the four economies considered here -- Hong Kong, Singapore, the Republic of Korea, and Taiwan, China -- are exceptions without parallel among developing countries. They are also exceptions without parallel in the apparent effectiveness and cost-effectiveness of the support and assistance provided to their firms in export marketing and related tasks. This support and assistance, described here, appears to be highly cost-effective in accelerating export growth and diversification made possible by the policy environment. In sharp contrast, preliminary findings of a small research study now under way indicate that other developing countries have achieved much less satisfactory support for export marketing.

In addition to their main trade promotion organizations (TPOs) which are the main focus of this paper, what are called here the Four Successful Exceptions have systematically fostered provision of information and support services by a wide range of private service suppliers (consultancy firms, banks, trading companies and many others) and by associations of exporters and manufacturers, chambers of commerce and the like.

Three of the four set up their TPOs only after many years of favorable policies and considerable export success. The fourth, Korea, set up its TPO earlier than the other, but it was hardly effective in its early years. The four TPOs are all different in how they are organized and much else. Korea's has the largest budget, about US\$41 million in 1987, and Singapore's the smallest, about US\$10 million. All, however, have expenditures equivalent to only one twentieth to one tenth of one percent of the economy's manufactured exports.

Hong Kong's TPO focuses primarily on trade information and trade inquiries, above all to foster "matchmaking" between buyers and sellers, and also on trade promotion including trade fairs, aimed primarily at promoting a quality image of Hong Kong products.

The TPOs of the other three combine these same clusters of activities with two others. One is market development, involving research on promising markets together with a program of assistance and goals in each promising product or industry, generally including direct assistance to firms in such areas as production capabilities and marketing strategies. The second is assistance to firms in key areas such as product design, packaging, and, in some cases, even prospecting for sales abroad.

Much of what these TPOs do would probably not be cost-effective but some would be, in a country with only partly satisfactory export policies. Market development involving mainly assistance to firms in selected promising export industries is likely to be useful. So is information to buyers on potential local supplier firms in promising industries. So too is information to these industries and firms on what buyers require and look for, and what they are expected to do in meeting export orders. Presumably to be cost-effective, support and assistance would have to be concentrated on carefully selected products and industries, and adapted in each to the experience already attained and the problems being encountered.

Table of Contents

	<u>Page</u>
Support and Assistance to Export Marketing	6
Foreign Models and High-Level Direction	11
Expenditures, Staff, and Overseas Offices	14
Principal Tasks and Activities	18
Some Tentative Conclusions	32
Relevance for Other Developing Economies	33

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They are known variously as the "East Asian NICs" (newly industrializing countries),¹ the "four tigers," the "four dragons," and the "gang of four." But whatever the epithet, the members have shown exceptional economic performance over nearly three decades. They are here referred to as the Four Successful Exceptions--Hong Kong, Singapore, the Republic of Korea and Taiwan, China.

Statistics tell much of the story. Each of the four has achieved per capita output and income growth at rates on the order of six percent a year or more for over 25 years on the strength of remarkable industrial and export performance; their combined export growth rates have exceeded 15% in real terms since 1965. The four increased their share of world exports of manufactures about tenfold in the 14 years from 1973 through 1987. In 1987 their combined manufactured exports surged past US\$155 billion, an increase of \$42 billion, or 37%, compared with the previous year.² The four now

1/ "Countries" is not the correct word since Hong Kong is a territory due to pass from British to Chinese rule in 1997 and Taiwan, China is by general agreement a province of China. For that matter, Singapore is a modern version of a city-state, the Republic of Korea is widely considered the southern part of a divided country.

2/ Based on the widely used definition SITC 5-8 less 68. These numbers from national statistics include reexports from Hong Kong and Singapore, which together reported over US\$27 billion in reexports in 1987. Singapore's large reexports to Indonesia are not published by friendly mutual agreement between neighbors. Their manufactured exports in 1986 and 1987, in US\$ billions, with re-exports in parenthesis, were as follows:

	<u>1986</u>	<u>1987</u>
Taiwan, China	36.2	49.0
Hong Kong	32.4 (13.5)	44.4 (20.3)
Republic of Korea	31.9	43.6
Singapore	13.4 (4.9)	18.7 (6.8)
TOTAL:	<u>113.7</u> (18.4)	<u>155.7</u> (27.1)
	=====	=====

supply about half of developing-country manufactured exports by even the most inclusive World Bank definition of developing countries and about 62 percent by a definition that leaves out Israel, South Africa, and almost all of Europe except Turkey.³

They are called here the Four Successful Exceptions because they turn out under careful scrutiny to be exceptions without parallels among the developing economies in: 1) their consistently favorable and fully satisfactory policies for manufactured exports over many years and 2) the apparent effectiveness and cost-effectiveness with which their exports are supported through official provision of trade information, assistance to export marketing, trade promotion, and related services. Their policies have been kept consistently favorable to manufactured exports for well over two decades and exhibit much continuity.

A majority of the industrial market economies (OECD members) also maintain satisfactory and consistent policies for manufactured exports, and a number of them provide well-regarded trade-information services together with significant assistance to firms in export marketing. Apart from the four exceptions, however, the rest of the developing economies appear to merit at best only qualified praise on both these fronts.

The somewhat negative finding on other developing countries' support for export marketing has emerged in a small study in the World Bank

^{3/} This narrower definition is the same as the UN and GATT definition except that it counts China and other socialist and centrally-planned developing countries. The share for this definition would be around 58 percent with reexports excluded. The World Bank definition these days adds Hungary, Poland, Yugoslavia, Romania, Portugal, Israel, South Africa and Greece.

on how best to provide this support, and is only preliminary.⁴ However, the extent to which they appear to be exceptions on both counts deserves emphasis in examining how the four East Asian exceptions provide official support to export marketing. As a result of their favorable policies, the four have much to promote. Much of what they do and how they do it may not be appropriate for a country only in transition toward satisfactory policies for manufactured exports.

Hong Kong achieved a full range of policies favorable to manufactured exports by the 1950s. In the other three fully favorable policies were attained in the early or mid 1960s. The policies have included realistic exchange rates and sound macroeconomic management;⁵ consistent efforts to keep the incentives for exports strong, not only absolutely but also relative to the incentives for production for the local market; early creation of first-rate ports, airports, communication links, and internal transport systems, along with power grids, other necessary infrastructure, and industrial estates; and much attention to the development of financial institutions and policies suitable to exports and industrial advancement. In each of the four, though less so in Taiwan, exporters enjoy rapid access to preshipment credit for working capital.⁶

4/ This study, being done in the Trade Policy Division of the World Bank, was started in January 1988 but has built on the findings of earlier (1978-82) World Bank research (on RPO 671-68) on marketing of manufactured exports from developing countries.

5/ Only Korea has periodically exhibited inflationary pressures and has run up substantial foreign debts, which it is now systematically reducing.

6/ Taiwan, China's banks have been conservative in providing preshipment export credit. As a result, exporters have had to rely heavily on preshipment credit from Japanese general trading companies and large Taiwan suppliers. In the past, up to 70% of the economy's manufactured exports have been handled by Japanese trading companies, which supplied preshipment credit, according to K. H. Wu, founder and deputy chairman of the China External Trade Development Council (CETDC) in an interview on June 14, 1988. The share is now said to be somewhere between 30% and 50%.

Each has also created a favorable policy environment for investment and technological progress, oriented toward exports.

At the same time, all four have given major impetus to manufactured exports by creating or maintaining highly competitive labor markets with only weak unions and little job security. The rapid productivity and export growth that all their policies together have made possible has raised real wages swiftly to levels now six or seven times higher than in nearby poorer countries. Wages continue to rise fast, though they are still only a modest fraction of the level of wages in leading industrial market economies.

The next point is particularly crucial for export success: each of the four offers a highly efficient free-trade regime for exports by means of which export manufacturers can obtain swift and reliable access to a full range of duty-free imported inputs. Also important: each has built up a wide range of local industries producing inputs of world quality at world prices for rapid delivery to exporters.

In all four, the free-trade regime for exports has come to extend not only to final exporters, but also to indirect exporters in the sense of firms making inputs into exports or inputs into these inputs. In Hong Kong and Singapore this is accomplished by keeping the economies as virtual free ports, with no tariffs on producer goods. By contrast, Korea and Taiwan, China have managed to achieve rapid growth through highly interventionist policy regimes with pervasive and often high protection (somewhat reduced in recent years). Through administrative innovations, however, both have achieved comparable swift duty-free access. The means for this achievement include the use of tens of thousands of published technical coefficients (mainly physical input-output coefficients) to speed the administration of these imports. Both have also made great efforts to develop their own

input industries, taking full advantage of the economies of scale allowed by their export success. As a result, each offers by now a virtually complete array of inputs competitive with (in many cases somewhat cheaper than) the duty-free imported versions.

This free-trade treatment and flexible access to inputs is all the more crucial because most of the exports from the four are made to buyers' orders and specifications and to rapidly changing designs. As a rule, the designs originate in leading industrial market economies. The greatest strength of the four has become the rapid and flexible response capability of their private manufacturing enterprises. This includes an astonishing ability to make quick "knock off" copies of the latest designs for a wide variety of manufactured products.

The bulk of their combined exports are consumer goods, packaged invariably to go right onto the retailer's display racks when first unpacked. The rest are mainly intermediate goods packaged to go right onto the shelves of the final customer's warehouse. Practically all their exports are shipped as complete packages with all necessary labels, printed instructions, and exterior packaging and printing. By rapid responses, local manufacturers are often able to jump quickly into export competition in the latest trendy consumer products, then switch again when the market changes.

This fast-reaction capability is unmatched in other developing countries, partly because nowhere else does an entire economy offer comparable access to imported inputs. Elsewhere only some exporters have

rapid duty-free access. ⁷

Support and Assistance to Export Marketing

Plainly, the favorable policy regime is itself principally responsible for the export success in each economy. However, government export promotion and assistance to export marketing has also played an important role. Each of the four has learned how to provide high quality support and assistance. The costs of their official efforts in this direction turn out to be small compared with the exports realized--from one twentieth to less than one tenth of one percent of the value of their manufactured exports.

Some business experts believe that the four could not have achieved real export growth at double-digit rates without careful attention to export marketing and informational support. According to this view,

7/ Access to imported inputs is roughly comparable in Mexico's maquila assembly industries near the U.S. border; in China's new special economic zones near Hong Kong, such as Shenzhen; in the best run export processing zones around the world such as those in Malaysia and Mauritius, and a few private ones in small countries; in many large Brazilian firms with agreements with the government providing them fiscal concessions in exchange for agreed export targets; in Thailand in export-oriented enterprises sponsored by the Board of Investments; and in garment industries using modern systems of in-bond manufacturing--for example, in Sri Lanka or Bangladesh.

Use of physical input-output coefficients to expedite imported inputs into exports is unknown outside East and South Asia. A few countries such as Turkey, Morocco and Indonesia are making significant progress in bringing in inputs for manufactured exports without using such coefficients. Such a procedure, however, will cause them trouble in building up import-competing input industries. As for local production of inputs, China is now making a determined effort to develop a wide range of competitive industries able to produce inputs of world quality at world prices. Brazil also has a strong start in this direction, including a steel industry more competitive than China's, but its determination to export successfully was never as great as China's is now, and has been weakening of late. Most other developing countries have barely begun.

direct exports by small and medium-sized local firms, which are the ones that most rely on these organizations' services. Such firms regularly account for a high share of exports from Taiwan, China and are nearly as important in Hong Kong's exports but have smaller shares in Korea and Singapore.

Foreign Models and High-Level Direction

The launching of these four organizations involved in each case some imitation and borrowing from abroad. KOTRA by all accounts was set up in direct imitation of Japan's JETRO (Japan External Research Organization) which had been created as a nonprofit public corporation under MITI (Ministry of International Trade and Industry) only four years before. KOTRA was similarly organized under Korea's Ministry of Trade and Industry, with its own president and executive directors and a board of directors representing the public sector and the trade and industry associations. Some of its staff are ministry officials temporarily assigned to KOTRA.

HKTDC is somewhat more independent and leans toward models such as the British and Irish export promotion organizations. It was created on the basis of detailed discussions between government officials and the colony's manufacturing and trade associations and chamber of commerce. It is a "statutory body set up by government to promote and develop Hong Kong's trade with the world."¹⁰ It is headed by a council with a chairman and eighteen other members. The chairman and as many as twelve of the members are from private-sector firms concerned with exports. Two members are government officials, while four represent the territory's leading trade

^{10/} In the words of its Annual Report and Accounts '85/86, p. 4. Its other statutory function is "to make such recommendations to the Government as it sees fit in relation to any measures which it considers would achieve an increase in Hong Kong's trade." Coras Trachtala/Irish Export Board, Malaysia: The Development of the Export Support System, Final Report, October 1986, p. 44.

and manufacturers' associations and its chamber of commerce. Its staff is headed by an executive director, who is not on the council itself.¹¹

Like many names of organizations in Taiwan, China, CETDC's is slightly misleading: it does not include a council, and the organization is modeled above all on those in Japan and Korea. However, other models were also considered,¹² and its name is clearly an imitation of HKTDC. Starting around 1986 it began calling itself CETRA.

CETDC is established in the form of a foundation. Half of its initial capital was donated by the government (the Board of Foreign Trade of the Ministry of Economic Affairs and the Council for Economic Planning and Development). The other half came from the National Federation of Chambers of Commerce and Industries, exporters' associations, and other major business associations. Its governing body is a board of directors of 31 people including the Minister of Economic Affairs as chairman. Trade specialist K. H. Wu, who founded the organization and was its secretary general up to 1984, serves as one of three vice chairmen. Six of the members are government officials: the vice ministers of Economic Affairs and Finance, the vice chairman of the Council for Economic Planning and Development, the director general of the Board of Foreign Trade, the general manager of the Foreign Exchange Department of the Central Bank, and the president of the Central Trust of China. The other 23 members are heads of industry and exporters' associations, chambers of commerce, and other major business associations. In addition, there are three supervisors. They are required under local law to supervise financial accounts and management, since CETDC's operating expenses are "donated" by

11/ HKTDC, Annual Report and Accounts '85/86, p. 4 and 86/87, pp. 2-3.

12/ Cf. CETDC in Retrospect 1970-1980, p. 5. Its founder, K. H. Wu, recalls that besides Japan and Korea, economies visited and studied in designing CETDC were Australia, Belgium, France, Hong Kong, the Netherlands, the United States, and West Germany.

exporters and do not come from the government.¹³ The staff is headed by a secretary general. The two people who have held this position have been former high trade officials.

The Singapore Trade Development Board is a statutory board manned by civil servants (staff at the other three are organized as a separate career service). According to various persons interviewed, it is modeled above all on the Australian Trade Commissioners' Service as it then existed and to a lesser extent on the Irish Export Board, Canada's Trade Commissioners' Service as it then existed, HKTDC, and CETDC. The board itself has ten members of whom seven are from the private sector. Six are Singapore business leaders, one of whom is the chairman. The seventh is the board's own chief executive officer, who was in private business previously. The remaining three members are the leaders of the Port of Singapore Authority, the Singapore Institute of Standards and Industrial Research, and the Export Credit Insurance Corporation of Singapore. A prominent role is placed by ten advisory committees in particular fields, each made up predominantly of industrialists and other businessmen.¹⁴

Alone of the four trade development organizations, STDB is responsible not only for trade promotion but also for several government

^{13/} These details are based on corrections and clarifications in writing by K.H. Wu, following an interview with him on June 14, 1988; a translated text of the Act of Endowment of CETDC; and an interview of February 15, 1988, by Robert Wade with Dick Mou, head of the Market Development Division of CETDC. The "object of the Council is to assist traders and manufacturers in developing the external trade of the Republic of China", according to the Act.

^{14/} STDB, Annual Report 1986/87, pp. 3-5, 50-61. There are advisory committees for design, exhibition management services, trade facilitation (including transportation and industrial estates), and individual export industries. Somewhat similar committees are being created by HKTDC.

administrative and trade-policy functions usually carried out by government line departments. Among those functions are trade documentation (STDB's Imports and Exports office processed about two million documents in 1986-87), monitoring fulfillment of textile quotas, some kinds of export certification, formulating trade policies, conducting international trade negotiations, and helping defend Singapore's trade against dumping actions and other threats.¹⁵

Substantial differences also exist, but will not be discussed here, in the way the four organizations are structured internally.

Expenditures, Staff, and Overseas Offices

Among the four organizations, KOTRA's expenditures are the largest and STDB's are by far the smallest. KOTRA's preliminary budget for 1987 totaled US\$41 million.¹⁶ By contrast, STDB's 1986-87 expenditure was only US\$10 million.¹⁷ HKTDC's budget was on the order of US\$30 million in fiscal 1987-88, while CETDC's is about the same or a shade larger.¹⁸

^{15/} Ibid. pp. 55-56 and 58-59 and telephone interviews with STDB's regional director in New York, Geoffrey Lim.

^{16/} This figure was obtained for this study in late January 1988 by Su-Yong Song of the World Bank's Country Operations Division responsible for Korea, from KOTRA's Washington, D.C. office.

^{17/} STDB, Annual Report 1986/87, p. 67; exchange rate based on IMF, International Financial Statistics.

^{18/} The figure for Hong Kong was cited by Andrew Ma, HKTDC's regional representative in charge of its New York office and all its Western Hemisphere operations, at a seminar at the World Bank on February 5, 1988. HKTDC's Annual Report and Accounts 86/87, pp. 28 ff. shows revenue expenditures equivalent to \$28.6 million in fiscal 1986-87 (the year ending March 31, 1987). The figure does not include trade-publications expenditures of \$3.9 million (more than offset by advertising revenues from publications) nor capital expenditures of \$600,000. CETDC's revenue from its annual levy (see below) would have been slightly over \$25 million in 1986 (the figure is based on Central Bank of China data, Foreign Exchange Settlements 1986, Taipei, 1987, p. 1) and about \$33 million in 1987.

Contrasts extend to how the organizations are funded. STDB gets all its funding from the government's annual budget. KOTRA gets about 70% of its funds from the government. The rest comes from half the proceeds of a levy of one twenty-fifth of 1% (0.04%) on Korea's imports. The levy is collected by the banking system for use by the Korea Trade Association, which regularly allocates half (i.e., 0.02% of imports) to KOTRA.¹⁹ HKTDC is financed by an ad valorem levy of one twentieth of 1% (0.05%) on domestic exports and all imports except food. Up to 1984 this levy also applied to reexports, but by then the result was more revenue than the organization could usefully spend.²⁰ CETDC's operating funds are donated by exporters at the rate of one sixteenth of one percent (0.0625%) on Taiwan's exports. The funds are collected by banks when the proceeds from exports are changed into local currency. However, a few of the council's less commercially oriented promotional activities conducted abroad at the request of government are subsidized by the government.²¹

KOTRA has a larger staff than the other three organizations, and STDB has by far the smallest. KOTRA's staff as of early 1986 was 748, of whom 388 were based in Korea and 360 overseas. By 1987 the number of Koreans employed was 573.²² Other staff are hired overseas or lent by the Ministry of Trade and Industry. STDB's staff numbered 353 in 1986 and is hardly larger today. Between 150 and 200 people are involved in tasks

^{19/} Coras Trachtala/Irish Export Board, Malaysia, p. 54.

^{20/} Cf. HKTDC, Annual Report and Accounts '85/86, pp. 4 and 24.

^{21/} Based on information from K. H. Wu as well as Robert Wade's interview with Dick Mou. Many of its operations abroad are carried out in the name of Far East Trade Service, Inc. (FETS). It was started in 1971, a corporation with no budget or staffing set up to get around problems of nonrecognition of the Republic of China.

^{22/} The first figures are from Coras Trachtala/Irish Export Board, Malaysia, p. 52; the last was obtained by Su-Yong Song in an interview with KOTRA's Washington, D.C., office in late January 1988.

corresponding to those of the other three organizations. These personnel include about 30 overseas, of whom half are locally hired secretaries and the rest are officers.²³ HKTDC had a staff of 538 in 1986, including 156 employees overseas. By early 1988 the total staff was nearly 650. Fewer than 20 of its officials abroad are from HKTDC in Hong Kong; the rest of its overseas staff are hired locally.²⁴ CETDC by late 1985 had 410 in its Taipei office. As early as 1980 it had about 110 employees overseas. By 1988 its total personnel strength exceeded 600.²⁵

At an earlier stage, all these organizations were small. CETDC, for example, was started in 1970 with a staff of 20. Its employment reached 98 in 1972 and 214 in 1977, then grew quickly to 425 in 1980.²⁶

Salaries paid by these organizations vary in their attractiveness. Earnings in HKTDC are generally below those for analogous positions in private business. They are similar to those in government, except that fringe benefits are somewhat inferior to those of government officials: accommodation allowances tend to be lower, officers do not receive staff quarters, and staff are given fewer holidays. STDB staff receive civil service pay, which is competitive with the private sector up to the middle professional levels but lower at high management levels. Most are subject to periodic rotation within the government, unlike their counterparts in HKTDC or CETDC. CETDC staff are generally paid at commercial rates, which

23/ The first figure is from Coras Trachtala, op. cit., p. 58; the others are from telephone interviews with Geoffrey Lim of STDB's New York office.

24/ The first two figures are from Coras Trachtala, op. cit., p. 44; the other information is from Andrew Ma's February 5, 1988, talk at the World Bank.

25/ The first number is from CETDC's flier with FETS, dated by its information on the organizations's trade promotion program in the first half of 1986; the second is from CETDC, CETDC in Retrospect 1970-80, table on p. 11; the last is from K. H. Wu.

26/ Ibid., pp. 8, 11.

are higher than government rates. Salaries in all these economies, however, are generally far below levels in industrial market economies. Costs of remunerating staff range from 30% to 40% of the total budget for each of these organizations.

KOTRA has the largest and STDB the smallest network of overseas offices. KOTRA by 1987 had 77 offices abroad as well as 9 in Korea itself.²⁷ CETDC comes next with 28 offices and representatives overseas. Only two of its offices carry its name.²⁸ HKTDC has 20 overseas offices as of 1988, plus 3 consultants overseas.²⁹ STDB has 18, counting 2 honorary vice-consuls who are officials of Singapore private commercial banks in Canada and 2 one-diplomat listening posts (in Geneva and Washington, D.C.). Each of the 14 others is manned by only one STDB officer and a locally hired secretary, except that a second officer has recently been deployed to the Tokyo office.³⁰ Contrasts can also be found in the geographical deployment of overseas offices. For example, 18 of HKTDC's 20 overseas offices are in industrial market economies and the others in Beijing and Panama City. In some contrast, 7 of STDB's 14 full-time offices are in developing countries of Asia.³¹ These organizations are all considerably slimmer than the

27/ Based on telephone interviews with Andrew Ma and Geoffrey Lim and W.D. Scott, op. cit., Vol. II, Overseas Studies No. 3, The Republic of China (Taiwan), p. 27.

28/ The rest are under the name of Far East Trade Service, Inc. (FETS), or are called Far East Trade Service Centers. A CETDC and FETS flier of late 1985 says that CETDC has 28 overseas offices and representatives and also has close links with 43 commercial offices in diplomatic or other facilities. CETDC, CETDC Trade Promotion Activities, 1987-88, Taipei, no date, pp. 16-26, shows the entire worldwide network of 73 offices in 65 cities. Only 12 were in diplomatic missions of the Republic of China. Only 5 had Taiwan in their names and one other had Taipei in its name.

29/ Annual Report and Accounts 86/87, pp. 34 and 38 and telephone interviews with Andrew Ma.

30/ Telephone interviews with Geoffrey Lim.

31/ STDB, Annual Report 1986/87, pp. 72-73 and HKTDC, Annual Report and Accounts 86/87, p.38.

official of some other developing economies, and are several orders of magnitude smaller relative to the economies' manufactured and other exports. By way of example, Colombia's TPO, PROEXPO, started in 1967, was funded initially by a 1.5% tax on imports, which was subsequently raised to 3.5% and then to 5% and now 6%.³² Mexico's TPO, IMCE, since disbanded in a reorganization, had a staff of over a thousand for a while in the 1970s and 900 as late as 1984.³³ When interviewed in 1980, the New York office of the Brazilian Government Trade Bureau had a staff of about 40 people, compared with about 13 in HKTDC's New York office, 11 in KOTRA's, and fewer in CETDC's. In early 1988, CETDC had 8 people in its New York office, compared with 16 in HKTDC's New York office.³⁴ This was probably larger than any other overseas office of the four.³⁵

Principal Tasks and Activities

The activities of these organizations are mutually supporting and closely interrelated so that they are difficult to separate analytically. Most, however, could be grouped broadly under four headings:

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- 32/ Camilo Jaramillo, "Government Export Promotion Policies," unpublished paper written for World Bank research project RPO 671-68, April 1961, pp. 1-3, and his research now in progress for the International Trade Centre. PROEXPO stands for Fondo Para la Promocion de Exportaciones.
- 33/ Based on the author's interviews with IMCE and former IMCE officials in Mexico City in 1981 and with World Bank staff working on Mexico in 1988. IMCE stood for Instituto Mexicano de Comercio Exterior. EPOs visited and interviewed in some other developing countries have had staffs of several hundred each.
- 34/ Most of these numbers are from Lawrence H. Wortzel's "Back-to-Office Report on NY Interviews with Trade Promotion Agencies," undated, based on interviews in the early summer of 1980 under World Bank research project RPO 671-68. The numbers for HKTDC are from a 1988 telephone interview with Andrew Ma, while the recent number for CETDC is from a telephone interview with its New York office.
- 35/ HKTDC, Annual Reports and Accounts '85/86, p. 33 and 86/87, p. 37, show it to have a considerably larger budget than any other HKTDC office.

- 1) trade-related information and inquiry services;
- 2) trade promotion (trade fairs, missions, publicity)
- 3) market analysis and market development;
- 4) assistance to firms in product design, packaging, actual marketing and other practical needs (e.g. training).

The third and fourth tasks are closely related and tend to go together.

Market development, as the term is used here, includes systematically identifying markets and opportunities for particular exports while recommending and helping firms develop and carry out a marketing strategy for each export. It can also involve helping firms adapt their products and production processes to the requirements of exports and overcome problems holding them back. It often extends to developing at a national level suitable export strategies and goals for products and entire industries. Market development is especially prominent in the activities of CETDC and STDB; in Korea it has been a major concern of the government as a whole.

Among the TPOs of the Four Successful Exceptions the Hong Kong Trade Development Council has the narrowest role; it is limited mainly to the first two activities augmented by market analysis. This is the case first of all because of Hong Kong's scrupulous laissez-faire economic policies. A public-sector organization such as HKTDC is simply not allowed to become involved in activities or decisions of private enterprises. Moreover, as a matter of scruples, law, and policy, HKTDC is not supposed to treat any business in Hong Kong, or even a buyer abroad, with favoritism over any other. Many TPOs in other economies are similarly constrained from favoring one firm against another. This can be a serious handicap in all four activities and especially the third and fourth.

The other three organizations engage in all the same basic tasks as HKTDC, but also undertake other activities relating to market development, product design, and related concerns as well. Differences can be found also in the ways in which the four organizations go about their common tasks, and the relative emphasis they give to them.

HKTDC sees its central task as "matchmaking" between foreign buyers and Hong Kong firms looking to export. Its trade-inquiry services, widely regarded as outstanding, are the central instrument for this purpose. In fiscal 1986-87, HKTDC processed worldwide a total of 177,630 trade inquiries, or nearly 15,000 a month--a 20% increase over the previous year.³⁶ Inquiries arrive in large numbers from foreign businessmen overseas. They are generated in part by HKTDC's publicity and trade promotions abroad. Inquiries also come in fast-growing numbers from buyers visiting Hong Kong, buying offices and trading companies in Hong Kong seeking local suppliers, and from the Hong Kong business community.

A key to the value of the information supplied is the detailed information contained in HKTDC's computer data bank. According to HKTDC, the data bank "carries essential information on more than 26,000 local manufacturers and exporters and some 96,000 traders overseas. This information is constantly updated by Council staff who maintain regular contact by phone and personal visits."³⁷

How are foreign retailers, importers, wholesalers, distributors, and traders persuaded to divulge detailed information on themselves and their potential orders? Above all, in exchange for free publications and services. Receiving on request free HKTDC publications such as glossy catalogs helps to win the businessmen's appreciation--and invites their

^{36/} HKTDC, Annual Report 86/87, p. 24.

^{37/} Ibid., p. 22.

cooperation in providing information. The council now publishes more than 2.2 million copies of trade publications each year, and these are sent free of charge to traders in 173 different countries or distributed at specialized fairs. With the first copy comes a questionnaire, which the recipient is asked to fill out. One of the questions is, If a Hong Kong manufacturer comes to your city, would you want to receive him, and if so, what would that person be? ³⁸

For getting information from potential Hong Kong suppliers, bargaining chips include copies of studies by HKTDC's Research Department. The department's market research unit prepares market reports and economic briefs on markets abroad. One report might examine business opportunities and conditions in nearby parts of China. Another might focus on distribution systems and market trends for particular products in Japan... and so on around the world. Meanwhile, a product research unit turns out comprehensive reports on world trends and the potential of Hong Kong industry in specific product groups.³⁹ Services offered by HKTDC to businessmen on all fronts are also partly a means of getting information in return.

On an inquiry regarding potential Hong Kong suppliers, a long list of enterprises will generally be provided unless the inquirer is a buyer specifying exactly what is sought including the prospective size of the order. In that case, according to a World Bank report: "When an incoming telex arrives, a list of the 10 best 'fits' from the database is prepared.

^{38/} Andrew Ma's Feb. 5, 1988, talk at the World Bank.

^{39/} The market research unit also turns out project evaluation studies on the council's promotional activities. The Research Department in addition has a research information unit responsible for answering inquiries referred to it and for dissemination of market information and research reports. There is also a library open to the public that handled 26,500 inquiries from the business community in 1985-86. See HKTDC Annual Report '85/86, p. 21 and 86/87, p. 23. Publicity services and public relations are other important functions.

Within 48 hours, an Action Report is released back to the enquirer, usually giving details on three selected suppliers. HKTDC claims that 70% of inquiries lead to actual business.⁴⁰

HKTDC's services are particularly important at any given time for an ever shifting set of rising medium-sized or small manufacturing firms and new industries and products. Hong Kong's established exporters are generally very knowledgeable in marketing and already know and are in touch with many potential customers to the point where they no longer require "matchmaking." Most smaller firms export through trading companies or serve as specialized subcontractors to other exporters. HKTDC's services are thus most important for rising firms just becoming established as exporters.

To avoid favoritism, HKTDC offers every business the same assistance in every situation. The council also strives to make the assistance as comprehensive, courteous, and helpful as it can be, within the limits of not actually selling products or getting involved in the decision making of the business. Thus HKTDC staff are ready to help either a Hong Kong exporter visiting an overseas market or a buyer visiting Hong Kong by planning the client's program, making hotel bookings and appointments, making phone calls and introductions, mapping out locations, giving informal advice, and even accompanying the client to some of the meetings where possible. Similarly, representatives of Hong Kong enterprises participating in trade fairs are all given the same information and much the same advice. At an overseas office or trade fair, a HKTDC staff member caught "acting like an official" is likely to be fired.⁴¹

^{40/} World Bank Confidential Report No. 6663-IN, INDIA-Export Development: A Proposed Strategy, March 1987, Vol. II, p. 141, based on information from Andrew Singer and HKTDC's 1983/84 Annual Report.

^{41/} The last two paragraphs draw heavily on Andrew Ma's talk at the World Bank.

a more active role in selecting participants. The set of events chosen also varies considerably, although all place heavy emphasis on narrowly specialized trade fairs in Europe and North America. For example, STDB in fiscal 1986-87 organized or arranged Singapore's participation in no fewer than 91 promotions abroad, including 41 trade missions as compared with 13 the year before.⁵⁵ CETDC's trade-promotion program in fiscal 1987-88 comprised 93 events (counted in the same way as HKTDC's 57). These included only 10 trade missions but fully 39 specialized trade fairs in industrial market economies and 17 trade shows in Taiwan, China, all for foreign as well as local exporters.⁵⁶ Taiwan, China, however, did not become involved in trade fairs and shows until after CETDC was created in 1970. Its first participation in a specialized trade fair abroad came only in late 1972, over a decade after its policies became fully favorable for manufactured exports.⁵⁷

All three organizations also undertake activities that HKTDC does not, even apart from STDB's line government responsibilities already mentioned. Indeed, both KOTRA and CETDC have recently become actively involved in promoting imports into the two economies, now that each is running a big overall trade surplus and a bilateral surplus with most major trading partners other than Japan.

KOTRA's export-promotion efforts are oriented primarily toward small- and medium-sized enterprises and provide them with advisory services as well as trade inquiry and "matchmaking" services. KOTRA also tries to help Korean businessmen with product development design.⁵⁸

55/ STDB, Annual Report 1986/87, p. 51.

56/ CETDC, Trade Promotion Activities, 1987-88, Taipei, no date, pp. 3-15.

57/ CETDC in Retrospect 1970-80, p. 25 and passim.

58/ Coras Trachtala, Malaysia, p. 52 and W.D. Scott, loc. cit. on Korea, p. 8.

CETDC's regular activities go beyond those of HKTDC on several fronts. Thus, among its activities are "to discover problems faced by traders and study ways for their solution ... to provide assistance in design and packaging to elevate the image of Taiwan [China] products... to train trade specialists and accelerate the upgrading of trade". Its Market Development Department is required among other tasks to "study, formulate, supervise and execute market development strategies" and to "formulate and execute market development plans by product categories". 59

Market research in CETDC's New York office as of 1980 was based on an active search for items that could be sold to the United States. The search began with an analysis of the size and origin of U.S. imports, followed by a preliminary study of the price and quality of the more competitive imported and U.S. products. From this the officers in New York reached an estimate of the likelihood of Taiwan, China firms competing successfully against offerings already in the market. (They claimed to understand the manufacturing capabilities of Taiwan, China firms well enough to do this.) Once a likely product was identified, the office asked firms in Taiwan, China to send it samples of the product and price lists. Representatives of the office would then visit importers, wholesalers, and other traders with samples and price lists, prospecting for sales. They would try to get reactions to the product. If the buyers were interested, they would telex the manufacturers. If not, they would find out why and then suggest appropriate steps to the manufacturer.⁶⁰

CETDC through its Industrial Design Promotion Department provides industrial and package-design assistance to exporters and sponsors design

59/ The first quotations are from CETDC's Act of Endowment, Article 9, points 7-9; the others are from its current Organizational Regulations, Article 5, points 1 and 2 (of 8).

60/ Wortzel, "Back-to-Office Report," p.11.

and packaging seminars and training. Policy is to advise exporters on the suitability of designs for particular markets and, if a redesign is required, to identify suitable private design consultants.⁶¹ CETDC also runs some seminars for businessmen on export procedures and marketing and gives seminars on exporting for graduating classes of colleges and universities. However, the primary role in export-related training lies with exporter associations.⁶²

CETDC's founder and deputy chairman, K.H. Wu, points out the organization's greatest strengths. First, it is flexible as a result of its independence from government. This flexibility allows it to react quickly in changing its programs and spending patterns to meet rapidly shifting export opportunities and conditions. Second, its senior staff have accumulated consummate experience and expertise by spending almost their whole careers in this one organization and line of work for which no textbooks exist and experience is critically important.

Wu says that in its first few years CETDC concentrated on overseas market information that allowed it to make recommendations to exporters and uncover trade opportunities to pass on to them. In its second stage it concentrated on surveying markets overseas and thus helping firms make their own sales plans. Now, in its third stage, it has concentrated on helping export manufacturers to upgrade the designing, packaging, and packing of products and improving the economy's product and packaging design capabilities, since in many goods exporters require new designs and packaging each year.⁶³

^{61/} Design awards are also given. Fashion-design advice is provided--not by CETDC, but by the Textile Export Federation. See W.D. Scott, loc. cit., p. 30.

^{62/} Ibid. Reliance on associations for this task appears to be the rule for the economies studied here.

^{63/} Interview of June 14, 1988.

STDB, despite its small scale of operations, appears to have in some ways the broadest set of activities relating to export development of any of the four. Especially noteworthy are its Market Development Assistance Grants. These are grants to private companies for up to half the costs of selected, well-designed market-development undertakings--for example, setting up new sales offices abroad. In fiscal 1986-87, \$2.16 million was spent on these grants--more than one-fifth of STDB's total budget--compared with only \$36,000 in the previous year.

In 1986-87 this scheme was extended. STDB created a Design Ventures Programme to help manufacturers produce better designed products, with the board providing up to half the cost of a company's expenditure on product and package design. STDB also started an International Bidding Scheme to encourage engineering-services companies to participate in international tenders.⁶⁴

On other fronts, STDB appears to have a well-designed promotion strategy in each industry group and also in each area of trade in services. In 1986-87, in the latter area, it introduced a Pioneer Status Incentive for Countertrade and actively tried to attract countertrade-services companies as well as major companies trading in metals, oils, and chemicals. Continuing efforts are made to attract other business services as well and to promote Singapore as a warehousing and distribution center for exports to surrounding countries.⁶⁵ An example of its promotion in particular industries can be found in the small jewelry industry. Here, a

^{64/} STDB, Annual Report 1986/87, pp. 24, 27, 28, 67. Subsidizing marketing and related ventures like this is not new--many or most EEC member countries are said to provide similar subsidies, and Korea and Taiwan, China very likely do too--but Singapore has been particularly open about it.

^{65/} STDB, Annual Report 1986/87, pp 28-52.

one-year comprehensive program was undertaken to help Singapore companies sell jewelry to Japan, including a consultancy program to modify jewelry designs to suit the tastes of Japanese customers. Culminating this program, the Tokyo office staged a solo "Singapore Jewellery Show" attended by over 300 buyers from more than 200 Japanese companies.⁶⁶ In Singapore's biggest export industry, electronics, among many other initiatives, STDB achieved the formation of two consortia of local supporting industries. Together the consortia can offer a "comprehensive range of products and services to electronics original-equipment manufacturers overseas."⁶⁷ In connection with the trade-promotion program, one hundred workshops, seminars, and consultancies were organized "to disseminate necessary market information to help Singapore companies sell overseas."⁶⁸

Meanwhile, in STDB's one-man offices overseas, the officers actively prospect for sales for Singapore companies. One such officer was "said to spend at least 50% of his time out of the headquarters office, prospecting for sales, just as though he were a salesman. He works for a select list of Singapore companies, changed regularly according to results, and it is his job to prospect up to the initial order. This he passes on to the firm concerned, monitors its successful delivery, and then moves on

66/ Ibid., pp. 20 and 32.

67/ Ibid., p. 28.

68/ Ibid., p. 51. Singapore's Export Development Board, started way back in 1961, has its own schemes, such as a Product Development Assistance Scheme, a Venture Capital Scheme, a Capital Assistance Scheme, and Small Industry Finance Schemes, and administers sizable joint government training schemes. See its Annual Report, 1985/86, p. 63. Much more detail on the internal organization and activities of STDB, HKTDC, CETDC, and KOTRA can be found in Donald B. Keesing's "Support for Export Marketing in Singapore, Hong Kong, Taiwan, and Korea," a 54-page Annex dated March 31, 1986.

to operate similarly for other selected firms.⁶⁹ STDB's regional director in New York in early 1988, while also overseeing the work of all STDB North American offices, organizing trade fair participations, handling trade inquiries, helping Singapore exporters traveling abroad, and systematically collecting trade-related information, was actively pursuing export orders for as many as 20 widely varied products and services.⁷⁰

Some Tentative Conclusions

From the experience of the Four Successful Exceptions, one tentative conclusion that emerges is that an economy with policies fully favorable to manufactured exports can almost certainly accelerate their growth through the actions of a semi-independent trade promotion organization, strongly supported by the business community. The services offered by this TPO will tend to overlap those provided by numerous private sector firms and associations, which deserve to be encouraged at the same time.

For best results the TPO will systematically engage in four clusters of activities -- trade information and inquiry services, trade promotion such as trade fairs, market development including advice and strategically selected assistance to firms and export industries, and assistance to firms in key areas such as product design and packaging. As Hong Kong's example shows, however, even the first two activities without the others can be valuable. Quality of the services and skill in making them mutually supportive appear crucial. This qualitative performance appears to depend on the quality and experience of the leadership and

^{69/} World Bank Confidential Report, No. 6664-IN, India, Export Development: A Proposed Strategy, March 3, 1987, Vol. II, p. 141.

^{70/} Telephone interviews with Geoffrey Lim and his secretary Nadini Singapuri on January 25, 1988.

staff, and also on the economy's export policies and experience when the TPO is first launched.

Such a TPO can and almost certainly should be kept small and inexpensive for best results. One dollar or less of TPO expenditures per thousand dollars of manufactured exports appears to be the desirable level of spending. Some scale economies do almost certainly exist, particularly in trade information and trade promotion activities, so that this rule may not apply everywhere. But the most successful TPOs have avoided overmanning and leaving staff with little to do. They have also cultivated courtesy and pride as well as skill in the services offered.

The activities of the best of these organizations do appear well designed to overcome the information barriers encountered in trying to expand exports rapidly. Thus it is probable that they have indeed accelerated export growth substantially at low costs.

Relevance for Other Developing Economies

The above description helps to show what is done in each of the Four Successful Exceptions by way of support for export marketing. A question yet to be answered is, which elements in their programs and which of their approaches are suitable for developing economies still in transition toward suitable policies for manufactured exports? Some things they do are almost certainly relevant, since usually in such a transitional situation some industries already have bright prospects and are already exporting with some success. Moreover, part of the task in each of the four has been to assist new and inexperienced export firms and industries.

A more complete analysis of each of the four cases would also include the training and assistance offered by other organizations,

including exporters', manufacturers', traders', and industry associations.⁷¹ Some of these activities are probably desirable already in transitional situations -- indeed, such associations seem to have played an important role in teaching, assisting, and training member firms. Also evidently suitable are measures to encourage the growth of private enterprises offering information, consultancy assistance, and a wide range of business services relevant to exports, and to allow experienced foreign firms to set up branches in services crucial for exports.

In transitional situations in which some industries already enjoy favorable policies and prospects but others have as yet nothing to offer, another part of the answer is almost certainly to be highly selective in the firms and industries assisted. Even-handedness in the treatment of firms, as practiced by HKTDC, is surely incompatible with cost-effectiveness in such a setting.

In a transition, it probably also becomes necessary to concentrate on services most needed in the early development of export industries, except in providing support to the most experienced industries. Market development involving mainly assistance to promising firms in selected promising industries is likely to yield worthwhile returns. This includes targeting selected markets, setting up goals and strategies at the product or industry level, and giving firms assistance relating to the whole process of exporting and how to produce what is needed using their facilities, what added investments are required, and how to market their production capabilities or products. Assistance may have to concentrate first on what is supplied before there is a production capacity worth marketing.

^{71/} Further information on what the associations do can be found on the reports by W.D. Scott for Indonesia and Coras Trachtala for Malaysia, which together cover all four cases in their own way.

Information services likely to be useful include information to buyers on local supplier firms in promising industries and information for these local firms on what buyers are looking for, what exporters are expected to do, who the buyers are and how to contact them in promising markets. Many other activities carried out by the TPOs of the four exceptions may well be premature; trade fairs and selling missions, for example, are only likely to yield good returns for leading export products, or at least only after the ground has been laid by consultancy assistance to promising firms. Advice relating to product designs and packaging is hardly relevant until several export industries become so advanced that they begin to design their own products and market them in developed countries.

What is a feasible and desirable way to organize such a selective mix of assistance and support activities, and in what sort of organization, or project, may depend on the country and what is already there. The challenge is to select, adapt and scale down these activities in a developing country with partly satisfactory policies and, possibly, an ineffective TPO already.