Determinants of Export Performance

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Comparative advantage, government incentives and entrepreneurial dynamics as determinants of a country's export performance are discussed in this article. The author's particular attention is focussed on the present situation and future perspectives of the less developed countries.

Promotion of a country's exports is not only a question of institutional devices and political incentives. The best set of export promotion policies obviously cannot succeed if we do not know anything about the range of products which a country can hope to export successfully and if there is no response or at least no adequate response on the side of the potential producers of these goods.

International trade in its contemporary development no doubt is a highly complex phenomenon. A good deal goes on in traditional, accustomed lines. Some countries — most but not exclusively the "peripheric countries" — provide the central industrial countries with raw materials, fuel and food stuffs.

The industrial countries in turn deliver investment goods and more or less sophisticated consumption goods to the "peripheric" countries. This section of world trade, in terms of the theory of foreign trade, can be described as following the traditional theorems of Ricardo and Heckscher-Ohlin: Countries are specializing in production lines where they possess absolute or comparative advantages related to natural production conditions or to the endowment with labour and capital. The trade developing between them has to be described as complementary in the sense that each country principally specializes in the production of goods different in nature from the goods which other countries can bring forth.

Increasing "Intra-Trade"

In the last decades there has developed, besides this old fashioned exchange between Ricardo's wine and cloth producing countries, a new type of international trade, which has been gaining more and more weight. This is the so-called "intra-trade" of the industrial countries themselves, which can be described as being of a substitutive nature. For the development of technical progress in production the marketing of new, highly specialized goods and the growing sophistication of consumption habits and production necessities has led each of the high income countries to produce principally the same range of products, the only difference being the specification related to peculiar tastes or production necessities of the country of origin. Consequently identical goods are exchanged between the countries of the industrial centre, the only but decisive difference being the peculiar specification, for instance different brands of cigarettes.

The production of these substitutive goods is not so much dependent on a country's endowment with natural resources or with the quantities of simple labour and capital which are available. Fundamental for the ability to produce these modern goods is the supply of skilled manpower, a steady process of technological innovation and dynamic entrepreneurs apt to create new goods and new markets and to take part in a world wide process of competition described by Schumpeter 1.

So the production of more sophisticated goods is not so much dependent on the quantity of simple factors of production but their quality: Skilled manpower, availability of adequate technology and entrepreneurial abilities are of crucial importance for the setting up of such industries as the manufacture of road vehicles, machinery as well as electrical and electronic products 2. Because com-

petition is very strong, high quality standards must be maintained, the service to customers must be guaranteed. Therefore the installation of such industries not only poses the problem of combining factors to produce, but also the often difficult questions of marketing and product promotion.

On the one hand these characteristics of the production of sophisticated goods seem to be very attractive: Not only is the income elasticity of world demand for these goods in general high, so that there supposedly exist good markets for them in all industrialized and rapidly industrializing countries. But it would also be very attractive for many of the developing countries, that production — once begun — generates by itself via "learning by doing" the prerequisite attitudes and abilities.

On the other hand, there are serious obstacles to overcome, if such sophisticated "Schumpeter-goods" are to be produced: The high cost of technology transfer, the scarcity of skilled manpower, the small size of domestic markets measured by per capita income and population, and the problems connected with production according to international standards and tastes in a sometimes backward environment hamper the adoption of these promising goods.

More "Schumpeter-goods" in LDCs

Definitely LDCs do not better by producing exclusively simple goods. For the raw material based intermediate goods and consumption products like textiles, leather, metals and food are — for which we are witnesses now — easily exhaustible: natural resources cannot be renewed. Moreover, these resources are exposed to the competition of substitutes and to the working of Engel's Law, so that no country can rely on the fact that the range of simple goods which are produced and exported will survive in the long run, even if cheap labour is abundant.

Therefore, developing countries should try to become citizens in the modern world of Schumpeter. This does not mean that the traditional lines of production should be given up immediately and once for all. On the contrary: Out of these productions grow differentiated, new qualities of labour, of capital (the so-called human capital) and of technical and managerial knowledge.

Some of the more expanding developing countries have taken up the production of modern goods with considerable success, even if this production proves to be capital intensive. We should not worry about this, for the real developmental bottleneck is not the scarcity of physical capital, which is often used only inefficiently and which at least can be quickly imported, but the lack of human capital. Human capital can only be acquired by learning. Learning begins with the building up of the production of mature Schumpeter-goods, and it does not end with it, it widens and deepens the knowledge until a country has reached the capacity to compete in the creation of new goods with the old industrial countries.

Under such auspices Government and entrepreneurs of a country beginning to expand exports should embark on a twofold action: To consolidate the range of more or less simple export goods manufactured on the basis of domestically available raw material and of comparatively simple labour and capital by expanding into higher stages of production, at the same time refining the qualities of these goods, and accommodating them to the tastes of customers. Not only will the position in foreign markets be conserved by this. Also the domestic value added will be expanded by substituting manufactures ready for pretentious consumption or as industrial inputs for the more simple goods hitherto exported, which means a rising benefit for the exporting country.

In doing so the first step is also taken towards the development of the ability to produce and export more sophisticated goods. In this respect, entrepreneurs and Governments are confronted with problems of acquiring the relevant knowledge and abilities, mainly technical know how and marketing.

Tasks of the Entrepreneurs

Entrepreneurs which are actively competing in the markets of the industrial centre must be ready to meet the particular requirements of these markets. One of the most outstanding features of modern marketing strategies is product differentiation. This means that entrepreneurs create new products measured by the product's consumption utility or by its technical specification. Entrepreneurs do not incur this trouble of finding new goods or varieties of known goods without need: In most cases they react to the signs of the markets which in turn reflect new consumer's wants or new technical needs. But in producing new goods entrepreneurs at the same time actively create new markets or penetrate into markets of inferior competitors. And they have to defend their markets vis-à-vis the competition of imitators and can do this only, if they constantly seek to improve the quality of their products, to develop other varieties or to produce new goods.