AN EXPORT MARKETING MODEL FOR LESS - DEVELOPED COUNTRIES : A CASE STUDY OF TURKEY IN LIGHT OF THE JAPANESE EXPERIENCE

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Less - developed countries (LDCs) rely heavily on export marketing to obtain foreign currencies necessary for economic development. Several new developments in the theory of international trade have been incorporated to form general guidelines for an export marketing model for LDCs. The model also incorporates some of the features of the successful Japanese export strategy. Its usefulness is illustrated by applying it to Turkey, and LDC which could greatly benefit from an increase in export marketing.

INTRODUCTION

Less - developed countries (LDCs) rely heavily on export marketing to obtain foreign currencies necessary for economic development. Marketing domestic products in other countries provides LDCs with a reliable source of income to purchase capital goods from industrialized countries.

Generally the exports of the LDCs consist of agricultural products and raw materials. But this dependence on primary products has proved to have many disadvantages, such as the reliance on weather conditions, constant decline in prices due to competition between numerous sellers, and the substitution of synthetic materials for natural materials. Therefore, if the aspirations of the LDCs of the world are to be fulfilled, high priority must be given to the marketing of manufactured products abroad.

Studying actual trade patterns of manufactured goods in the 1970's has lead to an international «Product Life Cycle Model» (11, p. 4). This model had many potential uses for LDCs in indicating the characteristics of successfully exportable products and the countries to which they should be marketed. For fast and efficient

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market growth, government planners and marketers could use these characteristics to select their export portfolios and target markets. Another research development in the 1970's the «Experience Curves» could be beneficial in ensuring the success of the export marketing strategy. The «Experience Curves» show that in a variety of industries, the total cost declines by a characteristic amount each time accumulated production experience doubles (2). If an LDC uses a model which combines «The Product Life Cycle Model» and «Experience Curves», it could make better choices of exports and decrease costs and prices by large scale production which would enable it to capture substantial shares of the world markets in certain industries.

Turkey is an LDC struggling with export marketing problems. The major concern, as expressed in the five - year development plans, is to shift the majority of its exports from agricultural to industrial goods. This has to be done in a relatively short period of time, 14 years, because in 1995, Turkey will be a full member of the European Economic Community (EEC) (8, p. 64). At the moment, the country is not ready for such an entry and cannot compete with the stronger, industrialized Western European countries. If industrialization is not accomplished within the allowed period, free competition with EEC countries will push Turkey back to being an agrarian economy.

One of the main problems is that analytical studies of current Turkish export marketing have not been conducted. This paper tries to lay the foundation for such studies and proposes an «Export Marketing Model» for Turkey, which is based on the international product life cycle model and the experience curves. The Japanese have made very effective use of these two concepts in their export market development and they can serve as an enlightening example in Turkey's struggle to become an industrial economy.

AN OVERVIEW OF TURKISH EXPORT MARKETING

For a long period, Turkish exports were mainly agricultural products (Table 1, Column 2). After 1968, manufactured product exports began a steady increase and the proportion of manufactured product exports in total exports increased from 13.5 % in 1968 to 36 % in 1980 (Table 1, Column 8) (3, p. 65). Yet, lately, even this impressive increase has been below the goals set by the ambi-

tious five - year - plans that started in 1963 (Table 1, Column 9). The main reason for this is the steady rising oil prices that started in late 1973. Higher oil cost increased the export prices of most manufactured products causing less demand for them in the importing countries (see Table 2 for the effects of rising oil prices on export increase percentages).

Turkey's decision to join the European Common Market (EEC) implies that Turkey must change its economic structure to resemble that of Western European countries. The five - year development plans emphasizing the increase of industrial products aim to create this resemblance. The Ankara Agreement, signed June 12, 1963, formally obligates Turkey to the following : establishing a customs union in the future; allowing the free flow of factors of production; abolishing different treatment of workers due to nationalities; changing the Government's economic policies to resemble the EEC's economic policies. The procedures to be applied to Turkey during the transition period are specified in an amendment in November 23, 1970. The transition period will terminate in 1995, and at that time, Turkey will be ready to discuss the procedures to become a full member (8, p. 64).

The amendment became operational in September 1, 1971 and EEC countries abolished their quotas and import taxes on industrial products imported from Turkey. In response, Turkey must lower its trade barriers against imports from the EEC countries and abolish them by 1995 (8, p. 64). This means that in the future, the Turkish government will not be able to use some of its protective policies which contribute to the achievement of its goals for the development of the country.

The members of the EEC have the structure of developed economies. Their per capita income is much higher than Turkey's. They are at a higher level of science and technology (8, p. 124). In order for Turkey to participate in joint economic policy with these developed nations in 14 years, a model that will accelerate the growth of its manufactured exports is vital.

New Developments in the Theory of International Trade
The International «Product Life Cycle Model»

Classical and neoclassical theories of international trade were very elegant, however, they failed to describe actual trade patterns.

Therefore, business professors, whose interests were practical problem solving, developed the international «product life cycle model.» Although this model was less elegant compared to traditional theory, it did turn out to be helpful in explaining trade flows of manufactured goods. (11, pp. 3, 5).

The first version of the model was described by Vernon (9, p. 199) as a three - stage process (Figure 1 a). Then Wells (11, p. 15) presented a five - phase model (Figure 1 b). In summary, the model suggests that «many products go through a cycle during which high - income mass consumption countries are initially exporters, then lose their export markets, and finally become importers of the product. At the same time other advanced countries shift from the position of importers to exporters later in time, and still later, LDCs shift from being importers to being exporters of a product» (6, p. 266).

During the last stage LDCs get a chance to make a breakthrough into the big and rich markets of the developed countries if they realize the chance in time. The best example is standardized textiles. Other examples are standardized computer and electronics parts from other LDCs. The current growth rates for exports of manufactures from LDCs may indicate that they will soon become an important factor for European and American businessmen. (10, p. 4).

Export Marketing Implications of Experience Curves

The experience curve concept has been developed entirely from the work of the staff of The Boston Consulting Group. The experience curve effect is distinctly different from «learning curves» and «progress functions» in that it encompasses all costs (including capital, administrative, research and marketing - not only labor) and traces them through technological displacement and product evolution (1).

The Concept

It has been shown that for a variety of industries, total cost in constant dollars will decline by a characteristic amount each time accumulated production experience doubles. This is true for entire industries as well as for individual companies and has been obser-

ved in many countries, including the U.S. and Japan. For most industries and products, the unit cost decline is about 20 to 30 percent for every doubling of accumulated experience. Though the precise reasons for this phenomenon are not well documented, it appears to be a combination of learning by doing, management experience, and economies of scale; and it is an accepted part of cost - projection formulations in the aircraft and semi - conductor industries. The cost - experience relationship can be plotted on log - paper to give the industry (or company) experience curve. (Figure 2).

Export Marketing Implications

Export marketing policy significantly affects product cost because of the volume potential it affords. Freer trade can spell tremendous cost reduction to individual firms by allowing them to expand volume and thus, descend their cost/volume slope faster. If this analysis is carried to its logical conclusion, this also means substantial savings in resources for entire countries.

If two countries trade with each other, the costs of production can be lowered significantly for both. On the basis of experience curves, two economies of equal size theoretically can have potential cost savings approaching 30 % by completely free trade between them compared to full seperation. Four economies of equal size can have cost levels approaching 50 % of those which would be required if they were all separate, equal and self - contained.

The public policy issues in export marketing seem clear and straightforward. Very substantial benefits in terms of lower costs are potentially available merely by enlarging the scope of the free trading area. Thus technical investments will be more readily justified and progress will almost certainly take place faster in those economies which have the largest free trading area. The price of the cost savings in mutual dependence of the different parts of the trading area.

Japanese Export Marketing

Agressiveness and effectiveness of Japanese export marketing is admired worldwide. Instead of every manufacturer trying to market its products aboard by himself, Japanese use trading com-

panies that are specialized in worldwide exports and imports as intermediaries. There are three hundred major trading firms responsible for 80 percent of Japanese exports and imports, with a dozen large firms accounting for 60 percent of total trading company volume (6, p. 126).

By design, Japan first exports to LDCs and then to developed countries. In the 1950s, approximately three - quarters of Japan's exports were being shipped to LDCs. During Japan's rapid growth between 1950 - 1960, her export trade changed radically both in composition and destination. «By 1964 Japanese exports going to more advanced countries reached 50 % of her total exports; and this percentage is still increasing» (7, p. 162).

First, Japanese manufacturers satisfied internal demand for products that were produced overseas. They had to purchase technology, usually from the U.S., to accomplish this. Then they started exporting to LDCs in Asia where there was a growing demand for the product and no domestic competition. Frequently Asian LDCs served as a testing ground for Japanese manufacturers in the world market. Japan's geographical proximity and relative similarities of its social and cultural background contributed to its success in these Asian LDCs. After a firm gained worldwide competitive strength, the Japanese manufacturers were exported to industrial nations. Hence, the Japanese have been consciously taking advantage of the duality of their export markets (7, p. 178).

A Turkish Export Marketing Model

Characteristics of the Middle Eastern and Western European Market Turkey, like Japan, is a country between the advanced and less - developed world, from the viewpoint of geography and economic development. Therefore, she also faces a dichotomy of her export markets; Middle Eastern countries as LDCs and Western European countries as developed nations.

Most of the Middle Eastern countries were part of the Ottoman Empire for more than four centuries. At the end of the First World War, the empire collapsed and Turkey, as well as most of the Middle Eastern countries, were invaded. The Turkish war for independence, establishment of the Turkish Republic and the reforms that created modern Turkey have been admired and taken

as a model by many Middle Eastern countries. Many Arab nationalists look at Atatürk, the creator of the Turkish republic, as an idol and try to increase their contacts with Turkey, probably the most developed Moslem country in the world. Therefore, we can conclude that Turkey is closer to the Middle Eastern countries than to Western Europe both in geographical and cultural - political distance.

The Middle East has been going through a big change after the energy crisis of 1973. Dramatic rises in oil prices resulted in accumulations of buying power which created more demand for consumer products and industrial goods required by ambitious development plans. The Middle East is an ideal market for Turkey in her efforts to export its manufactured goods.

Most of the sixteen countries in Western Europe have highly developed economies and generate approximately 30 percent of global income. Widely spread industrialization, higher urbanization and literacy, existance of customs unions or free trade agreements are some of the characteristics of Western Europe. In a small area 404 million people live quite a prosperous life. Some of these countries have higher per capita incomes and higher standard of living than the United States (6, p. 119). Western Europe is another ideal export market for Turkey because, in addition to high purchasing power, the size of the market allows large scale production facilities that will benefit from the experience curves.

The Model : The export marketing model we have developed for Turkey provides general guidelines which other LDCs could use. It is composed of five stages. (See Figure 3). They are as follows :

Stage I : PRODUCT SELECTION :

The first stage of the model is selecting the products that are at the threshold of being exportable from the LDCs. These should be products that are in or are moving into the mature phase and have the following characteristics :

1. High domestic raw material content
2. A labor intensive technology to benefit from low labor costs
3. Standardized, with long production runs that will allow functioning of the experience curves

4. Highly price elastic demand
5. Initially high domestic demand and later high international demand for the product

Stage II : DOMESTIC SALES

After selection of the products, investments are made to build the production facilities. Economies of scale are important considerations, but the capacities are generally limited by the domestic consumption potentials. At this stage, technology is purchased from the developed countries, which sell it quite cheaply compared to the original research and development cost, since they have already covered those expenses during the growth phase of the product life cycle (PLC). Starting from a low base, experience is accumulated at a fast rate which in turn allows lowering of costs and prices.

Stage III : EXPORT TO MIDDLE EAST

After experience is gained and costs are lowered, bigger and relatively more capital - intensive production facilities are built and exporting to Middle Eastern countries starts. International marketing experience is gained and sliding further down the experience curve allows further lowering of costs and prices, which stimulates additional domestic as well as international demand.

Stage IV : EXPORT TO EEC

EEC should be the main target of exports, since Turkey will be in this free trade area soon. In this stage, larger capital investments are made considering the substantial demand of the EEC countries. Since technology is the same and economies of scale are exploited, Turkey could use its low labor costs to capture a substantial share of the EEC market in these highly price sensitive products. Before exporting to EEC countries begins, the quality preferences and standards of EEC countries should be investigated and necessary product improvements should be made to satisfy the quality - conscious European customers.

Stage V : EXPORT TO U.S.A.

The products that are successful in the EEC could be exported to the U.S.A., because mass production with lower labor rates,

per raw materials and perhaps newer plants may enable Turkey to cheaper raw materials and perhaps newer plants may enable Turkey to produce at a lower cost than the U.S. Of course, ocean freight and U.S. duties should be considered as additional costs before deciding to export to the U.S. American producers pricing on full cost might be undercut if only marginal costs are used for export pricing to gain entrance to this competitive market.

An Example A good example for a product that can be exported from Turkey to other LDCs and developed countries using this export marketing model would be textiles. Raw materials for textiles such as cotton, wool and silk are available in large quantities at low prices in Turkey. Textile is a labor intensive industry and cost of labor is low in Turkey. Textiles are mature and relatively standardized products with generally price elastic demands. Since clothing is a basic necessity, textiles constantly have both domestic and international demand. The amount of textiles imported to the U.S. from LDCs like Taiwan and Korea indicate that the export marketing model developed above for LDCs is realistic. The model we have developed incorporates the use of the «international product life cycle model» and the «experience curves» to generate a model for an LDC with respect to its geographical location. Japan's successful experience in export marketing using a similar strategy offers a good example for the LDCs.

Conclusion

Among the EEC countries, Turkey has the least industrialized economy and the lowest labor costs. If she can plan her export marketing policy scientifically in the light of the latest developments in international trade theory and the Japanese experience, she could use her cheap labor as a competitive advantage, slide down the experience curve fast and become the dominant producer of many of the mature products in the Community. Turkey is not doomed to go back to being an aggrarian society in the face of European competition if she can plan wisely and implement quickly.

Footnote

This section draws largely from (1, 2).

TABLE 1 : YEARLY EXPORTS AND DEVELOPMENT PLAN GOAL REALIZATIONS

Year	Agricultural Products			Mining and Quarrying			Manufactured Products		
	Exports ($ 1000)	% of Total Exports	Plan Realization %	Exports ($ 1000)	% of Total Exports	Plan Realization %	Exports ($ 1000)	% of Total Exports	Plan Realization %
1961	282.482	81.5	—	18.256	5.2	—	46.002	13.3	—
1962	303.717	79.7	—	16.212	4.3	—	61.269	16.0	—
1963	292.239	79.4	103.5	10.479	2.8	59.9	65.369	17.8	136.5
1964	319.786	77.9	109.4	14.602	3.5	100.0	76.383	18.6	111.8
1965	360.796	77.8	110.8	19.674	4.2	145.7	83.268	18.0	117.3
1966	389.015	79.3	113.2	22.012	4.5	119.0	79.481	16.2	90.7
1967	426.039	81.6	111.4	18.606	3.5	79.2	77.689	14.9	74.7
1968	404.934	81.6	99.0	24.391	4.9	78.7	66.794	13.5	66.8
1969	402.010	74.9	91.1	31.759	5.9	94.8	103.065	19.2	102.9
1970	441.058	74.9	98.1	39.468	6.7	123.3	107.923	18.4	91.5
1971	489.700	72.4	105.1	37.159	5.5	88.5	149.734	22.1	113.4
1972	605.513	68.4	125.1	33.331	3.8	59.5	246.125	27.8	164.1
1973	831,291	63.1	141.6	39.565	3.0	98.9	446.227	33.9	163.5
1974	851.866	55.6	97.6	78.991	5.2	158.0	601.325	39.2	125.3
1975	792.630	56.6	69.2	105.566	7.5	111.1	502.879	35.9	66.2
1976	1.254.408	64.0	101.6	110.015	5.6	73.3	595.791	30.4	83.3
1977	1.041.401	59.4	71.3	125.851	7.2	90.0	585.774	33.4	65.1
1978	1.542.763	67.4	100.6	124.136	5.4	70.9	621.264	27.2	73.9
1979	1.343.632	59.4	81.2	132.480	5.9	98.1	785.083	34.7	81.8
1980	1.671.742	57.4	87.8	190.994	6.6	101.6	1.047.386	36.0	74.4

Source : Adapted from (5. pp. 2-4)

TABLE : 2 EXPORT INCREASE PERCENTAGES

	1970 - 1973	1973 - 1976	1970 - 1976
World	22.2	20.1	21.1
LDCs	23.7	34.1	28.9
— Petrol exporting countries	30.7	53.5	41.7
— Other LDCs	20.0	18.6	19.3
EEC	23.4	15.6	19.5
Turkey	30.8	14.2	22.2

Source : [4, p. 55].

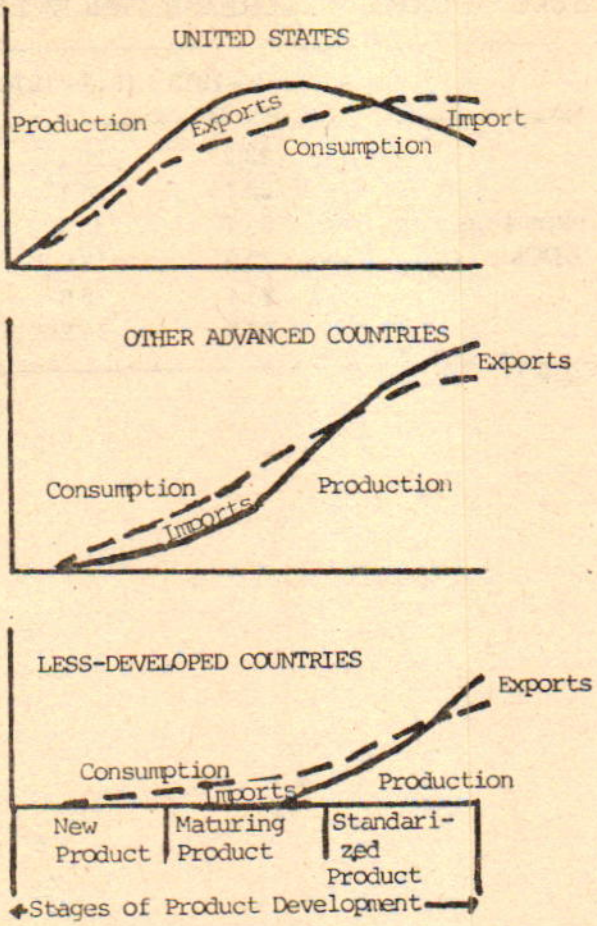

FIGURE 1a: The Vernon Model

Phase I	Phase II	Phase III	Phase IV	Phase V
All production in U.S.	Production started in Europe	Europe exports to LDCs	Europe exports to U.S.	LDCs export to advanced countries
U.S. exports to many countries	U.S. exports mostly to LDCs	U.S. exports to LDCs displaced		

FIGURE 1b: The Wells Model

Sources: (9, p. 199) and (11, p. 15).

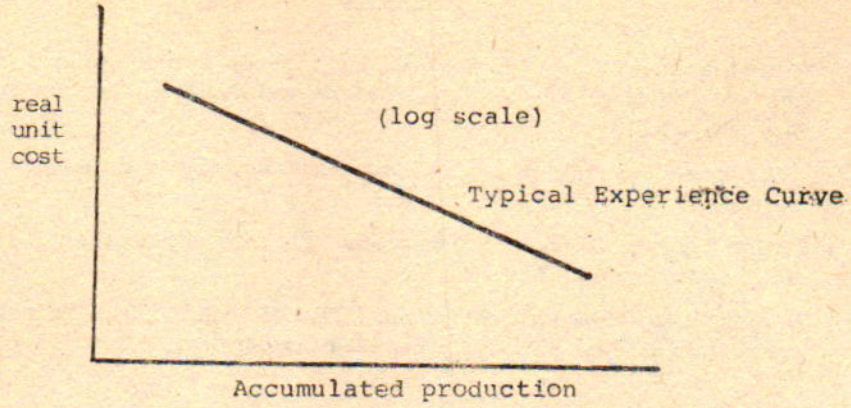

FIGURE 2: Experience Curve

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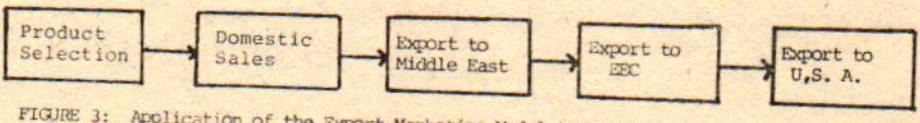

FIGURE 3: Application of the Export Marketing Model to Turkey

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