

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**EXPANDING DEVELOPING COUNTRIES'  
EXPORTS IN A GLOBAL ECONOMY  
The Need to Emulate the Strategies used  
by Transnational Corporations for  
International Business Development**

**Rubens Lopes Braga**

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**DISCUSSION PAPERS**

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## **EXPANDING DEVELOPING COUNTRIES' EXPORTS IN A GLOBAL ECONOMY**

### **The Need to Emulate the Strategies used by Transnational Corporations for International Business Development**

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*World exports have expanded considerably during the past three decades. Developed countries gained more than other countries from this increase because of the strategies adopted by their transnational corporations (TNCs). The strategies of TNCs for international business emphasizes key elements for strengthening the competitiveness of enterprises, especially technology creation and outward foreign direct investment (FDI) to access resources and markets. Most export promotion and development activities carried out by export-oriented enterprises in developing countries contribute little to boosting and upgrading their exports because these activities are based on concepts - basically free trade, comparative advantage and interrelated concepts - that do not capture the driving forces for trade development in today's global economy. Proponents of almost total trade liberalization and of a limited role of the State in the economy nevertheless overstate the importance of these concepts when advising developing countries on trade strategies. This ideological consideration benefits mainly developed countries' TNCs, which now dominate world trade. To obtain greater benefits from an outward-oriented development strategy, policy makers in developing countries should support export-oriented enterprises emulating TNCs' strategies for international business.*

## **INTRODUCTION**

Considerable effort has been made to highlight the socio-economic benefits for countries engaging in trade. These benefits have been described by many complementary, and sometimes conflicting, theories. This reflects the existence of different approaches and disagreement of economists on certain economic concepts which, in turn, largely explains why a comprehensive theory of international trade is still lacking. Trade policy makers widely consider export promotion and development activities to be valuable tools for expanding exports. When deciding which activities should be implemented to support export-oriented enterprises in developing countries to expand their exports, trade policy makers assume the validity and major relevance of some of these economic concepts. Most of these activities, however, contribute little to boosting and upgrading exports of export-oriented enterprises in developing countries, because these export promotion and development activities are based on economic concepts that do not capture the driving forces for trade development in today's global economy. These concepts - free trade, comparative advantage and other interrelated concepts - belong to the conventional theory of international trade, which does not seize the conditions which now prevail in world markets. Therefore, most of these export promotion and development activities are inappropriate for strengthening the competitiveness of export-oriented enterprises. The importance of these concepts is overstated by the advocates of almost total trade liberalization and a limited role of the State in the economy - a position which can be interpreted as part of an ideology whose major beneficiaries are TNCs which now come predominantly from developed countries. TNC activities in international business development emphasize factors which are crucial for enhancing enterprises' competitiveness, especially technology creation and outward FDI, to

access resources and markets. To obtain greater benefits from an outward-oriented development strategy, developing countries' export-oriented enterprises should adopt as far as possible the strategies used by TNCs for carrying out international business.

World merchandise exports, measured in current US dollars, have increased about 25-fold during the past three decades: from US\$ 133 billion in 1960-1962 to US\$ 3,355 billion in 1990-1992. Developed countries, mainly through their TNCs, dominate world exports and have increased their share from 67 per cent in 1960-1962 to 72 per cent in 1990-1992; they are the leading exporters in all product groups, except fuels. The other product groups are all food items, agricultural raw materials, ores and metals, and manufactured products - the most important and dynamic product group in world trade. Developing countries increased their market share from 22 per cent in 1960-1962 to 24 per cent in 1990-1992. The big losers in the expansion of exports have been the economies in transition whose share in world merchandise exports dramatically diminished from 11 to 3 per cent during this period. The increase in developing countries' market share is explained by the substantial growth of their exports of manufactured products, which in 1990-1992 accounted for 19 per cent of world manufactured exports, compared to 5 per cent in 1960-1962. Most of this increase, however, resulted from the performance of just a few developing countries/territories in Asia. In 1992 total exports of manufactured products from Hong Kong, Taiwan Province of China, the Republic of Korea, China and Singapore accounted for 66 per cent of the exports from developing countries and 14 per cent of world exports of manufactured products. This was about eight times the total value of Latin American and Caribbean exports and about 34 times of all African exports of manufactured products (UNCTAD, *Handbook of International Trade and Development Statistics*, various issues).

Many national, regional and world-wide initiatives have been taken to increase the participation of developing countries in world exports. The creation of trade promotion organizations has been an important step in this direction. According to a study prepared by the International Trade Centre UNCTAD/WTO (ITC), there were about 100 trade promotion organizations in 92 developing countries at the end of 1993 (ITC, 1994). These organizations were created with two complementary fundamental objectives. On the one hand, they provide technical assistance to export-oriented enterprises in order to strengthen their export competitiveness and, on the other hand, they act as a catalyst and coordinator between the public and private sectors, ensuring that the effects of international trade on the national economy are taken into account. Trade promotion organizations in some developing countries promote all exports; in others they promote only non-traditional exports. Some trade promotion organizations also promote investment and assist in the procurement and management of imports. Generally, however, they concentrate on promoting readily exportable products and on adapting existing products and services to foreign market requirements. Even if trade promotion organizations in a few successful developing countries have made an important contribution to increasing their share of world exports or to upgrading exports, most of these organizations - and other institutions indirectly supporting the promotion of exports from developing countries - have failed to meet these fundamental objectives.

## **I. INTERNATIONAL TRADE: STRATEGIES USED BY TNCs COMPARED TO ACTIVITIES UNDERTAKEN BY TRADE PROMOTION ORGANIZATIONS**

### ***A. Strategies used by TNCs***

There are now at least 38,000 TNCs controlling over 250,000 affiliates, not counting numerous non-equity links. Approximately 89 per cent of parent companies are based in developed countries, about 10 per cent in developing countries and only 1 per cent in the economies in transition (UNCTAD, 1995, Table I.2). The term TNC is generally associated with large enterprises having substantial resources, including managerial expertise, technology and other advantages. The universe of TNCs, however, is diverse. There are not only large enterprises but also SMEs, including some from developing countries.

TNCs are major players in international trade, but the development of exports is not the primary objective of their overall international business strategy. The implementation of their strategies, nonetheless, usually creates significant spillover effects for the economies in their home countries and can also be important for the socio-economic development of the countries targeted by TNC activities. Actually, TNCs' microeconomic interests have been very instrumental for contributing to the achievement of the macroeconomic objectives of their home-countries, notably developed countries. For example, through the relocation of declining industries to less advanced countries and the concentration of higher value-added industries, TNCs have contributed to upgrade, sometimes to increase or at least preserve employment levels in their home countries. Sir Leon Brittan made the following comments on criticisms by some European unions of outward FDI:

“Fortunately, however, the populist view that outward FDI is a self-wounding search for cheap labour is very far from reality... Very often, outward investment generates additional demand for exports of capital equipment, technology and sub-assemblies from the home country. Research into the subject very rarely suggests an adverse effect of outward investment on activity or employment levels.” (Brittan, 1995, pp. 2-3)

The contribution of TNCs for maintaining a favourable balance of payments for their home countries is also usually significant and includes the repatriation of significant profits from activities abroad. In 1993, profits repatriated from TNC affiliates to their parent enterprises totalled US\$ 27 billion for the United States, US\$ 11 billion for the United Kingdom and US\$ 4 billion for Germany (UNCTAD, 1995, p. 142). Therefore, TNCs' overall international business strategy is usually fully supported by governments although it entails the transfer to third countries of resources which could otherwise be used in their home countries.

The contribution of TNCs to their home countries' economies results both from intra-firm trade and from other type of activities in world markets. As reported by the OECD (1997, p. 12), final consumer markets for some commodities are dominated by a few TNCs, which control downstream marketing, transport and distribution. Thus, a few TNCs account for 85 per cent or more of the world trade in wheat, coffee, cocoa, grains, iron ore, jute, timber, tobacco and tea. TNC strategies favour the purchasing of products and services within their production and trade systems, especially capital equipment and technology, that they cannot obtain in their target foreign markets. Because a large share of these are closely related to the production of TNCs' final products and services, they are often exported from TNCs' home countries either by the parent enterprise or by other enterprises with which they have established contacts and whose supply capacity they know about.

The activities of TNCs, through FDI and other forms, can be of major importance for the development of countries targeted by their strategies. In addition to capital, TNCs bring to the recipient countries a package of benefits and capabilities which can significantly contribute to an increase in human skills, a rise in the level of investment and savings, the adoption of more productive technologies, changes in the composition of output and employment, the development of new institutions and the generation of foreign exchange through the development of export activities. FDI can also induce multiplier effects leading to an expansion of investment by indigenous (unrelated) enterprises, including backward and forward linkages and spillovers (UNCTAD 1995, p. 144). The extent to which TNC resources are large enough and appropriate for substituting missing local factors and effectively contributing to the socio-economic development of recipient countries is of major relevance. Whether these resources generate spillovers which can become the basis of a broad and sustainable development process where dependence on TNC resources will be reduced in the future is also of major relevance.

The advantages and limitations for developing countries of hosting TNCs have been extensively analysed by UNCTAD, the former United Nations Centre for Transnational Corporations (since 1993 UNCTAD's Division on Transnational Corporations and Investment) and a large number of independent researchers and organizations. The experience of East Asian countries is of particular relevance for the analysis of FDI as an engine of export growth, because of the strong export orientation of FDI in the region and its significant contribution to recycling the comparative advantage of these countries through trade, within the regional pattern of industrialization which became known as the "flying geese paradigm". Reliance on FDI, however, has varied considerably among these countries and, because the assumption of automatic spillovers from TNC affiliates was rejected, a strategic approach, linking FDI to a wider national development strategy, particularly in relation to exporting and upgrading, has been followed (UNCTAD, 1996, p. 134). The role of the State in economic policy, especially through partnership relations with the private sector, is widely recognized as a major contributing factor for the success of economic development in East Asia. UNCTAD (1996, p. 134) draws attention to the success of Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China, in reducing dependence on foreign capital for upgrading domestic capabilities, which distinguishes them from Indonesia, Malaysia and Thailand.

Several additional general issues may be raised regarding the effect TNC activities can have on the development of less economically advanced countries. As reflected by their FDI operations, TNCs undertake activities mainly in developed countries. For example, in 1993, and according to UNCTAD, 75 per cent of FDI inward stock was in the developed countries and 24 per cent in the developing ones, while their shares in FDI inflows were 62 per cent and 35 per cent, respectively. Moreover, FDI is unevenly distributed among regions and groups of developing countries, with most of the FDI being concentrated in about 15 host countries, especially in Asia and Latin America. For 1993, the percentage share of the ten largest developing host economies in total flows into developing economies was 79, while this share for the total inward stock was 67 (UNCTAD, 1995, p. 12). Another important issue is the extent to which TNCs can contribute to reducing the investment-savings gap in developing countries. As stated by UNCTAD (1995, pp. 142-144), owing to a series of factors, including the liberalization of foreign exchange regulations and the removal of many restrictions on foreign investment participation in indigenous stock markets, TNCs have a wide choice for raising capital externally, including host or home-country equity markets, local financial institutions and international capital markets. A large proportion

of FDI is financed from third country sources. If FDI is financed by raising funds in host countries, less investment opportunities may be available for indigenous enterprises. The effectiveness of FDI to add to the capital stock already in place in developing countries or to contribute to the efficient functioning of markets is in some cases questionable and varies in accordance with the major objectives of FDI. As pointed out in UNCTAD's "World Investment Reports" (especially 1995 and 1997), FDI may be aimed at creating new business (greenfield operations), at acquiring existing enterprises within the framework of privatization programmes (ownership-switching), or at increasing market-concentration which can favour restrictive or anticompetitive practices by dominant enterprises.

It is opportune to review the major elements of the successful strategies followed by TNCs. As stated by UNCTAD:

"TNCs have assumed a major role in national economies and international transactions, often proving themselves to be more efficient in producing and supplying goods and services than firms conducting their operations in a single country and relying on arm's-length transactions to access resources and markets. The efficiency of TNCs derives from three sources: their portfolios of proprietary or firm-specific assets, natural or created (e.g. control acquired over natural resources deposits, patents); the portfolios of locational assets to which they have acquired access (non-proprietary assets that cannot be moved across countries - e.g. land, climate and skilled or unskilled labour); and their managerial expertise (in organizing production, product-design, markets, etc), including strategies used to deploy and integrate these portfolios." (UNCTAD, 1995, p. 126)

TNCs develop portfolios of locational assets largely by undertaking FDI. The principal motives of TNCs in making FDI have been analysed in detail by the United Nations (UN, 1993, pp. 12-14). A brief summary of these motives follows:

- (i) *Market-seeking FDI*: TNCs seek to bypass existing or potential barriers to trade by establishing a local presence or by diversifying production sources. Other motivations are lower production costs in a specific country as a result of lower wages, better infrastructure or fewer restrictions. TNCs also seek to diversify their production base in order to escape the constraints of a slow-growing, risky or policy-restricted base.
- (ii) *Export-oriented FDI*: TNCs seek advantages from location in countries from which they can supply export markets more profitably than from their home countries. Host countries often present attractive factors, such as cheap labour, excellent physical infrastructure, few bureaucratic restrictions or factors favourable to investment, such as political stability and tax incentives.
- (iii) *Resource-seeking FDI*: TNCs seek access to vital inputs not available in the home market.
- (iv) *Technology-seeking FDI*: This type of FDI seeks technological advantages, often in emerging technologies like electronics and biotechnology or services, such as hotel management and retailing.
- (v) *Efficiency-seeking FDI*: This is often the case of TNCs from developed countries with extensive international operations. This FDI often seeks to increase TNCs' efficiency at the regional or global levels.

TNCs' international business development strategies and related organizational structures have evolved during the recent decades owing *inter alia* to great progress in information technologies, the convergence of demand patterns across national boundaries for a large number of products and services, the elimination or reduction of barriers to trade and FDI, and the setting up or strengthening of regional

markets. These factors raise a wide range of policy issues resulting from the development of relations between TNC parent enterprises, their affiliates and host countries (for further details, see UNCTAD, 1993; Michalet, 1994). Using simple strategies, TNCs' affiliates have a high degree of autonomy from parent enterprises, and their basic objective is to expand production and sales in national or regional markets. In this case, a host country's restrictions on foreign trade are of little importance for TNC's investment decisions, especially in countries with potentially large domestic markets. On the contrary, tariff and non-tariff barriers are an incentive for the establishment of affiliates since barriers can protect them from external competition. The affiliates' lack of international competitiveness is not of major importance as their capacity to sell in the protected national or regional market is what matters. Recently, many TNCs have replaced their simple strategies with more complex global ones in order to expand their share of world production and sales. In pursuing these global strategies, TNCs count on the international competitiveness of their foreign affiliates because their output is used, in part, as inputs for TNCs' final products and services. The location of affiliates is determined in accordance with each host country's likely contribution to strengthening TNCs' overall international competitiveness. Host country regulations of FDI and foreign trade are determining factors influencing the development of trade between TNCs and their affiliates.

The adoption of a global strategy by many TNCs has resulted from two major influences. On the one hand, there has been a more favourable attitude in developing countries to FDI since the mid-1970s. Most developing countries were heavily in debt and needing foreign capital, while their State-owned enterprises were performing badly. Moreover, the combination of deteriorating terms of trade, rising real interest rates on their debt and the drying up of commercial lending has forced many of them to embrace trade liberalization reforms, especially in the 1980s (UNCTAD, 1993; Faini and de Melo, 1990; Goldin et al., 1993). The second important influence has been the TNCs' need for larger markets because of "rapidly escalating research and development costs combined with shortened product life cycle in a large number of strategic industries" (Kobrin, 1995, p. 22). TNC strategies for international business development, explained largely by their strong emphasis on FDI instead of arm's-length transactions, can be pursued because today's international business climate favours the mobility of production factors. Until recently, this mobility was considerably limited by technical and political considerations.

Some developing countries are becoming increasingly aware of the advantages of outward FDI, and many of their enterprises are using the strategies of TNCs from developed countries. According to Ye Gang, Chinese FDI has grown notably since the end of 1985, both in total value and in the number of enterprises and markets. "By 1988, [Chinese] foreign affiliates had spread to 79 countries and territories, of which more than 240 of these were in Asia, more than 80 in Africa, more than 50 in Europe, nearly 40 in Oceania and more than 20 in North America and Latin America" (Ye, 1992, p. 125). TNCs in several other developing countries/territories are taking a similar approach; in particular in the four East Asian NIEs, where TNCs from Hong Kong are the major TNCs from developing countries investing abroad. Between 1990 and 1994, the combined FDI from China, Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China represented about 80 per cent of the total FDI from developing countries (UNCTAD, 1995, p. 34). This would explain in part why in 1992 total exports of manufactured products from these Asian countries amounted to 66 per cent of all exports of manufactured products from developing countries.

## ***B. Activities undertaken by trade promotion organizations***

Trade promotion organizations often provide information on foreign markets, including statistics on foreign trade, production and consumption, prices and markups, business contacts and opportunities, characteristics of demand, distribution channels, fairs and promotion media, as well as on packaging, labelling and quality requirements. They also identify production constraints through supply surveys; prepare market studies and product profiles; provide guidance on export financing, costing, pricing and import procurement; and carry out training programmes for the development of human resources in international trade. Information provided by market surveys are based essentially on intentions and needs of importers, importer-wholesalers, distributors or other intermediaries. In some cases, trade promotion organizations in developing countries provide assistance to a large spectrum of present or potential exporters. Most trade promotion organizations tend, however, to support just a few exporters chosen for assistance on the basis of supply and demand surveys. Some trade promotion organizations provide a package of technical assistance inputs to a few enterprises with exportable products, hoping that any success will be replicated by other enterprises.

For the identification of target markets, trade promotion organizations rely mainly on an analysis of foreign trade data. This usually leads to the selection of developed country markets for which statistical data is more complete and readily available. This approach provides information only on products already entering markets. Since a large number of developing countries have a similar export supply base, competition among them becomes in fact greater. As most developing countries adopt primitive export strategies, increased competition tends to benefit importers, importer-wholesalers, distributors or other intermediaries who, as a result, can afford to be more selective with regard to quality, price and other requirements of imports. This approach also contributes to increased importation of capital equipment, technology and know-how by developing countries in order to adapt their exports to satisfy consumers' requirements in developed countries.

Trade promotion organizations from just a few developing countries, notably Singapore and China, promote outward FDI (UNCTAD, 1995). Most of the trade promotion organizations in other developing countries carrying out FDI activities concentrate on promoting inward FDI, especially through joint ventures. Financing for these activities usually comes from grants from the developed countries that are the most likely suppliers of the resources to be transferred to the recipient country.

It is important to point out that when assisting enterprises to develop exports, most trade promotion organizations in developing countries consider that transactions and negotiations by enterprises are undertaken at arm's length. This contrasts significantly with the attitude adopted by TNCs described above. At best, assistance provided by trade promotion organizations in developing countries helps exporters to penetrate markets, but this does not help exporters to build up the capacity to maintain a presence in a target market which would permit them to establish sustainable and long-standing business relations. This can be explained by the declared or undeclared position of most trade promotion specialists, who argue that what really matters for an exporter is to have the right product, at the right price and of the right quality. Once this is achieved, an enterprise is considered to be ready to export, and it needs only contacts with foreign buyers to begin to do so. Some specialists argue that once contacts

are established, foreign buyers will provide export assistance and participate in product adaptation and development.

This position is based on several incorrect fundamental and interrelated assumptions often held as unquestionable and which underlie most of the activities supporting the participation of developing countries in international trade. Among these incorrect assumptions are that:

- (i) International trade is characterized by the existence of perfect competition, implying the existence of a great degree of free trade and, therefore, to benefit from perfect competition and free trade, developing countries must concentrate on solving problems of producing the products and services for which they have a comparative advantage;
- (ii) It makes no sense to promote outward investment from countries which badly need scarce financial resources for their own economic development. Instead, inward investment from developed countries should be promoted, either for domestic-oriented production or for upgrading potential exports;
- (iii) There is no clear evidence that outward investment benefits an exporting economy. Constraints on foreign exchange prevent most developing countries from making outward investments. Moreover, outward investment encourages capital flight, and difficult control measures are needed to ensure that benefits are repatriated.

These incorrect assumptions may be explained by the fact that a large number of policy makers and specialists in export promotion and development are strongly influenced by economic concepts developed within the framework of conventional trade theory. Moreover, mainstream economic theory largely holds that less economically advanced countries face the challenge of “catching up” with developed countries, and that for “catching up” they fundamentally need the same kind of tangible and intangible resources created and used by the more economically advanced countries. It seems therefore opportune to provide a brief historic view of the *raison d'être* of free trade and comparative advantage, two major concepts of conventional trade theory. Likewise, it also appears essential to consider the impact other factors may have on the expansion and upgrading of developing countries' exports, especially outward FDI, indigenous technology and know-how, and independent managerial expertise.

## **II. THE FREE TRADE AND COMPARATIVE ADVANTAGE CONCEPTS**

### ***A. As propounded by major classical economists***

The free trade concept, as postulated by Adam Smith (1812), assumes that natural economic laws prevail and is summarized by the well-known principle of the physiocrats, “*laissez faire, laissez passer*”. While mercantilists argued for the development of international trade and physiocrats considered agriculture as the source of a nation's wealth, the classical economists, especially Adam Smith, opposed both of them. Adam Smith held that a country's wealth could be obtained only through a better division of labour, which could be properly developed only in the manufacturing sector. Adam Smith saw free trade and competition as a *sine qua non* for achieving the division of labour that he considered

fundamental for the development of manufacturing. Since the Middle Ages, manufacturing had developed in Europe within craft guilds. These guilds played an important role in preventing new producers from entering their area of activity, and they were formally abolished in England only in 1835, almost a century after the beginning of the British industrial revolution. These guilds strongly, and on many occasions violently, opposed free competition which would reduce the profit of the masters and the wages of workers (Smith, 1986 edition, pp. 227-230).

A fact that cannot be ignored is that Adam Smith frequently used the word “trade” to describe an occupation or employment, especially manual work, and that when referring to “free trade” he meant basically free enterprise conditions. His theory of “absolute advantage” in international trade can be better understood by taking into account his emphasis on the division of labour. Adam Smith’s theory of “absolute advantage” reflects his argument that the division of labour would be relevant not only within, but also between, countries. International trade was secondary to his concept of free trade. Actually, it was not international trade but rather the “extent of the market” that he saw as a fundamental precondition for the proper adoption of the division of labour and, therefore, the development of the manufacturing industry. In reality, international trade did not play a major role in the development of British industry, at least not during most of the first century of the industrial revolution (Bairoch, 1971; McCloskey, 1994). This was because the low productivity of the manufacturing sector did not significantly increase during that period. The capital equipment used by industry was characterized by unsophisticated, simple production techniques, and new techniques resulted mainly from *ad hoc* adjustments or improvements in existing machines and productive tools. Industrial organization during the 18th and early 19th centuries was not characterized by the existence of large-scale factories with high-volume production, able to achieve economies of scale and increased market shares (Berg, 1994). In addition, the regular and significant development of British foreign trade was severely affected by the blockades imposed during the Napoleonic Campaigns from 1793 to 1815, and by high national and international transportation costs.

Adam Smith supported the development of “free international trade” because he considered that the unrestricted importation of products would contribute to the elimination of the monopolistic conditions that the craft guilds wanted to maintain against the development of “free trade”, or free enterprise conditions, in Britain. Moreover, it should not be underestimated that Adam Smith supported his argument by stressing the supremacy of British industry over that of other countries and because he took for granted the existence of full employment conditions in the British economy.

David Ricardo’s law of comparative advantage was developed when industrialists could not count on access to sources of financing to set up or expand their industries. At that time, financial resources were used mainly for commercial operations by merchants and for frequent wars. Nevertheless, the development of manufacturing industries was possible in Britain for a number of related factors which included: the fact that the capital needed to develop an agricultural enterprise was significantly higher than the capital required to create a manufacturing activity, partially because of the low level of unsophisticated, simple techniques and capital equipment; the existence of a significant surplus of inexpensive labour; and the reduced profitability of many agricultural enterprises. This explains why most of the new industrialists were former landowners and that the capital for establishing manufacturing industries came from the sale of agricultural land (Bairoch, 1971, pp. 56-59).

For additional capital, industrialists had to rely on re-investing profits from their industrial activities. Because industrial production was characterized by constant returns to scale and a high labour content, the major factor determining profits was the difference between the market value of final products and production labour costs. Since the value of a product was generally accepted by classical economists as a function of the amount of labour required to produce it, workers' basic needs had to be maintained as low as possible in order to ensure increased profits to enable British industrialists to invest further in their industries. To keep wages low, it was necessary to satisfy workers' demand for agricultural and other basic products through imports cheaper than those produced domestically. These imports could not be properly developed for reasons already mentioned. Ricardo argued in favour of support for these imports:

"It has been my endeavour to shew throughout this work that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; *but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits.*" (Ricardo, 1821, p. 132; italics added.)

Adam Smith's concept of "free trade", when applied in the context of international trade, and Ricardo's law of comparative advantage were aimed basically at promoting and justifying capital accumulation by British industrialists in order to support the growth of British industry. These concepts were formulated as part of an ideology aimed mainly at defending the economic interests of the British economy, which actually became, and remained until the beginning of the 20th century, the most powerful world economy. No doubt that international trade and the play of market forces are and will remain of major importance for accelerating the development process of the less economically advanced countries. Nevertheless, the major relevance of free trade, comparative advantage and other interrelated concepts, especially the limited role of the State in the economy, as now overstated by a number of economists, should be carefully considered for the effective formulation of developing countries' outward-development strategy.

## ***B. As seen by other international trade theories***

Other theories of international trade followed, most of which were based on Ricardo's tenets, but without emphasis, on the *raison d'être* of the concepts of free trade and comparative advantage. Stewart (1984) reviews 12 recent theories which consider factors not taken into account by the law of comparative advantage. Those theories deal with the technological gap, economies of scale, product cycles, preference similarity, intra-industry trade and intra-firm trade. Nevertheless, none of the theories provides a complete explanation of the phenomena affecting international trade, and it is unlikely that any one of them explains all trade, especially that between developed and developing countries. A major reason for this might be that most of these new theories have focused on trade between such economies, because growth in trade has been greatest among developed countries (Stewart, 1984). These theories apply, nonetheless, to developing countries in the area of industrial and trade policy, especially the recommendations emphasizing the importance of developing indigenous technology and trade among developing countries.

It is worth pointing out that most of these theories question the major relevance of the concepts of free trade, comparative advantage and interrelated concepts for trade development. However, for one reason or another, the importance of these concepts continue to be emphasized, especially by organizations attempting to increase developing countries' exports. Ricardo's "rather static" law of comparative advantage has been increasingly challenged by the greater international mobility of production factors as a result of the growing role played by TNCs, as well as equity and non-equity FDI in international business and economic development. The concept of perfect competition is also being increasingly questioned by international trade analysts. This concept postulates that any export-oriented producer can freely, or at least easily, obtain intangible resources, such as technology and managerial know-how, and use them to enter a given market at any time. This concept holds that enterprises are price takers because alone none of them is sufficiently strong to influence market prices, which trade analysts indicate as determined primarily by market forces and consumer sovereignty. Theories based on free trade, perfect competition, comparative advantage and related concepts underestimate the fact that intangible resources are built up largely by enterprises which use them to strengthen their market position or to prevent other enterprises from entering the market. These theories see enterprises as basic transformers of tangible resources specific to their countries of location. The role of enterprises is considered secondary for the development of a country's competitiveness. For these theories, what really counts are a country's specific resources; its factor endowments. These theories ignore the predominance of oligopolistic market conditions for most products presently entering international trade, and the fact that technology creation is a major factor for strengthening enterprises' competitiveness. When referring to the role of technology production for economic development, with emphasis on developing countries, Lall (1992, p. 172) underscored: "It is probably fair to say that much of the traditional literature, theoretical and empirical, has neglected the need for, and production of, technological activity in developing countries. Neoclassical theory simply assumes the problem away. In the highly simplified models used in trade theory, technology is taken to be freely available to all countries and, within countries, to all firms".

According to the economists propounding the merits of the 18th-century theories on international trade, the inefficiencies and stagnation of the economies of most developing countries are explained by government intervention and the implementation of inward-looking, import-substituting policies. Developing countries should, instead, set up free-trade, outward-oriented economic conditions with a market-driven and open economy, with less government intervention so as to stimulate dynamic economic growth and draw benefits from the global economy. Trade promotion organizations are not the only organizations that take into account the basic concepts of these theories when planning their activities or providing policy advice to exporters. Regional and international organizations also implicitly accept them as fundamental for the expansion of exports. For example, the critical importance given to some of these concepts may be inferred from the recommendations for the reform of trade policy contained in most of the structural adjustment loans provided by the World Bank since 1979 and which are conditioned on government reforms.

Along the lines with the principles set up or implied in the "catching up" attitude referred to previously, Vinod Thomas reports that trade policy reform "is essential for linking developing countries' economies to technological advances and for enabling them to compete in an increasingly integrated world - the reality of business today" (Thomas et al., 1990, p. 2). According to him, one of the major reasons

for granting structural loans in support of trade policy reforms is in part to finance increased imports as “a higher trade deficit might accompany the reforms initially because exports might not respond as quickly as imports in the short term” (*ibid.*, p. 18). In another study, Vittorio Corbo, paraphrasing Helpman and Krugman, acknowledges: “... that new developments in trade theory call these recommendations [i.e. the World Bank recommendations for reforms of trade policy] into question and provide a new foundation for differentiated tariffs and, in a more general sense, for an active industrial policy. The new trade theory holds that competition in the international markets is typically imperfectly competitive and that trade is, to a considerable degree, driven by economies of scale rather than comparative advantage” (Corbo et al., 1992, p. 10). Nevertheless, Corbo adds that: “The policy recommendations that seem to follow from the new trade theory - and that are buttressed by the view that well-designed growth in government interventions enhanced growth in East Asian countries - have been strongly criticized on both economic and political grounds” (*ibid.*, p. 10). He concludes by pointing out that “Helpman (1989, p. 213), while showing that the new theories have had several empirical success in explaining trade phenomena, similarly concludes that ‘free trade remains a good rule of thumb’” (*ibid.*, p. 10). In this regard, the World Trade Organization (WTO) draws attention to the fact that “The WTO is not the ‘free-trade’ institution it is sometimes described as - if only because it permits tariffs and, in limited circumstances, other forms of protection. It is more accurate to say it is a system of rules dedicated to open, fair and undistorted competition” (WTO, 1995, p. 6).

The debate between new trade theorists and those propounding the merits of the conventional trade theory is also taking place within multilateral organizations. Economists from both schools of thought agree that free-market mechanisms contain several failures. They disagree, however, on the importance of these failures and on how to eliminate them. New trade theorists view market failures as the rule rather than an exception and consider that government intervention in the economy is necessary to correct these failures. They support some kind of active trade policy justifying trade protection to develop supply capabilities. The other group of economists opts for the second-best solution of free-market mechanisms, because they consider that market failures are an exception and that government intervention is likely to make problems even worse. They favour a trade policy based on conventional trade theory, and rely on free-market forces to develop supply capabilities. The World Bank and most international organizations tend to favour the principles of conventional trade theory. As underscored by Jayawardena (1993, p. 54), there are indications from the internal debate taking place in the World Bank that the other view is gaining prominence. Jayawardena (*ibid.*, p. 54) also reports on the position taken by the Overseas Economic Cooperation Fund (OECF), Japan’s aid agency. In a paper published in 1991 supporting new trade theorists’ views, OECF states: “If imports are liberalized too quickly, is it possible to develop industries that will play leading roles in the next stage of economic development? Is it not necessary to protect domestic industry to some extent for a certain period of time in order to allow viable export industry to develop?”.

### **III. INCREASING THE COMPETITIVENESS OF ENTERPRISES IN DEVELOPING COUNTRIES: SOME BASIC ISSUES TO BE CONSIDERED IN FORMULATING A HOLISTIC EXPORT PROMOTION AND DEVELOPMENT APPROACH**

To pursue their activities and contribute to an increase in a country's wealth, enterprises must be able to operate a long-term viable undertaking. For this, enterprises should acquire or develop resources which favour their competing with other national or foreign enterprises producing and marketing similar or related products and services. To develop and maintain their competitiveness over time, export-oriented enterprises from developing countries must take into account the elements which often make TNCs more efficient than other enterprises: acquired access to locational assets (which is basically obtained from undertaking outward FDI), development of proprietary or firm-specific assets and development of managerial expertise. "To expand its market share profitably a firm must have an advantage in one of the three dimensions and no serious disadvantage in the other two so that it can outperform its rivals" (UNCTAD, 1995, p. 131). Government and private support in a number of areas can also be seen as a major element for developing an enterprise's competitiveness even when it must generate resources required to pay for the support provided. This is true for the areas of R&D, human resources development, financial resources for upgrading production facilities and promoting exports.

Export-oriented enterprises from most developing countries do not have the volume and the quality of resources available to large TNCs. This, however, should not prevent the successful expansion of their exports, provided that they adopt appropriate export market and marketing strategies. Many SMEs have successfully adopted the strategies of large TNCs; these include SMEs from developing countries, e.g. Hong Kong and Taiwan Province of China, several of them dealing with labour-intensive and low-technology products (UNCTAD, 1995; UN, 1993). Moreover, a large number of TNCs in developed countries have expanded their operations abroad, essentially because of well-conceived strategies and not because of the high-technology content nor the sophisticated nature of their products. Among the successful TNCs are the well-known TNCs from developed countries specializing in fast-food, clothing and footwear products.

The ability to acquire or benefit from locational assets in foreign market is of crucial importance to strengthen the competitiveness of an outward-oriented enterprise. With regard to TNCs, their stock of FDI - a measure of their productive capacity in other countries - reached some US\$ 2.4 trillion in 1994. Affiliates generated approximately US\$ 5.2 trillion in world-wide sales in 1992 (UNCTAD, 1995). This occurred within the context of total world merchandise exports of about US\$ 3.7 trillion in that same year. FDI is an important factor in the strategies of TNCs for market penetration and foothold. In an examination of trade of TNCs from the United States in Europe, Morrison and Roth (1992, pp. 38-39) pointed out that "By 1987 TNCs from the United States employed more than two million people in Europe and produced about 85 per cent of all goods and services sold by the United States in the European Community (the remaining 15 per cent was generated by direct exports from the United States)". It is worth noting that non-equity FDI (joint-ventures, licensing agreements, franchising, management contracts, turnkey contracts, product-in-hand, production-sharing, risk service contracts and international subcontracting) is increasingly used by TNCs to penetrate and secure foreign target markets (Oman, 1994). As summarized in UNCTAD 1995 (pp. 237-238), the notion of an investment-development path

first developed by Dunning (1981) suggests that countries tend to go through five different stages of development, which can usefully be classified according to the propensity of those countries to be outward and/or inward investors. Only countries classified at stage one (countries with very low levels of income), are considered to have no enterprises with ownership advantages strong enough for undertaking outward FDI. A large share (about 60 per cent) of the outward FDI of Japanese trading companies has been made to set up sales and import subsidiaries (Hyun and Whitmore, 1989, p. 24). It is well known that these companies have played a crucial role in helping Japanese SMEs to overcome problems of market entry and significantly expand their exports. This type of outward FDI could be considered by leading enterprises or groups of export-oriented SMEs of some developing countries as a major element of their initial strategy to expand their exports on a sustainable basis.

Another major element that strengthens an enterprise's competitiveness is its capacity to acquire or develop assets needed to manufacture and adapt products or services to face competition in domestic or foreign markets. Even in highly protected domestic markets, enterprises have had to maintain basic quality standards for their products and services; these standards are referred to as fitness for use, fitness for purpose, customer satisfaction or conformance to the requirements. In a global economy, producers are forced to treat the concept of quality in a more dynamic way and to emphasize the differences in their products and services as compared to those of their competitors. More technology and know-how are needed to create or improve products, services or production processes. TNCs are often competitive because of the role they play as major generators and sources of technology and know-how. As quoted in UNCTAD 1995 (p. 149): "... a large proportion of R&D expenditures that form the basis for technology in today's world economy is concentrated within TNCs systems - an estimated 75 to 80 per cent of all global civilian R&D expenditures" (Dunning, 1993). Indigenous technological research is fundamental for strengthening the competitiveness of developing countries. Research is needed to adapt foreign technology to specific conditions and also to decrease dependence on technology from developed countries. While developing countries will need to continue to import technology and know-how from developed countries, they cannot passively rely on this technology and know-how. They cannot depend on continuing to benefit from technological development whose activities and linkages do not privilege their own economic development process, because they are aimed primarily at satisfying the requirements of totally different socio-economic environments. A portion of imported technology and know-how should be used by developing countries as a tool for creating and expanding their own technological capabilities. "Technological development must play a central role in any [economic development] strategy: the objective will not necessarily be high technology, but technology in a wider sense, encompassing the ability to master existing technology and to cope with new technologies as they emerge" (Lall, 1992, p. 213).

The commercial viability of creating technological capabilities in a developing country depends to a large degree on the ability of generating demand for products and services that this technology will permit creating. Consumer preference is, therefore, a key element for technology creation. It is worthwhile referring to the remarks made by David Felix when analysing the interaction between consumer preferences, industrial policy, and capital accumulation in Latin America and eight high performing Asian economies (HPAES: Hong Kong, Indonesia, Japan, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China, and Thailand). David Felix's paper reviews the analysis and conclusions of the study *East Asian Miracle* (World Bank, 1993), particularly with regard to their relevance for Latin America. In his words:

“... the more moderate Asian income elasticities of demand for foreign-type consumables gave their ‘insulated’<sup>1</sup> Asian technocrats greater policy space to pursue developmentally national sequence of industries to be promoted than the import-biased preferences of Latin American consumers gave their ‘insulated’ technocrats... The other side of the Asian demand pattern, the persistence of positive income elasticities for indigenously designed traditional consumables, was a second favourable factor. It contributed to profusion of small and medium-sized industries which ... was a major structural determinant of the moderate income inequality and high growth of the HPAES.” (Felix, 1994, p. 14)

“Consumption should not be treated merely as a passive consequence of the technological trends, accumulation rates, ownership patterns and the changes in socio-economic structure that have accompanied modern economic growth. Differences in consumption style, and the cultural forces that account for these differences, have been active partial determinants of the varying technological, structural and output patterns, both in the earlier era of modern economic growth and today”. (Felix, 1982, pp. 168-169)

Because demand is determined largely by cultural factors, intense efforts have been made by major players in international production and trade to shape consumer sovereignty to their advantage. This effort to create preferences towards specific products and services has been supplemented by the promotion of the adoption of consumer patterns and life styles from developed countries. These efforts facilitate the international marketing of products and services from developed countries already entering markets and have also helped to create demand for the other products and services they produce. Similar initiatives are required to increase demand for products and services from developing countries in both domestic and export markets. Promotion activities should include reinforcing cultural identity, respect and attraction for indigenous cultural values, consumer patterns and life styles of developing countries. These initiatives should be publicized internationally as much as possible in order to pave the way for their exports. In addition to promoting exports from developing countries, these efforts should contribute to counteract and diminish demand for fashion-driven products originating abroad, thus alleviating pressure on their balance of payments. Other initiatives to enhance cooperation between, *inter alia*, technological research centres and the academia with the business community are also needed in order to ensure the viable commercial success of the development of products and services created by indigenous technology and know-how. Until now, close and continuous cooperation between them could not exist because emphasis has been given by developing countries to products and services incorporating technology created by the developed countries.

In order to compete effectively in domestic and foreign markets, enterprises must have independent managerial expertise to decide on investment plans, products and production processes, capital equipment required, and export marketing plans, including identification of suppliers and clients and evaluation of their needs; product development; and the selection and training of human resources. The development of managerial expertise is closely related to the development strategy adopted by a country. Two hypothetical, although extreme, cases illustrate the results of the importance a country can give to the development of managerial expertise. In both cases it is assumed that initial consumer demand is above all for products, services and production processes developed in more economically advanced countries. Country A relies fully on foreign enterprises for the implementation of a development strategy and is completely dependent on inward FDI and on foreign technology and know-how. In this case, most of this expertise is developed abroad, and demand for local managerial expertise is created by foreign enterprises. In the other case, country B, there is reliance on national enterprises and indigenous

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<sup>1</sup> David Felix used the word “insulated” to refer to “technocratic insulation”, one of the institutional factors the study *East Asian Miracle* considers to have favoured the implementation of development policies in these Asian countries (ch. 4, in particular p. 167).

technology and known-how, which is complemented by foreign technology and know-how imported mainly through arm's-length transactions but also through inward FDI. Development of indigenous managerial expertise, both for production and international marketing, is a major requirement for country B, but less important for country A.

For the establishment of an automobile industry, for instance, Mexico and the Republic of Korea offer examples of different types of development strategies followed for building up the managerial expertise necessary for production and international marketing, although both countries have used foreign resources for that purpose. As reported by UNCTAD (1995, pp. 232-3), TNCs have always played a major role in the Mexican automobile industry. Since the establishment of an assembly plant in 1925 by Ford, a large number of other TNCs have been attracted by the import-substituting strategy followed by Mexico up to the mid-1980s. Since then, and following the government's decision to embrace an outward-oriented strategy, TNCs have become very instrumental for restructuring the industry. The government's decision to reorient the country's trade policy significantly encouraged TNCs to change their strategy and integrate their Mexican operations into their global production systems, in line with Mexico's dynamic comparative advantage. As listed by UNCTAD, several other factors have contributed to the success of the strategy, especially: the Japanese challenge to the United States automobile industry in their own market, which led the latter to move part of their production to lower-cost production sites; Mexico's favourable location owing to its proximity to the United States; and the country's access to the North American Free Trade Agreement. The Republic of Korea has not relied on TNCs for setting up its automobile industry. Instead, that industry benefited from an overall development strategy which successfully combined, as for the other selected industries, temporary protection of the domestic market together with a series of measures to build up managerial and technological capabilities and with a strong incentive to promote the selected industries' exports. Yet the strategy followed by the Republic of Korea allowed for cooperation with Japan that transferred to the country assembly operations for certain parts and components, especially motor vehicles (Kojima, 1980). During the lengthy period of market protection (30 years) the Republic of Korea established for its automobile industry, it also benefited from constant acquisitions of foreign technology and know-how (UNCTAD, 1996, p. 117) and especially from the great emphasis which was given to the development of indigenous resources. Both Mexico and the Republic of Korea have succeeded in upgrading the managerial expertise needed by their industries for production and international marketing, and both industries have become internationally competitive with their share in their countries' exports increasing significantly. Some commentators may argue that the strategy followed by Mexico was less difficult and notably less risky to implement than the strategy chosen by the Republic of Korea. There may be less disagreement, however, on which strategy reaped the greatest benefits for the target industries and for the overall economic system of these countries.

#### **IV. POLICY IMPLICATIONS**

In order to make it possible for export-oriented enterprises in developing countries to emulate strategies adopted by TNCs for international business, support should be provided to strengthen the elements crucial to competing effectively in today's increasingly global economy. Promotion and coordination of public and private sector cooperation are essential to enable enterprises to operate successfully in a global market. Despite liberalization efforts, world trade will remain largely characterized by the existence of imperfect competition adversely affecting free trade conditions. The elements for strengthening the competitiveness of enterprises should not be considered in isolation, because mastering both the production and marketing processes is what is most important. Additional activities in the area of export promotion and development can play a significant role in strengthening enterprises' competitiveness.

Arm's-length transactions are increasingly being replaced by outward equity and non-equity FDI for the international marketing of a growing number of products and services. As part of an overall export strategy, governments should facilitate greater participation of enterprises in outward investment initiatives. Promotional outward investment activities can be grouped into three broad categories, although clear lines cannot be drawn between these functions: information and technical assistance, direct financial support and fiscal incentives and investment insurance (UNCTAD, 1995). Virtually all agencies or government-owned specialized banks in developed countries offer information and technical assistance for outward FDI. This includes basic information on macroeconomic and business conditions and on the legal and administrative considerations affecting investors abroad. The matching of a particular investor with an FDI opportunity and the sharing of the cost of feasibility studies are also possible. UNCTAD (1995) points out several technical possibilities of dealing with foreign exchange constraints on the liberalization of outward investment. It also underlines a number of ways to reduce the foreign exchange burden of outward FDI to a country.

Outward FDI is less likely to be subject to foreign exchange constraints if it is developed within the framework of South-South cooperation. Thailand and Malaysia have been paying particular attention to this consideration (UNCTAD, 1995). Trade among developing countries should be an important element of any export promotion strategy aimed at favouring the development of new products and services. There is a tendency for investors to set up operations in countries that are geographically or culturally close to them; this is the case of the most dynamic East Asian exporting countries (UN, 1993). An advantage of this strategy is that it is possible to test product acceptance and adaptation at less cost and risk as well as to create and improve managerial and marketing skills.

Outward investment should be promoted while applying a number of criteria, and developing countries should look closely at the criteria adopted in developed countries. UNCTAD (1995) gives the example of the Overseas Private Investment Corporation (OPIC), which has been the key agency of the government of the United States for encouraging private investment in developing countries and economies in transition. The corporation assists enterprises with more than 50 per cent ownership by United States citizens. It supports, finances and insures only projects having a positive effect on employment in the United States, that are financially sound and promise significant contributions to the socio-economic development of the host country. In addition to being important for increasing the

competitiveness of exporters and expanding the export sector, outward investment should be a major element of any outward-oriented economy in order to benefit from the global economy, especially for the creation of employment and alleviation of poverty.

Initiatives are needed in developing countries to promote the ability of enterprises to acquire or develop assets permitting the creation of enterprise-specific inputs needed to increase competitiveness in both domestic and export markets. This includes the strengthening of their technological capability, preferably as part of a national plan for the use and development of technology. It is worth emphasizing that recent theory recognizes that technology creation is endogenous to the process of economic growth since it responds to economic signals, especially prices and profits. Export promotion and development activities can help supporting the creation of technology in developing countries. These activities would include those aimed at identifying, selecting and capturing potential markets for the technology developing countries could create. It is known that one of the factors contributing to the failure of technology creation in these countries is that marketing is usually seen as a mere post-research phenomenon. Another relevant factor is that foreign technology can play a determinant role for the strengthening of a country's technological capability. In this context, technical assistance activities should also be considered within the framework of initiatives in the area of import procurement and management. Foreign technology can be acquired in many ways, and most countries use several ways of acquisition concurrently. Japan in particular but also the Republic of Korea are well-known examples of the few countries that have successfully created their own technological capabilities. Their success, mainly in the case of Japan, is attributed largely to importation of foreign technology essentially through arm's-length transactions, such as licensing agreements rather than as part of FDI undertaken by developed countries. Import procurement and management activities should be carried out in order to help enterprises to identify, select, negotiate and import the technology and know-how they need. Both with regards to export and import initiatives to promote creation of technology in developing countries, efforts should also be made to expand South-South technical cooperation (TCDC), applying the strategy encouraged by the Group of 77 and supported by the United Nations Development Programme (UNDP) through its special unit for TCDC.

Efforts to expand both domestic and foreign demand for products and services of developing countries should be backed by initiatives aimed at enhancing indigenous cultural identity through the promotion of greater respect for their country's own cultural values, consumption patterns and life style. Most governments tend to feel that "the cultural follows the commercial". To a large extent, however, the exact opposite is the case. A country's image is usually a key factor in the marketing of any type of country-related or country-specific products and services. To develop a country's image, a wide range of activities should be undertaken in both export and domestic markets.

Technical assistance in managerial expertise for trade promotion and export development has been extensively provided by the ITC and also by some trade promotion organizations in developing countries. Additional initiatives are needed, however, for developing managerial expertise for enterprises. Several policy options should be pursued in developing managerial expertise. The example of the setting up of the automobile industry in Mexico and in the Republic of Korea indicate two of them. It is evident, as underscored by UNCTAD (1996, p. 156), that the lengthy protection used to promote the automobile industry in the Republic of Korea will no longer be possible, as a result of the Uruguay Round of Multilateral Negotiations and the subsequent agreements and regulations to be adhered to by members

of the WTO. However, as also emphasized by UNCTAD (*ibid.*, pp. 156-157), this does not preclude developing economies, in particular the least developing countries, from taking a series of measures to protect and promote indigenous industries and areas of expertise of particular relevance to their socio-economic development. Technical assistance activities to assist developing countries in building up their managerial expertise for production should be provided in the areas of import procurement and management along the lines of the activities suggested to build up their technological capability, as previously mentioned. Activities in the area of export promotion and development should also be emphasized to permit export-oriented enterprises to establish a closer contact or, preferably, a presence in their target markets. The managerial expertise required for exporting through foreign buyers established in the country is not the same as that required by an enterprise making a direct investment in a foreign market to set up a distribution system for its products. Because outward equity and non-equity FDI may be a major element in strengthening the competitiveness of export-oriented enterprises, export promotion and development activities should be encouraged in order for export-oriented enterprises to become fully acquainted with the possibility of using FDI in any of its forms.

Particular attention should be paid to the overall export promotion and development strategy to be adopted in order to manage and integrate properly all of the elements crucial to strengthening enterprises' competitiveness. An important aspect of this process is the identification of enterprises and products or services to be contemplated by export promotion and development projects and programmes.

Direct financial and technical assistance to individual export-oriented SMEs should be carefully considered in order to avoid wasting technical and financial resources. In some cases, SMEs can be more efficient than large enterprises in international marketing. Many SMEs have successfully adopted the strategies of the large TNCs and have thus become TNCs themselves. International trade, however, is dominated by a limited number of large enterprises, and this is unlikely to change. National trade statistics providing information at the level of enterprises confirm this fact. The relationship between size and export performance has been analysed by economists, who find that the larger the firm the higher the ratio of exports to total sales. Policies should be adopted to encourage the formation of large firms through mergers, takeovers, or simply fast growth (Hirsch and Adar, 1974). They also point out that "Large firms can afford to assume more risks than small ones; in addition, their risks from foreign operations are less than those of small firms because the large firms benefit from economies of scale in foreign marketing" (*ibid.*, p. 41).

Most export-oriented SMEs, especially those in developing countries, do not compete favourably in terms of size and resources with major players in international production and trade, and therefore they should be encouraged to build up the necessary capabilities to withstand international competition. They usually face many well-known obstacles to expanding their international operations, the most frequent being a narrow range of products, a lack of production capacity to fill orders large enough to make individual export operations cost-effective, an inadequate infrastructure, weak managerial skills, and a lack of technology and know-how to compete in foreign markets. Assistance in export promotion and development should target SMEs that have adequate production capacity. Preferably, groups of SMEs should be created to take greater advantage of the technical and financial resources available from trade promotion organizations. As a group and by consolidating or complementing their supply capacity, SMEs can achieve results that are unobtainable when acting individually. To act jointly, export-oriented SMEs may choose from among several types of well-known schemes, such as joint-ventures, consortia, trading

companies, export houses and economic interest groupings. Many SMEs from developed countries have used some of these schemes to successfully expand their exports. All policy measures taken to favour the success of these SMEs should be carefully reviewed by developing countries and, to the extent possible, adapted to the specific characteristics of their socio-economic and cultural environment.

As for the products and services which should be supported by export-oriented projects and programmes, it is worth noting that the international strategies of many TNCs are increasingly aimed at providing consumer and industry end-users with a package of products and services. On the other hand, most developing countries continue to emphasize export promotion and development activities for individual products or services and to market them through intermediaries. This limits developing countries to the role of suppliers of several products, particularly food and non-durable items, which are exported - often at the initiative of importers - only as inputs of final products. The grouping of export-oriented SMEs should not be limited to a strategy for consolidating or complementing an export supply, or for simply increasing their range of exportable final products and services. Grouping should be viewed as part of a broader strategy aimed at extending a presence in a market where the export-oriented SMEs can establish, as much as feasible, a direct contact with potential consumers and industry end-users for their products and services, with a view to increasing returns from exports.

## V. CONCLUSIONS

As often pointed out by trade analysts, an enabling socio-economic, political and cultural environment for the development of export-oriented activities is lacking in many developing countries. Also fundamental for domestic business, this environment is characterized by, *inter-alia*, political and economic stability; clear and stable rules for the conduct of business; participation of the private sector in the formulation and implementation of economic policies; the importance given by the government to external trade; and the country's physical infrastructure. Nevertheless, even in cases where these factors exist, export promotion and development activities may be ineffective if not appropriately conceived. The poor formulation of export promotion and development activities has been a cause of significant failure. Most technical assistance activities presently provided by trade promotion organizations cannot produce a major and sustainable impact on export promotion and development, largely because of the crucial importance given to some "unquestionable" concepts which do not take into account the main elements of today's international trade environment. The concepts whose fundamental importance for trade development remains "unquestionable" include free trade, comparative advantage and others interrelated concepts. Adequate attention is not paid to the fundamental relevance of other factors for export promotion and development, particularly the creation of technology and outward FDI. Instead of strengthening the competitiveness of enterprises in developing countries, most export promotion and development activities are therefore limited to increasing an awareness of prevailing international markets conditions and marketing techniques.

In order to produce a greater impact on the expansion and upgrading of most exports from developing countries, export promotion and development activities need to address holistically all the elements contributing to strengthening the competitiveness of enterprises in a global economy. Enterprises

in developing countries must be encouraged to follow the strategies adopted by TNCs for developing their business, which are aimed at establishing a closer contact with consumer and industry end-users and, to the extent possible, supplying them with a package of products and services. Most technical assistance provided by trade promotion organizations in developing countries continues to support the development of exports of individual products and services through intermediaries, as if “free trade”, “comparative advantage” and other interrelated concepts were the driving forces for expanding their exports on a sustainable basis. Many influential economists overstate the importance of these concepts, formulated by economists in the 18th century primarily to encourage the development of British industry. This could be seen as aimed at favouring the interests of TNCs, which are now largely from developed countries. Many of these strongly support the abolition of any distortion of free trade, pointing out that vested interests in maintaining trade barriers should not be underestimated. Vested interests in eliminating trade barriers should not be underestimated either.

While the importance of TNCs is increasingly recognized as fundamental for the promotion of production and international trade, most trade promotion organizations and providers of assistance to developing countries tend to ignore their role and strategies. This would provide a major explanation for the inadequacies in their intervention or the limited impact of the technical assistance they offer in the area of export promotion and development. What would explain their attitude? As Michalet (1994) puts it when analysing TNCs and the changing international economic system:

“... is it still relevant to apply the classical analytical framework suggested by David Ricardo at the beginning of the last century to the new world economy? Does it make sense to keep the same paradigm for economic decisions and negotiations at the national and multilateral levels despite the changing behavioural patterns of firms and states? For most observers and decision makers, especially of large firms, such a question might appear naive, as the rules of the game are no longer the same.”

The reasons for the attitude of most providers of assistance can be found in complementary elements. First, “most research on TNCs structures and strategies has been conducted by academics specializing in business management and not in international economics. Therefore, a gap still exists between those interested in international business and those who are interested in international trade” (Michalet, 1994, p. 10). Second, an asymmetry presently exists between the modes of economic and political organizations. The world is geographically organized into national markets (despite the existing and growing number of initiatives taken by several countries for regional integration) and is characterized by nation-States with sovereign, territorially defined governments (Kobrin, 1995). Providers of assistance tend to consider nation-States and their governments as the almost sole protagonist of economic development and apply theories on international trade that focus on the role of nation-States. The fact that most trade promotion organizations are government agencies (ITC, 1994) and are like the regional and international organizations financed by public funds also contributes to the prevailing attitudes.

Governments have a major role to play in economic development, including in the implementation of industrial and trade policies. It is increasingly being accepted that rapid and complete liberalization is not sufficient for expanding and upgrading exports. Governments must find more perfect forms of intervention than that of free-market mechanisms. Reliance on free-market forces cannot be justified simply on the grounds that it is the “second-best solution”. As underscored by UNCTAD (1996), the disciplines introduced by the Marrakesh Agreement following the Uruguay Round of Multilateral Trade Negotiations have clearly opened up new export opportunities for developing countries and improved their security in market access. On the other hand, these disciplines have reduced the scope for trade policy

options, but a number of options remain and should be carefully considered by developing countries. The options available to developing countries include those intended to promote the development of technological capabilities, regional development, and to strengthen trade and FDI among themselves. These options give enough room to developing countries for embracing an outward-oriented development strategy appropriate to pursue their economic objectives, while emphasizing great respect for their physical environment and their social and cultural characteristics. It is important to bear in mind that “outward-oriented development is a dynamic process where investment, imports, exports and industrial upgrading are closely intertwined. Such a process is consistent with varying degrees of import substitution and export orientation, and with concentration on different products and markets” (UNCTAD, 1996, p. 73). To become valuable tools for the implementation of an outward-oriented development strategy, the efficiency of export promotion and development activities carried out by most trade promotion organizations should be significantly increased.

In most developing countries there is a need for setting up an efficient institutional infrastructure for trade promotion and development, where both the public and private sectors will have a major role to play through enhanced and much more effective cooperation. Strong initiatives should be taken to eliminate the mistrust often present between the public and private sectors in a great number of developing countries, largely resulting from the lack of impact of activities undertaken by most trade promotion organizations in these countries. In such an infrastructure, characterized by a mixture of government policy intervention and the play of market forces, the government should act as partner, coordinator and cost-efficient service-provider for the achievement of objectives jointly defined with the private sector, rather than as planner and controller. Trade promotion organizations and other trade-related assistance providers supporting the expansion of developing countries’ exports in today’s global economy should ensure “a level playing field” for their exporters in order to allow them to face competition efficiently. This may only be achieved by providing enterprises in developing countries with technical and financial resources which duly take into account conditions prevalent in world markets, the conditions of which are not properly captured by conventional trade theory. In this connection, it is worth considering the strategies used by TNCs for international business development.

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