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TRADE STRATEGIES AND EXPORT PROMOTION

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INTRODUCTION

During the last decade, most of the non-oil producing developing countries have been hardest hit by worsening terms of trade, increasing costs of imported products, stagnation of export earnings and growing external indebtness due to first and second oil shocks, historically high level of real interest rates, the longest recession of 1980-83 since 1930's and a growing protectionist trend in industrialized countries.

In this decade, in consequence of the above mentioned unfavourable combined external economic factors, every developing country has been faced extreme external and internal disequilibriums. To alleviate these severe disequilibriums, recently, number of developing countries have implemented comprehensive stabilization and adjustment programs and at the same time export-oriented growth policies.

The adoption of an export-oriented industrial strategy has been a major cause behind the rapid export growth of a number of developing countries over the last two decades. From 1960's to mid-1970's, the favourable international economic climate also helped to stimulate those countries' export drive. But, during the last decade, international trading environment has become increasingly more unfavourable especially for developing countries. Inspite of this, some of the developing countries still have been quite successful to increase their export earnings and thereby their sustained economic growth.

Scope and Purpose

The main objective of this study is to rewiev and examine trade strategies and export promotion policies in order to identify the factors that influence export promotion in the context of developing countries. In this research there will be no case studies. Given the fact

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that this study is not taking a case study approach, the main alternative approach is to identify the principal export-promotion instruments and relate some examples of such factors within the Middle Eastern countries, and finally qualitatively assess the importance of each export promotion factor.

The theme of defining policy making and implementation of an export promotion package is relatively new to many devoloping countries, and as a result there is lack of a concerted effort to give adequate attention to this subject. The aim of this study is to initiate some work and to provide a modest contribution to the thinking on this important topic. By examining such policy instruments of export promotion, this research is expected to assist the concerned developing countries to choose different export promotion policy mix with respect to their local circumstancs.

Method and Problems

Export promotion policies can be defined as a mix of mutually consistent policies and practices, affecting and regulating both import and export activities. The aim of these policies are the promotion and development of trade with other countries, with special emphasis on export activities. It is important to note that in this study, trade and export promotion will be considered as equivalent. In order to be effective, trade promotion policies must be considered as a main component of the overall foreign trade policies which must be designed in such a way that will allow the achievment of the objectives initiated by the promotional policies.

The main factors which influence export promotion are a set of policies referring to foreign exchange, imports, exports and international trade relations.

Foreign exchange policy covers not only determination of exchange rates but also the detarminants of real income from export such as surtax, multiple exchange rates, budgeting and allocation of foreign exchange reserves.

Import policies include import regimes and import regulations and procedures, tariff and non-tariff barriers, protectionist and preferential practices and activities of state trading organizations.

Essential **export policies** are regulations and procedures of exports, incentive schemes, export taxes, free trade and production zones, export credit and insurance.

International trade relations can be indicated as trade negotiations, countertrade, international transport and warehousing regulations.

Such policies, which constitute the core of the export promotion policy have to be supplemented with and supported by a series of sound domestic economic policies such as monetary and credit, fiscal, production and investment policies.

The subject matter is very complex. In addition to foreign trade strategies, the fallowing sections have to deal with government policies and measures, the role of the banks and other private and public financing institutions and mechanisms, and export credit guarantee and insurance schemes in facilitating the development and expansion of export sales from the developing countries' point of view.

In order to analyze most of these policies and problems this study will employ materials from official international and national organizations. The most beneficial unpublished recent materials on the subject are obtained from International Trade Centre UNCTAD/GATT (ITC). The most beneficial published materials for this study are various ITC publications; Central Bank reports of some developing countries; IMF reports namely, IMF Exchange Arrangements and Exchange Restrictions, 1980-1989; IMF occasional papers, and Annual Reports; World Bank Development reports, and country studies of World Bank; IMF Finance and Development quarterly journals, and other national and international publications.

For the purpose of this study, this research includes the following sections:

Section 1- After brief introduction of objectives, method and problems of this research in the Introduction part, Section1 gives brief review of the first and second stage of import substitution, Bhagwati-Kruger Phases Approach, mixed strategy, liberalization and their role on the export activities.

Section 2 focuses on the basic requirements to increase credibility of the export promotion program in any developing country from various point of view. In export promotion, the role of the government and the private institution and institutional set-up are studied in Part A. In the following parts, import regime for exports including export processing free trade zones, countertrade, infrastructure for export marketing, trade promotion organizations, private foreign trade campanies in export promotion are studied in detail.

Section 3 studies the relationship between stablization, liberalization, structural adjustment and export promotion. The role of realistic real exchange rate on export promotion is studied in the se-

cond section. The role of the fiscal and financial incentives, and export credit guarantee and insurance (ECGI) schemes on export promotion are also studied in the last section. Finally a brief summary of conclusions are presented.

SECTION-1

TRADE STRATEGIES, TRADE LIBERALIZATION AND EXPORT PROMOTION: AN OVERVIEW

A. Import Substitution

In general, trade strategies have been classifed as inward and outward[1], or import-substituting and export-promoting[2], or inward-looking[3], depending on whether sales in domestic and foreign markets receive similar or different incentives, or protections.

The terms "trade strategies and incentives" refer to the governmental measures that affect the allocation of factors of production - land, labour and capital- among different institutions, and that influence the economic activities towards export orientation and import substitution. Incentives include not only preferential credits and tax preferences but they include also protective measures and different type of exchange rate policies.[4]

With the exception of England during the Industrial Revolution, and more recently Hong Kong, all present-day industrialized and devoloping countries followed import substitution (IS) policies until certain stage of industrialization. The differences were, however, with respect to the rate and the form of protection for the domestic industries. While the industrialized countries relied on relatively low tariff during the early stages of industrialization, the majority of present-day developing countries applied high tariffs and/or quanti-

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(1) B. Balassa, **Devolepment Strategies in Semi-industrial Economies**, (Baltimore, the Johns Hopkins University press, 1982) pp. 3 and 38.

(2) J. Bhagwati, **Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes**, (Cambridge, Mass., Ballinger Publishing Co., NBER, 1978) pp. 1-5; A. Kruger, **Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences**, (Cambridge, Mass., Ballinger Publisher Co., NBER, 1978) pp. 1-10.

(3) G.Meier, **International Economics: Theory of Policy**, (London, Oxford University Press, 1980) p. 298.

(4) B. Balassa, **The Newly Industrializing Countries in the World Economy**, (New York, Pergamon Press, 1981) p.5.

tative restrictions such as quotas, import prohibition and import licencing.[5]

Having decided to industrialize, governments of developing countries had to choose an inward looking strategy of IS in order to achieve the objectives of industrialization, and to reduce balance of payments deficits. It is hoped that the newly created infant industries will become more efficient as they gain more experience, and that external economies will be generated as different type of industries are established. It is also hoped that, eventually, the need for protection will be diminished and some of the new industries may even begin to export their manufactured goods.

The main instruments used to protect infant industries were as follows:

High tariffs and quantitative restrictions were imposed on imports of the final products whereas intermediate inputs had low or no tariffs, overvalued exchange rate, negative real interest rate, underpriced public utilities (oil, electricity and gas), and publicly produced intermediate goods, tax holidays, administrative controls over entry into industry, export taxes and subsidies, price controls in general, public investment in both manufacturing enterprise and infrastructure that would stimulate industrial growth. The level of overall protection and the rate of other incentives to industrial sector varied greatly between different countries, and within the same countries for various manufacturing industries and at different times.[6]

(a) The First Stage of Import Substitution.

Bela Balassa made a distinction between the first (easy) stage and the second stage of IS. The purpose of the first stage of IS involves the replacement of the imports of non-durble consumer goods (clothes, shoes and household goods) and their inputs (textile fabrics, leather and wood) with domestic production. Substitution of imported non-durable consumer goods and their inputs were very suitable for developing countries to start industrialization. Because, production of these goods are labour intensive and require low level of technology.

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(5) **ibid.**; Kruger, "Trade Policies in Developing Countries" in.R.W. Jones and P.B. Kennen, Eds. **Handbook of International Economics, Volume I**, (Amsterdam, North-Holland, 1984) p. 528.

(6) W.M. corden, "Trade Policies", in J. Cody, H. Muphes and D. Wall (Eds.), **Policies for Industrial Progress in Developing Countries**, (London, Oxford Universty Press, 1980) pp. 41-43; Emin Çarıkcı, **Yarı Gelişmiş Ülkelerde ve Türkiye'de Sanayileşme Politikaları**, (Ankara, Turhan Kitabevi, 1983), pp. 18-20.

Furthermore, it does not require economies of scale, a good network of suppliers for parts and components for efficient operations.

During the "easy" stage of IS, the domestic production of above mentioned products generates external economies in the form of labour training, the development of entrepreneurship, and the spread of technology. At this stage, indeed, there is no need for high protection because production of these commodities are very suitable for the factor endowments and comparative advantages of the developing countries. Inspite of this, the majority of developing countries (except Far Eastern countries) implemented high rate of protection even in the course of first stage of IS. During this period, in general, domestic production will rise more rapidly than domestic consumption because it not only provides for increase in consumption but also replaces imported finished goods.[7] However, after certain period of time, when the process of easy stage has been completed, the rate of growth of output will be less than consumption.

Maintaining high industrial growth rates becomes increasingly difficult to follow beyond the completion of the easy consumer goods phase. Then it necessitates turning to the second stage of IS or moving to the outward looking strategy of export promotion.[8] This study will first consider the second stage and will subsequently examine an outward looking strategy of export promotion.

(b) The Second-stage of Import Substitution.

The economic history of many developing countres show that the replacement of the imports of non-durable consumer goods and their inputs by domestic production did not encounter much difficulty, and the first or the easy stage of IS was comleted with success in a few decades. Then majority of developing countries turned to the second stage of IS.[9] This stage involves the replacement of the imports of intermediate inputs, capital goods and consumer durables by domestic production. Compared with the products of the first stage these commodities require more skill, and they are capital and import intensive. A success of the second stage of IS in any country, therefore, depends on availability of sufficient capital (saving), skills and foreign exchance (imports). Because, replacement of imported intermediate and capital goods necessitates more capital intensive projects which result in a larger import component of investment. For exam-

(7) **ibid.**, Meier, op.cit., p.306.

(8) **ibid.**, Meier, op.cit., p.306.

(9) Balassa (1981), **op.cit.**,p.7; Meier, **op.cit.**,pp.306; F.Yagci, **Protection and Incentives in Turkish Manufacturing: An Evulation of Policies and Their Impact in 1981**, (washington D.C. WBSWP No. 660, 1984) p.4.

ple, intermediate inputs, such as petrochemicals, iron, steel tend to be highly capital intensive products. They also require important economies of scale and increasingly larger domestic market for the achievment of a minimum efficient plant size.

Capital goods, such as machinery and equipment, and consumer durables, such as automobiles and refrigerators, are also subject to economies of scale and require larger domestic market for the efficient scales of production. These poducts also require horizontal and vertical specialization and efficient plant size for the production of parts, components and accessories. However in many developing countries, due to the smallness of domestic markets and inefficiency of factors of production, even if these firms are established at optimum size, per unit cost of their output rise at lower output level.(10) In fact, majority of the firms have been established less than optimum size,because of the smallness of the market. Due to limitations for the exploitation of economies scale, the relatively small size of their national markets also contributes to high domestic costs in these countries.

Furthermore, the high level of import protection combined with an overvalued exchange rate discriminates against manufactured and primary activities in general. Creation of an anti- export bias and export disincentive usually result in stagnant export revenue which leads to foreign exchange constraint. At the same time net foreign exchange saving has been small since the country still has to import fuel, industrial intermediate inputs, capital goods, and even foodstuff in order to pursue second stage of import substitution.

During the second state, fluctuation in real exchange rate (adjustment of nominal exchange rate with respect to changes in rate of inflation at home and abroad) creates uncertainties for export and export- oriented investment. In addition, negative real interest rates have adverse effect on domestic savings, even though incremental capital/ output ratio has been raised due to capital-intersive activities of the second stage. The under pricing of public utilities are also beneficial for energy intensive industries and promote the use of capital rather than labour. As a result, in moving to the second stage of IS, instead of export promoting strategies, countries de-emphasize the role of prices, namely realistic interest rate, exchange rate, the wage rate, and price of public utilities. These unrealistic prices lead government-imposed distortions in both factor and product markets of developing countries. this situaion leads to fiscal disequilibrium

(10) İbid.

as a result of excess government expenditures.[11] Then deficit financing and inflationary pressures become common features of developing countries.

In conclusion, disequilibrium (distortions) in many markets is overspread throughout the third world, due to extensive implementation of second stage of IS. Through the foreign trade distortions, majority of the developing contries discriminate against their agricultural sector, manufactured import substitutes and exports. In factor markets, there is a strong tendency for wages to be above, while the cost of capital (interest rate) below the equilibrium levels. minimum wages, income taxes and social security benefits increase the wages, whereas the interest rate ceilings and the credit rationing lower the cost of capital.

B. Export Oriented Trade Strategies, Liberalization and Export

Even though all prices are important in all economies, equilibrium price of some prices assume key roles. Examples of these key prices are the exchange rate, the interest rate, the wage rate, the price of publicly produced intermediate inputs. In equilibrium, these prices must bring about a stable equality between the demand and the supply of the particular product, as well as in factors of production, other wise prices should not clear markets and this will create many constraints and distortions (disequilibrium) for steady industrialization.

Export promoting policies are essentially characterized by the maintenance over time of a realstic exchange rate and interest rate, monetary and fiscal stablization programmes, easing of quantitative import restrictions and a substitutions of tariffs for quotas, liberalization of foreign investment law, the reform of capital markets and administrative procedures, and reforms in the public sector mostly by adopting more realistic pricing policies for publicutilities.[12]

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(11) For further information about policy induced distortions, see World Bank, **World Development Report 1983**, (London, Oxford Universty Press, 1983) Chapter 6, on pp. 57-64; and M.J. Fry, "Analyzing Disequilibrium in Developing Economies: Editor's Introduction"; B. Balassa, "Disequilibrium Analysis in Developing Economics: An Overview; A.O. Kruger, "Analyzing Disequilibrium Exchange-Rate Systems in Developing Countries", V. Tanzi, "Fiscal Disequilibrium in Developing Countries", **World Development, December 1982**, Vol. 10, no.2, pp. 1025-1081.

(12) H.W. Singer and j.A. Ansari (Eds.), **Rich and Poor Countries**, Third Edition, (London, George Allen and Unwin Ltd., 1982) pp. 103-104; Balassa (1981) **op.cit.** p.297; A.O. kruger, "The Effects of Trade Strategies on Growth", **Finance & Development**, June 1983, pp. 6-8; L. Turner and N.Mc. Mullen (Eds). **Newly Industrialization countries: Trade and Adjustment**, (London, George Allen and Unwin Ltd., 1982), pp. 18-21.

Export-promoting policies are essentially liberalization of economic policies that would make increased use of market signals. This alternative strategy will significantly reduce price distortions[13] in factor and product markets by affecting the structure of relative prices, pattern of production and trade, and the levels of demand for different factors of production. This policy package will also reduce discrimination among different sectors. Thus, they will improve efficient use of allocation of resources.

(a) Bhagwati-Kruger Phases Approach

Recently, export promoting strategy has come to be known either as the later stages of Bhagwati-Kruger "Phases Approach" or mixed strategy.

At the beginning of 1969, the National Bureau of Economic Research (NBER) of U.S.A inaugurated a comprehensive project on Foreign Trade Regimes and Economic Development under the Joint directorship of I. Bhagwati and A. Kruger. This project included ten selected case studies, each of which written by different authors. Brazil, Chile, Colombia, Egypt, Ghana, India, Israel, Philippines, South Korea, and Turkey were selected for the project. Case studies were completed in mid 1970s. Results of the case studies summarized and analyzed in two different volumes in 1978. In their studies, Bhagwati, Kruger and their associates classified trade strategies in five phases.[14]

Phase I

This phase is characterized by the systematic and significant imposition of quantitative restrictions (QR) on international transactions in a rather crude and unsophisticated manner. They generally are initiated in response to an unsustainable balance of payment deficits resulting from sustained inflationary pressure or from a sharp drop in world prices for a country's some major exports. Throughout Phase I, duration of which can be varied from one country to another, reliance upon QR as a means of conrolling the balance of payment deficits, and illegal transactions are generally maintained and intensified. Import and export licences, control over capital and other invisible transactions are aimed to prevent capital flight and the emergence of a black market and to control allocation of foreign

(13) Price distortions exist when the prices of goods and services, as well as local and foreign capital and labour, depart from equilibrium prices. See R. Agarwala "Price Distortions and Growth: A Study of the Association in Developing Countries," **Finance and Development**, March 1984, pp. 33-34.

(14) J. Bhagwati, **op.cit.** pp. 56-59; A.O.Kruger(1978),op.cit.,pp.24-28.

exchange. These restrictions are applied with relatively few rules and undifferentiated manner.

Phase II

In phase II, quantitative restrictions are still intensely used, but the control mechanism becomes very complex differentiated with supplementary price measures such as increase in tariffs, surcharge on imports, special exchange rates for tourist income and remittances and other price measures.

During this Phase, bureaucratic in international transactions are intensified because both export and import regulations tend to be adopted in a fairly detailed and complex fashion. For example, imports are regulated by source, by commodity composition, by end use, by payment conditions; and exports are regulated by destination and by itemwise composition.

The major features of Phase II are the overvalued and multiple exchange rate policies. Effective exchange rate (EER) is complicated by tariffs and subsidies for exports and imports.[15] Even though price measures are used to set off some of the undesired results of the QR, the system is always very heavily biased in favor of imports, or import substitutes, but biased against exports. Because, due to high rate of protection, the effective exchange rate on exports (EERx) is always lower than imports (EERx/EERm<1) [16].

Phase III

This phase can take various forms. It may consist of a mere simplification and rationalization of import regimes by reasonable uniform tariffs, such that the differential incentive effects caused by diverse premium on different imported items are greatly reduced or almost eliminated. Alternatively some tariff and subsidies are replaced by formal devaluation of exchange rate and by reducing reliance upon quantitative restrictions. Phase III may be substantially more ambitious and take the form of a devaluation-liberalization package which may signal the beginning of witdrawal from reliance upon quantitative restrictions. Such package usually involves large devaluation accompanied by debt rescheduling and import liberalizations which are supported by external grants and aids.

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(15) See for further information j. Bhagwati, **ibid**, pp. 12-41

Phase IV

When the changes in Phase III result in adjustment within the country, liberalization effort can continue, then the country is said to enter Phase IV. During this phase, necessary adjustments including increased foreign exchange earnings, gradual relaxation ofquantitative restrictions, and more realistic exchange rate policies are adopted. As a result dispersion in the incentives of the different activities has diminished and the effective exchange rate on export is equated to that of imports (EERx/EERm=1). Needless to say, this outcome can only be anticipated from a sustained ambitious effort of a devaluation-liberalization package form of Phase III.

Phase V

This is a period during which a foreign trade strategies are fully liberalized. This means that there is full convertibility on current account transactions, and no quantitative restrictions are employed to regulate the balanceof payments. Realistic (equilibrium) exchange rate policies are adopted through pegged or flexible exchange rate, and/or monetary and fiscal policies are employed as instruments to achieve payments balance instead of reliance on an exchange control mechanism.

For the countries of the NBER project, which covers foreign trade controls and foreign exchange policies of the countries mentioned from 1950 through the early 1970s, Phase V was an ideal rather than a reality. It is also worth to mentioin that certain similar policy instruments can be used in different phases. Because of than, Phase II, III, and IV cannot be differentiated sharply from each other.[17] For example duty free importation of raw materials is almost common in all three phases. Equilibrium exchange rate policy is usually adopted in Phase III and IV.

However, it is possible to mention that Phase I and III appear transitional Phases II, and IV-V respectively. Phase I and II together corresponds to "inward-looking", or "import substituting" industrialization, whereas Phases IV and V together represent an "outward-looking" or "export-oriented" or "export substituting" industrialization or trade strategies.[18]

Phase I and II, or Import Substituting trade strategies are mostly based on quantitative import restrictions and exchange controls.

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(17) **ibid.**, pp. 59-60

(18) D.B. Keesing, **Trade Policy for Developing Countries**, (Washington D.C. WBSWP No. 353, August 1979) p. 139.

Phase III, IV and V or export-oriented trade strartegies in general rely on price-based policies such as exchange rate, tariffs, other taxes and subsidies (monetary and fiscal policies), but they make very little or no use of QRs.[19]

In NBER studies, all the countries were at the Phase IV and V during the early 1950s, probably as a result of Korean boom and favourable international environment for aid and other trade activities.[20] But, in mid 1950s, all of them moved into Phase I which is really an early form of exchange control system as a liberal strategy has just been abandoned. But, from mid 1950s to early 1970s, one group of countries namely Brazil, Isreal and South Korea have progressed through the Phases From I to IV. Other countries including Chile, Egypt, India and Turkey have made repeated attempts at Phase III, but they could not continue to their liberalization attempts and moved into Phase II.[21]

NBER project provided a sound empirical basis for certain conclusions with respect to the impact of policy alterations on export growth, industrialization and economic growth. There are substantial differences in the economic and political histories; and factor endowments of the countries studied at this projects. Many factors might be affected by their export and development performance, other than trade strategies and exchange rate policies. However, two broad conclusions are strongly supported by evidences which can be found in Bhagwati, and Kruger synthesis volumes. These are, firstly, the movement from heavy import restrictions such as import prohibitions, licences, quotas, foreign exchange restrictions and overvalued exchange rates toward more open economies, realistic interest and exchange rate policies have resulted in higher exports and GNP growth rates. During the period countries that failed to liberalize their trade and foreign exchange policies experienced slow economic growth or stagnation, and poor export performance.[22] The poor performance accompanying IS as contrasted with outward-looking strategy arose from price distortions that discouraged exports in favour of high cost and inefficient IS, and reduced rates of savings and investment, and increased capital/output and capital/labour ratios. Earlier on OECD Study and recent studies of B. Balassa have reached similar conclu-

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(19) **ibid.**, p. 140.

(20) See Bhagwati, **op.cit.**, Figure 3.1 on p.61.

(21) **ibid**

(22) For further information, see Bhagwati, **ibid.**, pp. 181-192, kruger (December 1982) op.cit., p.8.

sion that the economic performance of outward-looking countries has been superior to that of inward looking countries.[23]

The experience of the East Asian countries shows that the maintenance of competitive exchange rates, and avoidance of excessive import substitution have resulted higher growth rate for those outward oriented countries. For example, the annual GNP growth rate for outward oriented developing countries averaged 7.1 per cent in 1963-73, 5.1 per cet in 1973-76, 8.4 per cent in 1976-79 and 1.0 per cent in 1979-82. The corresponding GNP growth rates for inward-oriented economies were 5.7 per cent in 1963-73, 5.3 per cent in 1973-76, 4.5 per cent in 1976-79, and 0.2 per cent in 1979-82.[24] The most recent study of 41 developing countries by the World Bank staff for the periods of 1963-73 and 1973-85 has reached similar results.[25]

(b) Mixed Strategy and Export Promotion

Recently, it is claimed that export oriented or export promotion strategy (Phases IV and V) can be identified as a mixed strategy which gives equal incentives (EERx/EERm=1) to both importables (import and import substitutes) and exportables.[26]

Because, the main purpose of an outward oriented strategy is the elimination of biases against the exportables and in favor of the importables rather than reversing it in other direction. Thus, this policy provides neutral incentives between production for the domestic market and exports.

It is also recognized that within the export promotion (EERx=EERm) or ultra-export promotion (EERx>EERm) for instance, some activities may be import substituting (EERm>EERx). Therefore, the implementation of any type of export promotion strategy does not prevent import substituting and government intervention on activity in selected sectors.[27]

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(23) I. Little, T. Scitovsky and M. Scott, **Industry and trade in Some Developing countries: A Comparative Study** (Oxford, Oxford Universty Press, 1970); Balassa (1981) op.cit. pp. 16-17, 20; Balassa, "Adjustment Policies in Developing Countries: A Reassessment" **World Development**, Vol. 12, No.9, September 1984, pp. 970-971.

(24) Balassa (September 1984), **op.cit.**, p.970; and, World Bank, **World Development Report** 1985 (London, Oxford University Press, 1985) p.55

(25) World bank, **World Development Report 1987** (London, Oxford University Press, 1987) Figure 5.2 on p. 84.

(26) Bhagwati, **op.cit.**, pp. 207-208; Balassa (1982), **op.cit.**, pp. 38-39.

(27) J. Bhagwati, **Export Promoting Trade Strategy: Issues and Evidence**, The World Bank Discussion paper no. ERS 7, October 1986, pp. 12-14

The actual problem for a developing country is not to choose either an import-substituting strategy or export-promoting strategy alone, but rather to implement the right mix of the two strategies selectively for each sector or industry. The problem is to find out appropriate domestic policy package to allocate resources more efficiently for internal and external opportunities. Implementation of selected import substituting and export promoting industries is needed even when a country emphasizes outward looking strategy, IS may be complementary for export promotion.[28] For example, the intermediate inputs used in production of export goods might be replaced by local production. But, the most important requirement for selectivity is that policies should equate **the marginal domestic resource costs (DRC)** of alternative activities. DRC is defined as the value of domestic resources employed in earning or saving one dollar of foreign exchange when producing domestic goods. It is evaluated at shadow or opportunity cost prices.[29]

To equate DRC of export goods and import substitutes, protection has to be at the minimum level which reduces distortions for all activities. As it is mentioned before, in order to reduce distortions right pricing policies have to be implemented, or EER for both export and import substitution goods has to be similar.

As a result, economic output and growth will be maximized only when resources are allocated more efficiently by a mechanism that takes full account of their relative scarcity and costs. It is estimated that price distortions alone can explain at least one-third of the variation in economic growth performance of the developing countries. The rest of the growth performance is explained by the result of other economic, social, political and institutional factors.[30]

SECTİON-2

BASIC REQUIREMENTS TO INCREASE CREDIBILITY OF THE EXPORT PROMOTION PROGRAMME

A. The Role of the Government and the Participation of the private Institutions

Each government has direct or indirect role in export promotion and industrialization by providing basic education, physical infrastructure, a set of secure economic rights and investing in certain eco-

(28) **WorldDevelopmentReport 1983, op.cit.** pp. 52-54.

(29) See for further information, Bhagwati (1978), op.cit. pp. 87-101.

(30) For further information see, **World Development Report**, 1983, **op.cit.** pp. 57-63.

nomic activities. Direct and indirect intervention of each government on economic affairs varies greatly across the countries according to its ideology, political structure, administrative capacity of public sector, and the experience of the private sector.

Governments have a central role of the implementation of export promotion. The promotion and development of exports is a joint effort of the government, banks, trade servicing institutions and exporters. In order to provide satisfactory services to exporters, governments must initiate certain policies and support scheme. In export promotion, banks and trade promotion agencies have a complementary role and they should develop close working relationships with the government. The following are some of the governmental measures that developing countries with a successful export performance have found helpful in this respect.

The active participation of representatives of private sector companies, such as chambers of commerce, industry and commodity exchanges and/or exporters' and manufacturers' associations, and associations of producers or traders in a particular product group, should also be included in the preparation and implementation of the export promotion program. The involvement of various government and private sector agencies in the preparation and implementation of the program facilitates the required national commitment on the priority of export development as well as coordination and sustainability of these policies over the longer period.[31]

The success of export drive depends on the government's establishing and maintaining a credible medium-term commitment to a more market-oriented trade and other macroeconomic policies consistent with the export promotion policies. If this commitment is in doubt by private sector, it will discourage movements of resources out of import-competing activities and into the expansion of exports, and it might induce the reintroduction of protectionist policies due to political pressures from those injured by the recent liberalization attempt.

B. Institutional Set-up

As a first step, the export promotion program has to be prepared by the participation of both public and private sectors and it should be approved by the highest authority of the government. At the inital stage this will ensure the strong support of the both sectors. Then im-

(31) C. Jaramillo, "Preparing National Export Promotion Programmes", **International trade Forum,** Volume 23, No.3, 1987, pp.24-30; ITC (1986a), "Guidelines for the Formulation of Export Promotion Programmes", **Draft,** Geneva, ITC, 1986, pp.1-10; Bhagwati (1986), **op.cit.** pp.14-15

plementation of the program can be delegated to a central body. The president of this body should be an official of sufficient standing to secure the cooperation of the public and private sectors in order to increase speed of decision making in the country's foreign trade. The central body can create a high level commission to evaluate the periodic evaluation and revision of the implementation of the program. This commission should be composed the top executives and officials of both private and public organizations responsible for formulating policies on foreign trade and production of the respective institutions. This will increase the decision making ability of the commission.

The central body should establish a time frame for eloboration of the export promotion program. This body must also ascertain whether the country has a clear legal framewrok and adequate infrustructure for foreign trade comprising bodies responsible for defining, implementing and evaluating export promotion policies. Establishment and imposition of the basic outlines of the export promotion policy by the central body can increase the consistency of the decisions of all the country's economic sectors, producers and exporters concerning the international trade.[32]

In addition to the establishment of a central body for export promotion, periodic consultation between business and government circles is very important to have a national commitment on the priority of export development. For example, in Japan several commissions were established in the Ministry of International Trade and industry to allow business leaders, academic specialists and officials to discuss and modify the export promotion and other economic policies. For that purpose, the Commerce and Industry Deliberation Council was established in 1927. The Industrial Rationalization Council, and the Industrial Structure Council were set-up in 1949 and 1961 respectively. In the republic of Korea, under the Chairmanship of the President of the country, government and business representatives have been evaluating the export targets and actual resutls of the firms during the monthly meetings.[33] In 1980, Turkey has also established a national economic council to bring government and business representitives to discuss and modify the new export oriented economic policies.

C. Import Regime for Exports

(a) Import Regime for Greater International Competitiveness

Due to chronical balance of payment problems and foreign exchange shortages, most of the non-oil exporting developing countries

(32) **Ibid.**

(33) **WorldDevelopmentReport 1983, op.cit.** p. 55.

are almost obliged to frame a restrictive import regime. This regime may, in general, use both high rate of tariff and quantitative import control instruments such as quotas, import prohibitions, or licencing, to limit imports. In order to avoid a balance of payment crisis implementation of these policies may be unavoidable, but in the long run they affect adversely on the competetiveness and export growth and thereby economic growth of the country.

The restrictive import regime is instrumental in limiting not only imports but also, indirectly, export activities. Because, by artificially raising the rate of return in import-competing industries, import restrictions were biased against exports. In fact, an export promotion strategy requires incentives which are neutral between production for domestic market and exports. This requires the establishment of an import regime for exports.[34]

In developing countries, a special import regime for export has to be designed due to following reasons: In general,

- domestic inputs are of inferior quality and cannot be used for production of exports,
- delivery schedules of the domestic suppliers are not dependable or too long,
- prices of domestically produced inputs usually more expensive than imported similar inputs,
- foreign importers might insist on the use of specified imported materials in the manufacturing,
- the quality of export production cannot be improved without import of new machinery and equipment,
- import of latest designs and fashions might be needed in order to catch up the changing tastes of consumers in the world market.

Since the essense of an export promotion strategy is neither discrimination in favour of exports nor bias against import-competing activities, firstly quantitative restrictions such as quotas, licencing and prohibitions should be replaced with equivalent tariffs. Then, gradually, the average level of tariffs and dispersion of tariffs for different imported goods have to be reduced according to a time table, with the aim of achieving a low and uniform tariff which leads to achieve a more efficient use of resources. For reduction of the range of tariff rates and their average level, a developing country needs realistic timetables which depend on how quickly resources can be expected to be reallocated to the export oriented and more efficient import competing sectors that have up to now been discriminated against.

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(34) For furter information, see ITC, **Import Operations and Techniques: Core Papers on Import Management** (Geneva, ITC, 1985) pp. 1-8

The amount of time necessary to eliminate quantitative restricti ons and tariffs (realistic time table of a trade reform) may differ fron one economic activity to another and from country to country. It is known that trade reform can not be completed over the short run. Only a few countries have been completed it within the medium term. In general, it requires a long run adjustment period. For example, even the most successful export oriented countries, such as South Korea and Southern European countries have still not completed their trade reforms after at least two decades.[35]

Governments in a number of developing countries have designed other specific policy regimes to suit the requirements for the greater international competitiveness of the export sector in terms of import regime. These are the establishment of Export Processing Zones, and the use of import power for export promotion (countertrade).

(b) Export Processing Free Trade Zones

Since 1960s, a growing tendency to establish free trade zones (FTZs) and export processing free zones (EPZs) has been observed in many countries. Curretly, more than 450 FTZs and EPZs have been established in 80 countries and the volume of trade generated in these zones was estimated by 300 billion U.S. dollar per year during the mid 1980s.[36]

These zones are regions located inside the political boundaries of a country but considered to be outside the jurisdiction of the customs and foreign exchange regulations. They consist of limited areas of land and these zones are separated from the surrounding host country's territory by fences and other barriers. In general, the reorientation of national economic policies from import substituion to export promotion in the 1970s and 1980s led to the establishment of EPZs in some of the developing countries. For example, S. Korea and Sri Lanka in 1970s and Turkey in early 1980s declared their intention to open up FTZs and EPZs as a part of their liberalization programmes.

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(35) V. Carbo and J. de Melo, "Lessons from the Southern Core Policy Policy Reforms", **Research Observer**, Vol.2, No.2 (July 1987), pp. 127-128; World Development Report 1987, op.cit. pp. 109-110.

(36) For further information, see UN, **Export Processing Free Zones in Developing** Countries (New York, un, 1985); E.Lee, **Export Processing Zones and Industrial Employment in Asia: Papers and Proceedings of a Technical Workshop** (Bangkok, ARTEP, 1984); D.L.U. Jayawardena, "Free Trade Zones", Journal of World trade Law, Vol.17, No.5 (September-October 1983) pp. 427-444; Emin Çarıkcı, **A Critical Survey of the Economic Impact of Export Processing Free Zones** (Ankara, TOBB, 1989) pp. 15-30.; SESRTCIC, **Free Zones** (Ankara, SESRTCIC, 1986).

In developing countries the entire production of EPZs is normally intended for export purposes. EPZs are established by them for the purpose attracting foreign investment and know-how and promoting the development of export-oriented manufactured industries. Major sectors of production in these zones are electronics, clothing, footwear, leather products, electrical products, optical goods, plastics, toys, sporting goods, car parts and some transport equipment.

Varient of the same concept is to establish 100 per cent export oriented firms anywhere within the country but allow them identical benefits as are given to firms in the EPZs, subject to the condition that they would be exporting their total output. It is important to note that under both of these schemes, since the import content of production tends to be generally high, It would, therefore, be necessary to introduce some controls in the form of minumum value added to ensure the realization of a net foreign exchange earnings out of these export oriented activities.

(c) Use of Import Power for Export Promotion (Countertrade)

The idea of using the country's import power for export promotion or **countertrade (CT)** is a relatively new instrument in international trade. CT has a variety of forms. There are four conventional types (classical barter, compensaton, counterpurchase arrangements and buy-back arrangements) and two non-conventional forms (advance purchases and offsset deals) of countertrade. Any type of CT requires a conditional linnk between exports and imports, but this requirement is not always necessarily attained at approximately equal value.

In 1980s, CT is becoming increasingly used in bilateral trade and formalized in the respective import regimes of a fairly large number of devoloping and industrialized countries. As of June 1986, 21 countries enacted CT legislation, 72 countries have CT directives, and in 118 countries CT demanded by individual companies.[37]

Until 1980s, CT is used rarely by developed and developing countries. Whenever it is used it has been mostly allowed with Eastern European countries as an alternative method for short-term traditi-

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(37) For detailed study in CT, see ASTRO, Complimentary Manual of Comprehensive Reference Service on Countertrade, Volume Manual, Ljublijana-Yugoslavia, ASTRO, 1985) pp. Survey 1-8; ASTRO, Comprehensive Reference Service on Countertradewith Regular Updaters, Volumes I and II (Ljublijana, ASTRO, 1985-1987); E.Çarıkcı (1989-a) Countertrade Policies and Prospect for Cooperation Among Islamic Countries (Ankara, TOBB, 1989-a) pp. 29-52.

onal trade financing. This form of trade has spread steadily around the world in 1980s in response to the unfavourable economic changes in the global economy during the last decade. In this decade, CT is becoming a short term and medium term method for trade promotion as well as a mechanism to meet long-term economic development needs of third world countries. Developing countries are increasingly using different form of government-manded CT mechanisms in order to purchase not only aid and advanced equipment, but also technology and the managerial skills needed to facilitate major development projects, to develop natural resources or to construct infrastructure.[38]

For non-oil exporting developing countries, foreign exchange shortages is perhaps the main reason for the use of CT deals increasingly. However, liquidity problem can not be the only motivating factors that encourage employment of CT. For example, some Muslim countries, namely Indonesia, Malaysia and Saudi Arabia are practicing CT in spite of their strong hard currecy reserve holdings. By linking trade flows, these countries are aiming to achieve diversification of their foreign trade structure in both product and geographical term. At the same time, they are trying to reduce the geo-political risks of their foreign trade.[39]

Estimates of the magnitude of CT varies from 5 to 40 percent of the world trade, depending upon the definition of CT used. When above mentioned both conventional and non-conventional types of CT mechanisms whic excludes bilaterial trade, are icluded, it is estimated by Helmut Ferenz, the UNCTAD consultant, that CT transactions accounted for 550 billion dollars or 27.6 eprcent of the world trade (2,000 billion) in 1984. Out of this 27.6 percent, 4.5 percent belongs to developing countries, 16.3 percent to OECD countries and 6.8 percent to East European and other countries. In 1984, estimated portion of countertrade in the exports of OECD countries was 25 percent, OPEC 15 percent and non-OPEC devoloping countries was 20 percent. For Islamic countries, this percentage probably reached to 25 percent in 1984. According to ASTRO, counterpurchase deals account for 55 per-

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(38) For further information, see ibid.; L. Welt, Countertrade, (London, euromoney Publication Limited, 1985); S. Rubin, The Business Manager's Guide to Barter, Offset and Countertrade, (London, The Economist Publications Ltd., 1986); Emin Çarıkcı op.cit.(1989-a). pp. 35-72.

(39) **ibid.**, S. Rubin, pp. 83-85, 91-92 and 109-113; E. Çarıkcı, **ibid.**, pp. 33-36, 40-41 and 45-46.

cent of all the CT transactions in the world. The usage of each of barter, buy-back and offset deals is around 15 percent.(40)

Countertrade is a complex, expensive and risky method of trading. Because, traders have to involve purchase and re-sell goods outside their area of product specialization and with no readymade cash markets in the industrialized countries. They have to buy from unknown suppliers, pay prices that are generally inflated for inferior-quality of goods, worry about shipping, documentation, warehousing, insuring, and financing export of products. A countertrade transaction could involve findings buyers and sellers, conducting prolonged negotiations, managing currency transactions, exposing to risks and still remaining competitive.

Countertrading in many commodities is a very specialized activity that requires a good knowledge of issues involved and a substantial experience in actual trading. Most of the developing countries simply do not have the necessary qualified personnel to run CT with maximum efficiency.[41]

D. Infrastructure for Export Marketing

In this decade, many developing countries are attempting to implement export promotion programs in order to alleviate their chronic foreign exchange constraints. However, the lack of human capital and infrastructures have appeared as other important impediments for their successful export promotion drive. Therefore, it is obvious that in these countries governments must be played a major role in providing sufficient economic infrastructures for export. Physical infrastructure for export covers harbours and airports, facilities or land, sea and air transport, the most efficient communications services, warehouses and distribution centers.

Rapid improvement in transportation and telecommunications services provide important services to other parts of the economy as well as to country's international trade. Both sectors require large investment which once made, can overwhelmingly reduce cost of opening up both internal and external economic opportunities. Brazillian and South Korean experiences in the past and the recent experience of Turkey show that infrastructure investment was a priority and it was an important contributor to rapid and sustained increase in their exports.

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(40) UNCTAD, "Report on the Asian Regional Workshop on Countertrade", Kuala Lumpur March 24-28, 1986, p. 32; **ASTRO Manual 1985, op.cit.** pp. 16-17; E. Çarıkçı (1985-a) pp. 21-29.

(41) For further information, see E. Çarıkçı (1989-a) op.cit. pp. 27-51 and69-71.

Thus, in an export promotion program, public investment should be mostly directed toward activities with externalities and long pay back periods, for example human resource development and physical infrastructure including the most modern communication systems. Directly productive investments should mainly be left over to the private sector of the each developing country.[42]

E. Trade Promotion Organizations and Trade Companies

(a) Trade Promotion Organizations

Governments in developing counries have become aware of the need to provide a series of technical support services for the achievement of an increased foreign market penetration. The creation of **trade promotion organization (TPO)** is very important for that purpose. The objectives, organization and functioning of this institution varies from one country to another.[43]

TPOs should be service organizations mainly intended to help the private and public business communuties in increasing the foreign market penetration and thereby volume of foreign sales. In general, their basic duties are promotion of non-traditional exports and diversification of export products. In order to be successful, TPOs must have the necessary autonomy and authority to carry out their programmes which usually include market research, trade information services and a range of specific promotional activities. In general they collect information on foreign markets and disseminate it to local manufacturers and exporters; collect information on products avalable for export and disseminate it in other countries; maintain adequate and effective representation in foreign countries; organize the participation of exporters in trade fairs and exhibitions in foreign countries, and in commercial missions; assist in the simplification of export procedures and formalities; organize workshop, seminars and conferences on export promotion matters and others.[44]

The role of TPOs in export promotion varies substantially from one country to another, depending on many factors of a local nature, such as the essential role to be played, availability of resources and qualified staff, administrative practices, priority assigned to trade promotion and other reasons. For example, as far as foreign repre-

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(42) World Development Report 1986, **op.cit.** p.3.5; World Development Report 1987, **op.cit.**, pp. 64-66; ITC(1986), **op.cit.**, p.13.

(43) For detailed information, see ITC(1986b) **Monograph on the Role, Place and Organization of Trade Promotion** (Geneva, ITC, 1986) tables of Annex III on pp. 110-145.

(44) **ibid.** pp. 15-21.

sentation is concerned, out of 68 countries studied, half of them are represented by their TPOs. In the other countries, this representation is carried out by staff belonging to the Ministry of Foreign Affairs or the Ministry of Trade or its equivalent.[45]

The staff of an overseas trade promotion office must be skilled in trade promotion in order to provide information on new marketing opportunities and help exporters on the spot when they require information regarding foreign markets. The number of staff required depends on the size of the host country and the type and size of tasks to be performed. Director and the deputy director of the office should be well trained in market research and other marketing skills. They have to be less than 40 years of age appointed for a minimum of five years and fluent in the principal commercial language of the host country.[46]

(b) Private Foreign Trade Companies

During the early stages of launiching export promotion programs in developing countries, it may be possible to channel a greater volume of export goods through the private tradingcompanies (houses) which have specialized in the export business. Because, in most of these countries manufactured products have usually produced by small and medium-sized industrial firms scattered throughout the country without having enough experience in the export business.

In some of the developing countries the contribution of large trading companies to export promotion has been remarkable since they have been granted certain preferential treatment by the respectve governments in financing and in foreign trade operations. on the basis of commission, these companies perform the important function of acting as intermediary between the local producers of the goods and the foreign buyers since they have the necessary expertise and skills and also possess a substantial amount of knowledge of international requirements with respect to prices, quality, delivery schedules, packing and shipping arrangements for export products.[47] In addition, the establishment of large trading companies increase the bargaining power of the country and ease the cut-throat competition

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(45) **ibid.** Annex III, Table 8 on pp. 128-129.

(46) For further information, see J.V. Melchers, "An Overseas Branch Office: A Tool for Market Entry", **International Trade Forum**, July-September 1987, pp. 20-23.

(47) ITC(1984a), **The Financing of Exports from Developing Countries** (Geneva, ITC, 1984) pp. 64-65; I. Agoston, "A Case History in Export Success: The Republic of Korea", **International Trade Forum**, January-March 1985, p.34.

among the small and medium size of local exporters especially in the markets of the neighbouring countries.

Private trading companies were set up in mid-1970s in South Korea, and early 1980s in Turkey. These companies now account for close to half of the recent Korean exports and around 40 percent of the Turkish exports.[48] The recent Turkish export promotion experience shows that large private trading companies of the big Turkish firms have made substantial contribution to the rapid increase in the country's exports during the 1980s. Because, they have the financial resources, experiences and marketing skills and network to take over the more complex export transactions.

SECTİON-3

APPROPRIATE MACRO ECONOMIC POLICIES AND EXPORT PROMOTION MEASURES

A. Stablization, Liberalization, Structural Adjustment and Export Promotion

Trade liberalization requires not only a change in the form of protection from quantitative restrictions to tariffs, but also a reduction in the levels and dispersion of rates of protection among different economic activities. But it is virtually impossible to sustain and complete a trade reform in an economy facing stabilization and adjustment since mid-1970s. After 1973, because of oil socks, world recession, interest and exchange rate instability and rising protectionism, international environment deteriorated for developing countries. Thus, for these countries, after 1973, "the decades of adjustment period" is started. For them, stabilization, macroeconomic and structural adjustment become necessary pre-conditions for the success of their export drive.

All of the more ambitious and long lasting trade reforms and liberalization attempts have started when a macroeconomic crisis forced the government to stabilize the economy over relatively short period of time, in order to reduce excessive budgetary and balance of payments deficits and high rate of inflation. To sustain trade liberalization beyond its inital stage, economic and political stabilities and implementation of overall economic reform packages are essential. Only a strong government can implement a costly overall economic policy packages which might be included not only foreign trade reform but also appropriate market-oriented macroeconomic policies for stabilization and structural adjustment. In general, eco-

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(48) ibid., Agoston (1985); Istanbul Chambers of Commerce, **Monthly Economic Figures**, June 1987 pp. 60-61.

nomc policy packages consist broad-based price liberalization, including positive real interest rates on bank deposits, realistic exchange rate, trade liberalization, liberalization of the exchange and payments system, financial sector reform, reorganisation of public enterprise, liberalization of foreign investment law and tax reform.(49)

Sometimes, some of the stabilization and structural adjustmant policies work against each other.For example, a rapid reduction in distortionary taxes due to new revenue - raising measures, increase the budget deficit in the short-run. Unless macroeconomic policy package is consistent with longer-term structural aims, goverment run the risk of having reverse or abondon foreign trade reforms or liberalization attempts for the wrong reaons. İf budget Deficits or external imbalances are allowed to continue unchecked, the country will be forced to run down its foreigne uxchange reserves and/or exhaust its acces to foreign borrowing. Once this happens, domestic demand can no longer be maintained above income. Under these circumstances governments have to make further reduction in the growth rate or to prepare and implement new economic policy package. Both alternatives of the government are painfull.(50)

The exact mix of appropriate policies varies from one country to another. However, the overall aim is to restore and maintain economic stability while simultaneously improving the incentive and institutional structure to encourage domestic savings, investment, production, exports and the more efficient use of allocation of resources.

Turkey provides a good example of a Muslim country where domestic policies, as opposed to a sudden change in external circumstances, created an unsustainable macroeconomic position that slowed growth until corrective action was taken. Throughout the 1970s, many coalition governments pursued expansionary monetary, fiscal and inward-oriented growth policies, financed the current account deficits by heavy foreign borrowing, and protected domestic industry

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(49) For further information, see B. Balassa and McCartney D.F., **Adjustment Policies in Developing Countries, 1979-83: An Update**, World Bank Staff Working Papers No.675 (Novenber 1984); L.Turner and N. Mac Mullen (Eds.), **op.cit.**; World Bank, World Development Report 1987, **op.cit**, Chapters 6-7;M.Mussa "Macroeconomik Policy and Trade Liberalization: Some Guideliness", and M.S. Khan, "Macroeconomic Adjustment in Developing Countries: A Policy Perspective", **Research Observe,** Vol.2, No.1 (January 1987) pp.61-77 and 23-41 respectively.

(50) World Development Report 1987, **ibid**, Part I; M. Khan, ibid. pp. 23-27; World Bank, World Development Report 1986, Document of the World Bank, Report No. 6134, pp. 3.1-3.6; E. Çarıkcı (1983), **op. cit.**, 59-64.

by high import barriers. When the country's external credibility totally exhausted due to delayed adjustment and it could no longer borrow abroad, in January 1980 the Turkish Government implemented a comprehensive policy package designed to both restore domestic stability and restructure the economy with respect to export oriented growth over the medium term.(51)

Economic reform measures of January 1980 representes a basic reorientation of policy away from import substitution to export-oriented growth. This programme included the following measures: an inital 33 per cent devaluation of Turkish Lira against the dollar and other convertible currencies on January 24, 1980 and afterward flexible exchange rate policy is adopted. More frequent and smaller exchange rate adjustments were implemented until the end of April 1981. On may 01, 1981, daily adjustment of exchange rate were introduced and this policy has been implemented until today. This policy offsets the effect of inflation rate differentials with Turkey's trading partners and thereby maintains the competitiveness of Turkish exports in the Middle Eastern and Western Europen countries. Until 1980, foreign exchange rate policy or devaluation of Turkish Lira was always a political issue in Turkey. But since 1981, it has been accepted as a technical matter of the Turkish Central Bank. Turkish residents are now also entitled to hold foreign currencies and eligible to open saving accounts denominated in foreign exchange with the Turkish commercial banks.

Export promotin measures, including the liberalization of external trade and payments regulations have also been changed gradually. Under the new trade regime, all goods are freely importable, except those explicitly prohibited or subject to licencing. Tax rebates granted for export are eliminated at the begining of 1989.

Other measure of the reform are tight monetary and fiscal policies, elimination of price controls in both public and private sectors, realistic intertest rate policies, reorganization of public companies (SEE), introduction of a more liberal foreign investment policy, and

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(51) For the evaluation of the Turkish experience, see G. Koptis, Structural Reform, Stabilization and Growth in Turkey (washington D.C., IMF, 1987), Occasional PaperNo. 52 (May 1987), Chapters IV-VI; F. Yagci, op.cit. pp. 1-24; Emin Çarıkcı, "Trade Strategies and Prospect for Economic Cooperation Among Selected OIC Members: Egypt, Saudi arabia and Turkey", unpublished Research Paper prepared for IRTI/IDB in 1985, Chapter III-3; E. Çarıkcı, The Economic Impact of Temporary ManpwoerMigration in Selected OIC member Countries: Bangldesh, Pakistan and Turkey, Jeddah, IRTI/IDB, 1987, pp. 49-55. Migration in Selected OIC member Countries: Bangldesh, Pakistan and Turkey, Jeddah, IRTI/IDB, 1987, pp. 49-55.

above all the reduction of bureaucracy to a minumum level and the introduction of a rapid decision-making system in the implementation of this programme.

The Turkish Governement has also introduced a new concept of savings, financing and investment with a new law of "Encouragement of Savings and Acceleration of Public Investment" in Turkey. This law created a new financial security, namely the revenue-sharing bond. These are documents allowing people's participation in the revenues accruing from publicly-owned infrastructure facilities, such as bridges, dams, power plants, highways, tele-communication systems, railways, ports and airports. These bonds do not guarantee a fixed income. Their proceeds are annually calculated on the basis of revenues accruing to the infrastructure facilty in question. Estimated revenue of the first series of bonds was lower than the prevalent rate of interest.

The revenue flow to the Fund has reached the equivalent of approximately $ 400 million in less than a year through the bonds issued on the Bosphorus Bridge and the two hydro-electric power plants. These bonds were purchased mainly by small sources are being used to finance 14 dams and hydroelectric power plants including the 2400 MW Aatürk Dam (the largest in Turkey) and the 1800 MW Karakaya hydro-power plants.

Another socio-economic programme launched by the government is the establishment of the Housing Development Fund. The Fund receives revenues in the form of a fraction of taxes imposed on such monopoly goods as alcoholic and non-alcoholic drinks and tabacco, petroleum products as well as levies on luxury import goods; a fixed amount charged on persons going abroad as tourists; loans and revolving revenues etc. Before the liberalization of foreign trade in 1980, American cigarettes and some luxury goods were being smuggled into Turkey. During the 1980s, they are creating an important financial source for the financing of low and middle income groups housing.

In order to increase reliable financial resources, Turkish government has also introduced Value Added Tax (VAT) and a tax rebate on purchase of goods and services. This mechanism increases the net income of the lowest bracket of salary earners, by bringing down 25% income tax to practically 5% through the rebates. Another equally important objective of this system is to prevent tax evasion. Indeed the invoice collecting habit helped greatly to establish VAT in Turkey in less than a year.

As a result of implementation of this new programme, pattern of trade and diversification of products increased subsantially in

Turkey. From 1979 to 1988, number of goods which were subject to exports increased from 800 to 3500, and Turkish merchandise export increased from $ 2.2 billion to $ 11.7 billion and its share in GNP increased from 5 percent to around 15 percent, and share of manufactured products in total Turkish exports increased from 34 percent to 80 percent, share of industrial sector in GDP increased from 24 percent to 32 percent. During the 1981-88 period, average annual real GNP growth was 5.2 percent, accelerating toward the end of the period.[52]

These favorable results are achieved during the present unfavorable international economic situation thanks to formulation and implementation of stablization and trade liberalization programs followed by a medium term adjustment programmes in Turkey. These policies, their implementation and their results could serve as a good example to other Muslim countries.

In short, liberalization of foreign trae and export promotion policies need to be supported by the mix of appropriate stablization and structural adjustment policies which focus on changing export and investment incentives. In the following sections other important basic required instruments to increase credibility of the export promotion program will be studied.

B. Realistic Real Exchange Rate Policy and Export Promotion

In many developing countries, governments have tried to maintain their official domestic exchange rates by supporting them with restrictive trade and exchange controls and foreign borrowing. This leads overvalued exchange rate which depresses the price of tradable goods relative to nontraded goods, and encourages expansion of nontraded sector at the expense of the tradable sector. Exchange rate overvalution distorts the efficiency of allocation of resources, discourages export and economic growth.

The crucial determinant of good export performance has been the long run stability of the real exchange rate for exports. The real exchange rate is the nominal rate corrected for inflation in domestic prices relative to inflation in world prices. Long run stability of the real exchange rate maintains the export competitiveness of a country in spite of persistent inflation at home.[53]

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(52) For further information, see SPO, **Turkey: Main Economic Indicators** (Ankara, SPO, May 1989) Chapters I and IV; Turkish Chambers of Union (TOBB), **Economic Report** 1989 (Ankara, TOBB) Part I and VIII.

(53) For further information, see World Development report 1987 **op.cit.**, pp. 101, 109, 112.

Perhaps the most common element found in country experiences is that the trade liberalization attempt fails, and the policy is reversed, when the real exchange rate fals as a result of either because, when it is adjusted frequently (crawling), it fails to rise to the extent of domestic inflation. In a country, when inflation is higher than world inflation, that country must devalue its currency if it wishes its prices to remain competitive in international markets. If the devaluation exactly offsets the inflation differential, the real exchange rate is said to remain constant, and thereby prices of the countrly remain competitive abroad. In the absence of strong price incentives to exports other than through the exchange rate exports decline, or at least fail to increase, while imports tend to rise substantially.[54]

Realistic exchange rate policy is one of the most important key pre-requisite for implementation of successful export promotion strategy.[55] Because, the exchange rate is the price of foreign exchange in trms of national currency. It is a key variable which affects the relation between domestic and foreign prices. It might be the most effective instrument for simultaneously promotion exports and reducing imports in an efficient manner without any administrative burden.[56] Because, devaluation is usually considered as a combination of a flat **ad valorem** import duty to all imports and an equivalent **ad valorem** subsidy on all exports.[57] As a result devaluation not only increases exports but also reduces the imports (decreased rise in imports). By increasing the price of imports, exchange rate adjustment will also be given some form of protection to the import substituting industries. Ralistic exchange rate enables scarce foreign exchange to be allocated efficiently among both export-oriented and import-competing sectors without the need for costly subsidy mechanisms for export industries and artificial protection for import substitution industries through import licencing, quotas and exchange controls.

Economic performance of developing countries are very sensitive to the fluctuation of exchange rate of major currencies. During the last decade, implementation of proper exchange rate policy which is more suitable to the rapidly changing local and external conditions have become very important and crucial issue as one of the export promotion device in each developing country. Through a flexible exchange rate policy, providing a realistic real exchange rate is vital

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(54) **Ibid.**; M. Michaely, "The Timing and Sequence of a Trade Liberalization Policy", World Bank CPD Discussion Paper No. 1984-14, September 1984, p.27.

(55) D.B. Keesing, **op.cit.**, pp. 23-24.

(56) R. Agarwala, **op.cit.**, p. 35.

(57) N. Kaldor, "Devaluation and Adjustment in Developing Countries", **Finance and Development**, June 1983, p.36.

to the succesful introduction of trade reform and export promotion. Keeping it stable in the long run is essential if the reform and export promotion have to be sustained. All this requires a macroeconomic policy that manages inflation and the nominal exchange rate so as to keep the export competitiveness of the country by establishing the link between changes in the foreign prices and domestic prices and domestic prices of traded goods.[58]

C. Financing Non-Traditional Production and Exports

The most important problem facing the developing countries with respect to achieving export expansion is the commodity composition of their external trade. The major part of their export earning accounted for by traditional exports which mainly consist of primary products. There are inherent limitations to the growth potential of traditional export products due to the inelasticity of international demand as a result of the emergence of substitutes, and quantitative and other restrictions imposed by developed market-economy countries. For example, a recent UN study indicates that the terms of trade had moved against the majority of primary commodities since 1970s, and during the 1981-1986 period the cumulative loss in developing countries' foreign exchange earnings from the 1980 levels for primary commodities other than fuels is estimated to be about $ 70 billion. During this period there has also been a substantial decline in export earnings from petroleum.[59]

Under these circumstances, it is necessary for developing countries to launch industrialization programs for the long-erm expansion of new exports of processed, semi-mnufactured and manufactured goods. In addition to improve production and exports of traditional items are continued, it is the export of non-traditional items like light engineering products, chemicals, garments and also agro-based industrial products, which could more quickly contribute to an appreciable increase in the foreign exchange earnings of devoloping countries. For that purpose implementation of following export-oriented fiscal and financial incentives is needed.

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(58) Keesing, **op.cit.**, pp. 24-25; M. Khan and M.D. Knight, **Fund-Supported Programs and economic Growth** (IMF Occasional Paper No. 41, Washington, D.C., November 1985) pp. 15-17; E. Çarıkcı, "Esnek Kur Politikaları ve Dış Ticarete Etkileri", **HÜ. İktisadi ve İdari Bilimler Fakültesi Dergisi**, Ankara, Cilt 1, Sayı 2, Aralık 1983, pp. 88-102.

(59) UNCTAD, **Revitilizing Development, Growth and International Trade: Assessment and Policy Options** (New York, U.N. 1987) pp. 11-12

(a) Fiscal Incentives

All major exporting countries make extensive use of domestic taxes to supplement and replace tariffs or exchange adjustments to make exports more attractive with respect to domestic sales and more competitive in foreign markets. With the proper timing and selectivity, foreign inputs to the production of exported goods are commonly exempted from customs duties, or the duties are rebated when the exports occur. Recently, permission of duty-free entry of foreign inputs for manufactured product become common practice in most of the more advanced developing countries. Income tax exemptions or tax holidays for approved export-oriented investment have also used as export promotion devices.(60)

In general, the usual tariff structure sets a lower rate of duty on raw materials and intermediate goods than on the final products. Lower rate of import duty on raw materials and intermediate goods, and the application of the duty exemption or rebate system may not counteract the usual bias toward the domestic market. For example recent Turkish export promotion program includes following fiscal incentives to the exporters:

- duty free entry of raw materials, intermediate products and packaging materials,
- tax rebates on exports,
- exemption from Value Added Tax,
- exemption from payment of duties and fees,
- keeping 20 percent of export earnings abroad and using them for the importation of inputs of manufactured export products,
- importation based on the Temporary admission Regime,
- priority to allocation of foreign exchange.(61)

In the Latin Amerika countries, temporary admission, duty drawback, tax reimbursement and tax compensation are also usedas tariff incentives. Out of these, temporary admission scheme has been the most popular fiscal incentive for the exporters.(62)

(b) Financial Incentives

It is generally recognized that the provision of adequate export credit financing plays an important role in the promotion and ex-

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(60) For further information, see ITC (1984a)op.cit. pp. 4-8.

(61) Ministry of Industry and Commerce (MIC), **Turkey: Economic and Industrial Report**, (Ankara, MIC, 1987) pp. 12-13 and 26-27.

(62)ITC (1984b), Institutional Systems for Export Promotion in Latin America and the Carebian: A Comparative Analysis (Geneva, ITC, 1984) p. 67.

pansion of the export of manufactured and semi-manufactured products. Because, non-traditional exports such as manufacturesand capital goods by their nature require medium-to long term financing. Many developing countries lack an efficient and adequate domestic banking system to finance the more risky non-traditional exports. Because, the financing of traditional exports such as primary aqricultural and mineral products is short-term, very profitable and hence presents lesser problems than the financing of non-traditional products.[63]

Export credits have evolved in several forms as supplier credits, buyer credits, line of credit and relending facilities. These credits have been used to promote exports in industrialized countries since many decades. Recently, they are being adopted in some newly industrializing countries. With supplier credit, bank credits are given to the supplier (exporter) in one country who in turn extends these credits to the importer in another country.

Buyer credit is generally used for financing large-valued contracts of projects or equipment supplies on a long term basis. Under the buyer credit, the bank credit is extended to the foreign buyer (importer) which enables him to pay cash to the exporter. The importer will pay back the funds as per the agreed schedule to the bank which has originally extended the credit. Buyer credit usually involves with a considerable number of partial deliveries in the long-run and large amounts of credit. Then, this type of credit mechanisms lends itself to the concept of line of credit. A line of credit is a single loan agreement which is set up to finance a number of separate contracts. The system of buyer guarantees has usually been extended to provide cover for lines of credit to overseas governments and government agencies either for miscellaneous capital goods purchases or for contracts associated with one project which is usually known as project line of credit.[64]

In the past, developing countries exported mainly raw materials and commodities, which they sold to traditional buyers in traditional markets. Such exports did not require special type of financing arrangements. But, as developing countries increasingly try to penetrate new markets and diversify their export product mix through non-traditional products, they need more complex and comprehen-

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(63) UNCTAD, "Export Financing in Developing Countries", Report No. UNCTAD/MFD/TA/20, pp. 1-3.

(64) For the further explanation of supplier credit, buyer credit and a line of credit, see C.J. Gmur (Ed.), **Trade Financing**, Second Edition, (London, Euromoney Publications, 1986) pp. 103-105; A. Dunn and M. Knight, (Eds.), **Export Finance**, (London, Euromoney Publications, 1982), pp. 9-11.

sive financial support from the local banks. In order to meet the requirement of a rapidly changing international trading environment, the financial and banking entities of developing countries need to make changes in their operational policies to help their clients attract export business and make their export products available at competitive price abroad. Terms and conditions of the export credits are very important for that purpose. Needed amount of credit, within the appropriate time period and on the preferential interest rates should be provided to the exporters. Pre-shipment and post-shipment financing facilities should be made available to exporters in the small-scale business sector as well as to large firms and to export merchants as well as to exporters/manufacturers.[65]

In short, in a developing country, any export promotion programme should be consisted most of the following export promotion, policies and measures:[66]

- periodic adjustment of the exchange rate,
- preferential interest rates for exporters,
- import liberalization and tariff reform,
- a tariff refund system,
- tariff exemptions on imports of raw materials for export
- preferential energy and transport subsidies for export shipments,
- reduced business income tax rate on export income,
- partial export-import link system,
- special accelerated depreciation on the fixed assets of export industries,
- establishment of appropriate organisations such as trade promotion council, general trading companies,
- special accelerated depreciation on the fixed assets of export industries,
-establishment of appropriate organisations such as trade promotion council, general trading companies,
- establishment of export processing zones and free trade zones,
- establishment of export-import bank for the operation of export credit and insurance system, and
- other direct and indirect export subsidies.

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(65) For further information on the role of the banking system in export development, see. ITC(1984a), op.cit., pp. 15-70.

(66) For further detailed information see, ITC (1984a) and ITC (1984b) **op.cit.**; ITC (1984c), **The Export performance of the Republic of Korea: 1961-1982** (Geneva, ITC, 1984); pp. 24, 30-31 and 66-67; ITC (1986b) op.cit.; and ITC, **Promoting Trade** (Geneva, ITC, 1987); MIC-Turkey (1987), **op.cit.**, pp. 26-27; E. Çarıkcı, "Comments on Prof. Dr. V. Nienhaus' Paper", **Economic Journal**, Government College, Lahore, Vol. XX, No. 1&2, 1987, pp. 115-126.

In recent years, favorable access to export credit became a key element in export promotion, because competition in foreign markets is becoming increasingly intensified and the bargaining power has shifted from seller (exporter) to he buyer (importer), who tends to dictate terms in regard to price, quality and delivery schedules and also insist on uppropriate credit terms and conditions. This is especially true for the continious increase in non-traditional export which usually reguires medium and long-term finincing. The domestic banking sector of the majority of developing countries often lacks the resources required to cope with the problems faced by exporters of non-traditional products. In order to fill up this gap most of the more developed countries have establişhed some specialised institutions, such as development banks and export/import banks that provide export credit financing and insurance facilities to meet the need of the non-traditional good exporters.(67)

(c) Export Credit Guarantee and Export Credit Insurance

All the governments have recognized the need for some degree of direct or indirect subsidy for their exporters and importers since many decades. This need of subsidy has been further intensified during the 1980s due to further intensification of competition in international market especially for non-traditional exports. In general, today the world has almost become a buyer's market and foreign industrial godd importers are generally demanding liberal credit facilities from ixporters. As a result, national exporters need huge financial facilities to finance their export operations. Otherwise,they can not compete with the manufactured goods exporters of the other countries.

As mentioned before,exports of manufactures and capital goods by their nature require medium-to long-term financing which involves commercial and political risks in international trade. For that purpose, many newly industrialized countries have found in necessary to set up export credit guarantee and/or export credit insurance (ECGI) systems as an official bodies or institutions acting on behalf of the state. In fact, in industrialized countries ECGI systems had establişhed during the last 3 to 5 decades. In recent years some newly industrializing countries are developing their own national schemes. except in the case of India, Isreal and Pakistan,all of these schemes have begun within the last two decades, and are, therefore, still evolving and changing.(68)

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(67) UNCTAD, "The Financing of Trade among Developing Countries",TD/B/C.7/81, 12 August 1986.

(68) For the detailed study on the experiences of developed and developing countries' national ECGI schemes, see **ibid.**, pp.2 and Annex pages 1-8; Dunn

Following developing and OIC member countries have already establshed ECGI schemes at the national level: Argantina(1969), Bangladesh, Brazil (1980), Cyprus, India (1957), Indonesia, Israel (1957), Hong Kong (1966), Jamaica, Republic of Korea (1969), Malaysia (1978), Mexico, Morocco, Nigeria, Pakistan (1962), Panama, Philippines, Portugal (1969), Spain (1971), Singapore (1976), Taiwan (1979), Turkey (1987), Venezuela (1977), Yugoslavia and Zimbabwe.(69)

The main function of any ECGI agency is to support export through various policies and gurantees provided to cover commercial and political risks involved in the country's foreign trade, as in the case of developed countries in general and recently Brazil, South Korea and Yugoslavia, the financing of investment abroad. Loans of these export agencies are extended through buyer credits, supplier credit and lines of credit with subsidized and fixed interest rate depending on the export product, destination and credit period. These credits are denominated in either a convertible currency (i.e US dollars) or local currency and coverng between 80 to 90 percent of the contract value. Interest rates are usually less than 10 percent for a covertible currency denominated loans and a third of the value of the on-going market interest rate of the local currency. Maturities of these credits vary between 180 days to two years for manufactured goods and 5 to 10 years for capital goods. Traditional agricultural and mineral export goods are not generally eligible for finance from any ECGI agency.(70)

In short, export promotion systems including the export credit and insurance rules are not precise. Each system in different countries and the same system within the same country differ radically from each other during the passage of time, because they are evolving overtime. Hence, a particular export promotion strategy, including export credit and insurance system, appropriate in particular circumstances in a particular country at a particular time may be totally inappropriate at a diffeent time. This is even more the case in different countries or under different internal and external economic circumstances.

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and Knight (Eds. 1982), **op.cit.**, pp. 53-151; IDB, "Detailed Study on the Establisment of an Export Credit and Guarantee Insurance Scheme among OIC Member Countries", presented at the Third Session of the COMCEC meeting held in Istanbul, 7-10 September 1987, pp. 25-26; ITC (1984a), **op.cit.**, p.12 and pp. 79-115.

(69) **Ibid.**

(70) For further information, see UNCTAD (August 1986), **op.cit.**, pp. 1-8; Dunn and Knight (1982) **op.cit.** pp. 142-147; D. Whiting, **Finance of Foreign Trade** (London, Pitman Publishing Ltd., 1986), pp. 103-112.

The content of each package should be determined by the authorities of each country with respect to their financial and administrative potentials. Because, implementation of an export promotion program is very complex and the sums involved are always very huge.

CONCLUSIONS

Export promotion policies can be defined as a mix of mutually consistent policies and practices, affecting and regulating both import and export activities. The aim of these policies are the promotion and development of trade with foreign trade partners, with special emphasis on export activities. It is important to note that in this study, trade and export promotion are considered as equivalent. In fact, trade promotion policies are the main component of he overall foreign trade strategies which must be designed in such a way that will allow the achievement of the objectives initiated by the promotional policies. The aim of this research is to capture the guidelines of an appropriate export promotion package and to explain the role of each instrument in the package in promoting a country's export without undertaking any case study.

Experience indicates that the industrialization strategies of newly industrialized countries do not conform to the import-substitution/export promotion dichotomy. The actual problem for a developing country is to implement the right mix of the two strategies selectively for each sector or industry in order to allocate resources more efficiently for internal and external opportunities. This requires the finding of the right domestic policy package and appropriate degree of government intervention which minimizes the observed shortcoming of both import substituion and export promotion strategies, with the relative importance of each element varying among the countries and changing overtime. But, after the second stage of import substituion, this policy mix has to be in favour of export promotion which provides neutral incentives between production for the domestic market and exports.

Export promoting policies are essentially liberalization of economic policies that would make increased use of market signals in order to reduce discrimination among different sectors and improve efficient use of alloction of resources. For that purpose, implementation of most of the following policies have also been crucial for successful export drive. This are he maintenance overtime of a realistic exchange rate and interest rate, monetary and fiscal stabilization programes, easing of quantitative import restrictions and a substitution of tariff for quotas, liberalization of foreign investment law, the reform of financial and capital markets and administrative procedures, and implementation of more realistic pricing policies for pub-

lic utilities. These policies usually provide balanced incentives for growth in both export and domestic industries.

Each cuntry's different socio-economik end politicial structure requires implementation of a specific policy package which includes efficient production end export incentive measures suitable to it's resources, comparative advantage, the experience and levels of it's private and public sectors and it's institutional formation.

The implemented export promotion program must be stable over time and needs a periodic objective review and only minor modifications as a result of change in internal and/or external economic conditions. These modifications should not be too drastic and frequent, because, there have been too many examples of export promotion attempts started and then abondoned without giving them the time required to produce result. Frequent and drastic modifications will confuse producer and/or exporters about the government's objectives and will reduce not only their commitments but also the ability of public administrators to discharge their responsibilities for the success of the export promotion program.

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