

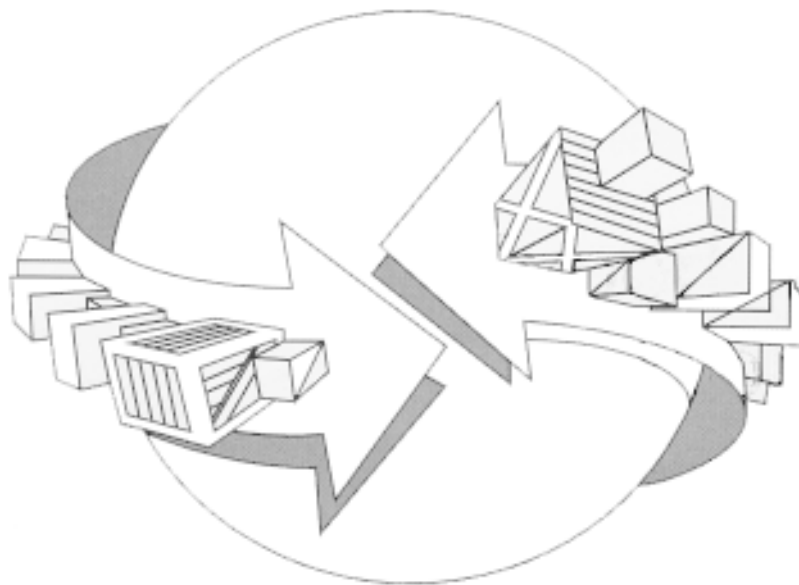
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID Program and Operations Assessment Report No. 6



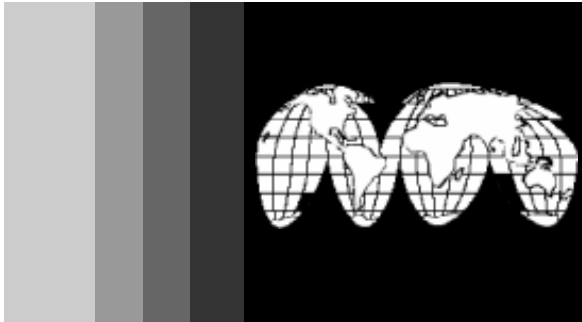
Center for Development Information and Evaluation

March 1994



Export and Investment Promotion Services

Do They Work?



USAID Program and Operations
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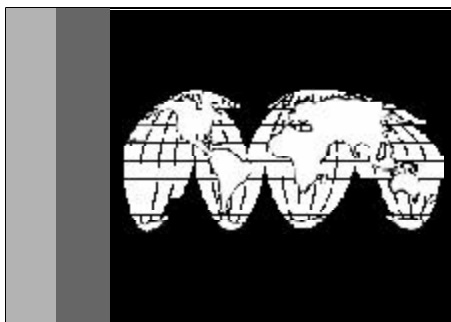
Export and Investment Promotion Services

Do They Work?

By

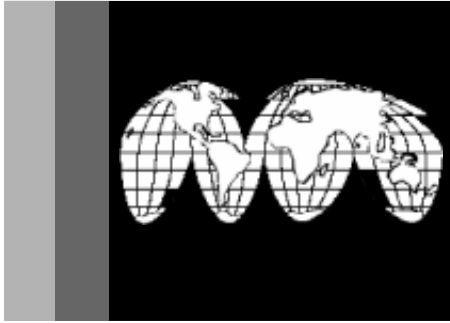
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Foreword

RECENT ECONOMIC LITERATURE strongly suggests that outward-oriented economies with strong trade, investment, and export systems have achieved better development results than have inward-oriented economies. The U.S. Agency for International Development (USAID) has devoted substantial resources to supporting outward-oriented growth through projects that provide services to exporters and export-oriented investors in developing countries. Two key questions face donors: Is such export and investment promotion assistance worthwhile? Does it merit continued USAID support?

The Center for Development Information and Evaluation (CDIE) conducted an assessment of USAID's experience with export and investment promotion services. The purpose was to assess the contribution of intermediaries providing services directly to exporters or to investors interested in investing in developing countries. Such services include information (e.g., about foreign markets), contact making (e.g., with buyers), deal making, technical

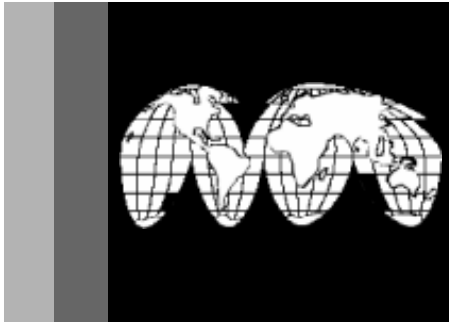
assistance, and government facilitation. CDIE's assessment analyzes such issues as the rationale for donor intervention; the impact of assistance on exports, jobs, and the market for support services; the return on USAID's investment; and effective service strategies and service providers. The analysis was based on surveys of exporters in six countries, extensive interviews with service providers, and other sources.

In this assessment CDIE focused first on export and investment promotion projects in the Latin America and Caribbean region. A desk review examining 15 projects resulted in the report entitled *Promoting Trade and Investment in Constrained Environments: USAID Experience in Latin America and the Caribbean*. CDIE followed up with field visits in Guatemala, the Dominican Republic, Costa Rica, and Chile, culminating in a synthesis report entitled *Export and Investment Promotion: Sustainability and Effective Service Delivery*. In 1991 CDIE initiated fieldwork in Asia, examining programs in India, Indonesia,

Thailand, and South Korea. Four country reports were produced for the Asia phase of the assessment. CDIE completed two crosscutting technical reports: *Service Use and Its Impact on Export Performance: Results of the Asia Surveys* and *Measuring the Costs and Benefits of Export Promotion Projects*. In addition, CDIE undertook a desk review of similar projects in the Near East region,

resulting in the report entitled *A Review of A.I.D. Experience With Export and Investment Promotion in Egypt and Morocco*.

This program assessment report *Export and Investment Promotion Services: Do They Work?*, draws on the technical reports to present key findings, conclusions, and management implications.



Summary

MANY DEVELOPING COUNTRY governments have sought to increase exports by providing services to exporters and export-oriented investors. Such services range from information (e.g., about foreign market conditions and buyer contacts) to highly specialized services (e.g., production-related technical assistance or quality control). The U.S. Agency for International Development (USAID) has funded numerous projects providing such services. This program assessment report evaluates USAID's experience with export and investment promotion programs.

The assessment reviewed experience with export and investment promotion services in 10 developing countries. Center for Development Information and Evaluation (CDIE) teams visited eight of these countries, where they interviewed more than 90 service providers. In six of the countries, they carried out a survey of about 300 exporters. The aim was to determine what services exporters actually used, which ones were most important to their success, and which service providers were most effective. The assessment based its examination of USAID projects

largely on the survey of exporters, who were asked to rate the importance of USAID-supported institutions to their export success. Given the importance of economic policy to export growth, the study also reviewed the export performance of the 10 sample countries relative to their policy environment. The study reached five main conclusions:

1. *Sound macroeconomic policies and partial trade reform are preconditions for export success and effective use of subsidized services.* Support services have negligible impact in hostile policy environments where firms have little incentive to export. However, such services can contribute to export success when realistic exchange rates, macroeconomic stability, and partial trade reform devices, such as duty drawback and export processing zones, shield exporters from the effects of antiexport policies—at least in the early stages of an export drive—and can stimulate export growth.

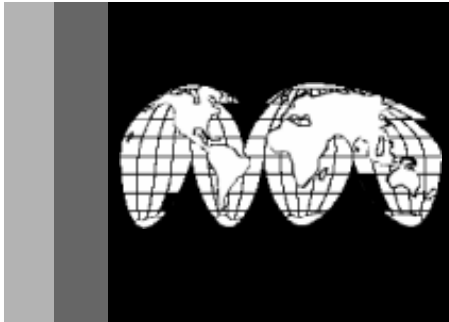
2. *Subsidized services to exporters can have high payoffs.* Project interventions by governments or donors can speed up export growth. A few successful USAID-

financed projects had economic rates of return ranging from 12 to 26 percent. Such interventions are important at the early stages of exporting and can create “bandwagon effects.” Rapid export growth may well make further export growth easier for several reasons: visible export success encourages government regulatory improvements, successful pioneering firms may stimulate other firms to export or enter into exporting, and specialized private providers of export services may develop.

3. *Private sector commitment and involvement, and a strong results orientation, are critical to effective support service programs.* Export promotion programs that were most highly rated by firms surveyed encouraged the active involvement of private exporter associations through advisory councils or cost sharing. These programs focused on results: they were structured to deliver services effectively; their staff were technically qualified; they filtered out firms not yet ready to export; and they focused on those support services most highly valued by firms new to exporting.

4. *Support services are most valued by incipient exporters when they lead to enduring relationships with their future business partners, particularly buyers, investors, and suppliers.* Assistance to export support services has added little to export growth where a dynamic, competitive service provider market already exists. However, at the early stages of an outward-oriented strategy, support services have been effective when they stimulate links between incipient exporters and those best able to help them meet international standards for price, product, and quality — their business partners.

5. *Most government export service providers are ineffective.* Although subsidized services to exporters can be important, government services are frequently of little value. Government providers typically focus on the wrong services, lack the trained staff to provide a high-quality product, and become consumed by bureaucratic procedures. Government agencies that promote foreign investment are particularly susceptible to the regulatory function driving out the promotional one.



Glossary

ASIs	A.I.D.-supported promotion intermediaries	CMPE	Center for Export Promotion of Morocco
BKPM	Indonesian Board of Investment in Thailand	CPI	Consumer Price Index
BOI	Board of Investment in Thailand	DEP	Department of Export Promotion in Thailand
CAAP	Private Agricultural and Agro-Industrial Council of the Coalition for Development Initiatives in Costa Rica	DIS	Development Information Service of CDIE
CBI	Caribbean Basin Initiative	EPZ	export processing zone
CDIE	Center for Development Information and Evaluation, USAID	ERR	economic rate of return
CENPRO	Center for Promotion of Exports and Investment in Costa Rica	EPC	export promotion council
CINDE	Coalition for Development Initiatives in Costa Rica	ESB	Export Support Board in Indonesia
CINDE/PIE	Coalition for Development Initiatives/Program for Investment and Export Promotion	GATT	General Agreement on Tariffs and Trade
		GDP	gross domestic product
		GNP	gross national product
		GREMIAL	Guild of Exporters of Non-traditional Products of Guatemala

ICICI	Industrial Credit and Investment Corporation of India	OECD	Organization for Economic Cooperation and Development
IES	index of export success		
IESC	International Executive Service Corps	PACT	Program for the Advancement of Commercial Technology (a USAID project in India)
IFC	International Finance Corporation	ProChile	Chilean export promotion agency
IPC	Investment Promotion Council in the Dominican Republic	PROEXAG	Support Project for Exporting Nontraditional Agricultural Exports in Central America (a USAID project)
JACC	Council for Agribusiness Cooperation and Coinvestment of the Dominican Republic		
JNIP	Jamaica National Investment Promotion Board	SITC	Standard International Trade Classification
KOTRA	Korean Trade Promotion Agency	TIS	Trade and Investment Services Program
NAFED	National Agency for Export Development in Indonesia	TPO	trade promotion organization
NIC	newly industrialized country	USIPO	U.S. Investment Promotion Office of Egypt
NTAE	nontraditional agricultural exports	VAMs	value-added manufactures



Introduction

Background

RAPID EXPORT GROWTH is viewed as a promising way to promote faster economic growth and poverty reduction in developing countries. The success of the four “Asian tigers” (Hong Kong, Singapore, South Korea, and Taiwan) is the most obvious stimulus to this view,¹ but support for this linkage draws on a much wider range of empirical evidence. If rapid export growth is desirable, how can it be achieved?

Most observers believe trade-liberalizing policy reforms are fundamental in stimulating export growth in developing countries (World Bank 1987). However, there is less agreement on the value of direct assistance to exporting firms. *Export promotion* services, such as buyer contacts, information on overseas markets, and technical assistance, have become standard government services in many

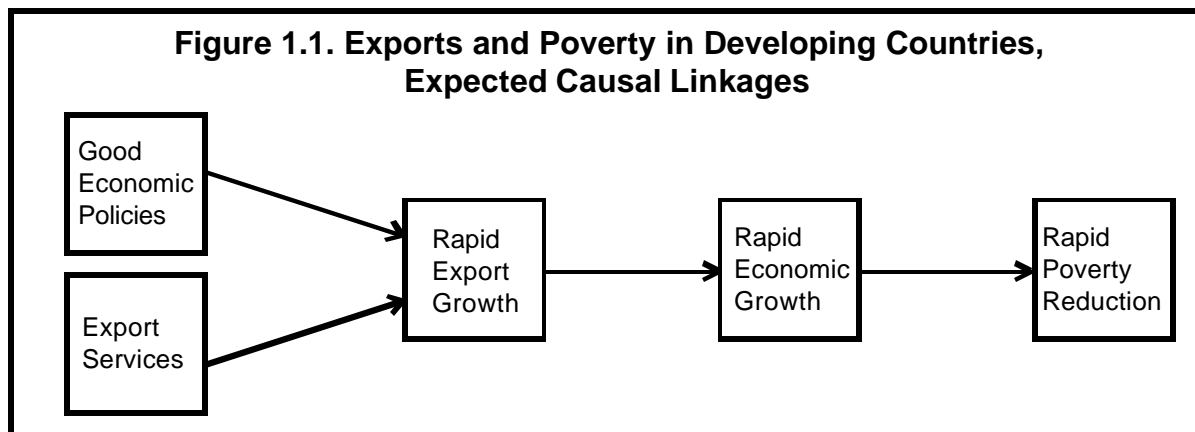
¹All four countries have more than quadrupled per capita income since 1965, with relatively equal income distributions and rapid growth in real wages. Social indicators, such as infant mortality and life expectancy, have reached levels comparable with those in the developed countries (see, for example, Kuznets 1988).

developing countries. In addition, some developing countries have sought to attract foreign investors into export sectors using a variety of *investment promotion* services, such as information on the investment climate, site visit support, and local partner identification. From 1990 to 1993, the U.S. Agency for International Development (USAID) spent about \$250 million a year financing such assistance to governments and private institutions.² Is such promotion assistance worthwhile?

Most economists believe that rapid economic growth reduces poverty (World Bank 1991). The link between rapid growth in nontraditional exports and rapid economic growth, although less certain, is also generally accepted.³ Figure 1.1 schematically represents the variables involved. Neither link is tested here. A more

²USAID Activity Code/Special Interest System data based on Congressional Presentation documents.

³The seminal piece in this area is Michaely (1977), who studied export and economic growth for 41 countries over the 1950 to 1973 period. The World Bank (1987) provides a more recent summary of the empirical experience.



limited amount of work more directly relates export success and poverty.⁴

Purpose and Scope

This study explores whether support services to exporters contribute to export growth. It seeks to answer three key questions for senior USAID management: (1) What is the rationale for donor support for export promotion? (2) What service strategies and providers of export and investment promotion seem most effective? and (3) Has A. I. D's assistance in this area paid off?

Chapter 2 of this study provides an overview of the export experience of the sample countries and discusses the relationship between economic policy regimes

⁴Bourguignon and Morrisson's (1989) study for the Organization for Economic Cooperation and Development (OECD) concluded that high protection against foreign trade was associated with a 4 to 5 percentage point drop in the share of income of the poorest 60 percent of the population and a 20 percent decline in the average income of the poor.

and export success. Chapter 3 analyzes the rationale for donor support of export promotion services and chapter 4 provides background on USAID export and investment promotion projects and methodology. Chapter 5 summarizes the results of surveys of exporters and of interviews with export service providers. Chapter 6 discusses effective promotion strategies and providers, and chapter 7 addresses the impact of donor support for export promotion and analyzes the rate of return on USAID's investment in this area. Finally, chapter 8 offers conclusions and recommendations.

The first phase of the assessment focused on USAID export promotion experience in the Latin America and Caribbean region, where nearly two-thirds of USAID's promotion projects have been carried out. Following a desk review of 15 projects (Development Economics Group, Louis Berger International, Inc. 1990),⁵ the Cen-

⁵ One of these 15 projects was an umbrella project, and two subprojects were examined separately.

ter for Development Information and Evaluation (CDIE) undertook fieldwork in Costa Rica, the Dominican Republic, Guatemala, and Chile (Nathan Associates, Inc. and Louis Berger International, Inc. 1992). This effort was followed by fieldwork in four Asian countries: India, Indonesia, South Korea, and Thailand (Rock 1993; Fox et al. 1993; McKean et al. 1993; Benedict et al. 1993). To complement this fieldwork, CDIE also performed a desk review of completed programs in the Near East region: Egypt and Morocco (Wichterman 1994). Although USAID has undertaken similar programs in Africa, these were not examined because most were too new to form a basis for evaluation.

The study fieldwork used a multiple case study approach. It focused on promotion institutions in 10 countries selected to reflect a diversity of service approaches and institutional structures. The four Latin American countries were all considered successful in increasing nontraditional exports. Costa Rica, the Dominican Republic, and Guatemala had done so with considerable USAID support to promotional institutions, whereas Chile received no USAID assistance and relied primarily on macroeconomic policy. The four Asian countries represented a wider range of policy environments and export success and included both successful and unsuccessful promotional programs that had received USAID support. South Korea, Thailand, and Indonesia achieved substantial export success, whereas India's export growth was slow. The Near East sample included Morocco, a relatively suc-

cessful exporter, and Egypt, an unsuccessful exporter; both countries received USAID assistance for promotional programs.

A key element of the study consisted of a cross-country survey of nearly 300 exporters, including firms receiving subsidized services from USAID-assisted intermediaries and those, in six of the countries, not receiving such services. The survey addressed 33 services provided directly to exporters, which were broken down into 5 categories:⁶

- Information (e.g., standardized information on foreign markets and country information on the investment climate)
- Contact making (e.g., buyer contacts, trade fairs, and joint venture support)
- Preinvestment or preexport support (e.g., feasibility studies and support for site visits)
- Technical assistance (e.g., engineering and production support)
- Government facilitation (e.g., customs assistance and regulatory guidance)

The survey sought to determine what types of services exporters actually used, which ones had the greatest impact on

⁶Export credit was explicitly excluded from the study because it was considered better treated as a financial markets issue.

their export growth, and who provided the services. Most sample firms were in manufacturing; however, agribusiness firms represented a large proportion of the total

in Guatemala and Costa Rica, reflecting the focus of USAID export promotion programs in those countries. Moreover, while most sample firms were owned by host

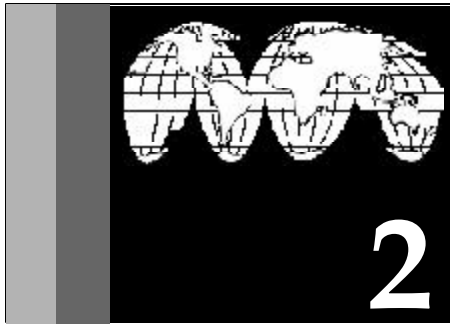
Table 1.1. Characteristics of Sample Firms

Characteristics of Firms	Costa Dominican						Total	
	Chile ^a	Rica	Republic	Guatemala	India	Indonesia		Thailand
<i>Type and number of firms</i>								
USAID-assisted	0	41	30	32	11	13	7	134
Manufacturing	0	27	24	10	8	10	4	83
Agribusiness	0	14	6	22	3	3	3	51
Locally owned		15	8	27	7	7	5	69
International		26	22	5	4	6	2	65
Other firms	10	15	16	15	29	35	36	156
Manufacturing	5	11	13	9	24	28	28	118
Agribusiness	5	4	3	6	5	7	8	38
Locally owned		4	6	13	22	26	29	100
International		11	10	2	7	9	7	46
Total number of firms	10	56	46	47	40	48	43	290
Manufacturing	5	38	37	19	32	38	32	201
Agribusiness	5	18	9	28	8	10	11	89
Locally owned		19	14	40	29	33	34	169
International		37	32	7	11	15	9	111
<i>Average number of employees</i>	471	228	304	210	969	990	1,069	565
<i>Average sales (US\$)</i>		2,435	2,388	1,603	41,585	12,784	27,074	12,721
<i>Average exports (US\$)</i>		2,186	2,103	1,200	10,434	10,448	9,387	5,320
<i>Number of services used</i>		506	512	674	235	576	591	3,094
Domestic firms		176	169	564	150	377	461	1,888
International firms		330	343	110	85	199	130	1,206
<i>Company established (mean year)</i>		1985	1984	1979	1970	1983	1977	1980
<i>Company began exporting (mean year)</i>		1986	1984	1982	1980	1987	1984	1984
<i>Services by importance</i>								
Critical to success		119	145	172	46	186	241	909
Useful, impact on exports		224	233	323	88	248	193	1,309
Useful, no impact on exports		139	92	121	34	142	105	633
Useless		15	18	16	3	0	19	71
Incomplete answer		9	24	42	64	0	33	172
<i>Source: Survey data.</i>								
^a Limited fieldwork site.								

country nationals, international firms were predominant in Costa Rica and the Dominican Republic, which made extensive use of duty drawback or export processing zone (EPZ) facilities. In addition, the sample firms in Latin America and the Caribbean were significantly smaller in export sales and number of employees than those in Asia. Table 1.1 summarizes the characteristics of the sample firms.

The assessment also examined the performance of promotion institutions, principally USAID-assisted service providers, in each sample country. On site visits to eight countries, CDIE teams conducted in-depth interviews with the principal ser-

vice providers, former and current USAID project managers, and others. The aim was to better assess the rationale for intervention and the return on USAID's investment. CDIE complemented this effort with selected interviews with service providers who had not received USAID assistance. The 90 providers interviewed included subsidized promotion entities, ranging from trade associations, government trade promotion departments, and investment promotion boards to private nonprofit promotion institutions and for-profit providers of such services (retailers, investment banks, and foreign investors). These case studies are documented in country reports or in background technical appendixes.



Export Growth and The Policy Regime

THIS SECTION PROVIDES an overview of the export experience and economic and trade policies of the sample countries. In addition, because the policy regime is so important to export growth, the following questions are explored: How much success have the individual countries had in increasing exports? To what extent do differences in export success seem to reflect economic policy differences? What kinds of policies are most important?

Growth of World Trade and Developing Country Exports

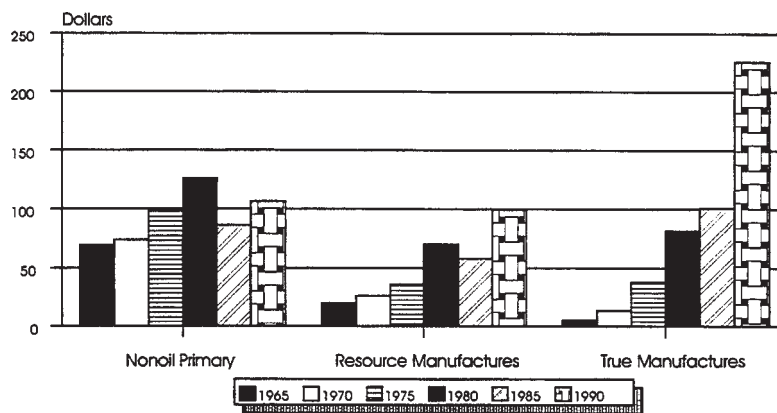
World trade has grown steadily over the past several decades, at a faster rate than world output. Developing-country exports as a group have shrunk slightly in relative importance. In 1961–63, developing countries accounted for 29 percent of world exports; by 1987–91 the percentage fell to 26. This shrinkage reflects a great diversity of country experience, in which some countries experienced dramatic growth while others saw little. Export growth among the four Asian tigers was particularly strong, with their share of

world exports rising from 1.6 percent in 1961 to 9 percent in 1991.

The most notable feature of developing country exports during the period, however, was the change in composition. Figure 2.1 summarizes the trend, dividing developing countries' nonoil exports to the industrial countries into three categories: primary products (Standard International Trade Classification (SITC) classes 0-4), resource-based manufactures (SITC 5-6), and "true manufactures" (SITC 7-8). Primary products include agriculture and mineral-based commodities. Resource-based manufactures include chemicals and manufactures based on primary products (e.g., iron, steel, and textile fabrics). True manufactures include all capital and final consumer goods, such as machinery, transportation equipment, and clothing.

As figure 2.1 indicates, exports of primary products performed reasonably well during the 1970s but collapsed in the early 1980s because of falling world prices. Developing countries earned \$25 billion less from exports of nonoil primary products in 1990 than they did in 1980, measured in constant 1989 dollars. They earned less in

Figure 2.1. Nonoil OECD Imports From Developing Countries (in 1989 dollars)



Source: OECD Data, U.S. GDP Deflator

Note: OECD = Organization for Economic Cooperation and Development

each of the five primary-product categories in 1990 than they did in 1980. Exports of resource-based manufactures performed somewhat better, growing by \$78 billion from 1965 to 1990 and by \$18 billion from 1980 to 1990. True manufactures were the dynamic category, growing by \$220 billion over the same period and by \$143 billion during the 1980s alone.

The most striking feature of developing countries' export growth during this period was the gain in production of manufactured goods that met world standards. However, this gain was far from universally shared. Whereas many developing countries continued to export virtually no manufactures, manufacturing export growth by others showed tremendous dynamism.

How Have Sample Countries Performed?

Most economists are convinced that the economic policy environment is a fundamental determinant of export success. In any test of this idea, the first task is to specify the proper yardstick for measuring export success. The rate of growth of exports is an obvious measurement; however, exogenous factors may overwhelm policy factors during particular times. For some primary commodities, export trends are often unrelated to the economic policy environment because of *sui generis* arrangements for a particular commodity or because of the exploitation of a natural resource, such as oil or copper. Trends in the export growth of Costa Rica, Chile, Egypt,

Indonesia, and Morocco have been heavily influenced during particular periods by such factors. As a result, export success would not be expected to closely correspond to the policy environment by such a broad measure.⁷

Export growth during any time period is influenced by previous policies. For example, a country shifting from import substitution to export promotion may experience faster export growth than a country that had maintained an outward orientation for a long period of time. A better measure is a country's export level compared with its resource endowment and its size and economic structure. Leamer (1988) has created such a model, including most of the sample countries.⁸ Although Leamer's results flow from the model, they are quite suspect in a more practical sense. In fact, they differ considerably from results obtained by country studies of trade policy. The Leamer model, therefore, although very data intensive, still requires a highly simplistic structural view of economies that makes it impractical as a guide for empirical judgments.

⁷An additional problem for Egypt and India is the use of arbitrary valuations in export statistics. Egypt measures exports in local currency, not in foreign exchange values, and about 20 percent of India's exports have traditionally gone to the former Soviet Union through a form of barter trade.

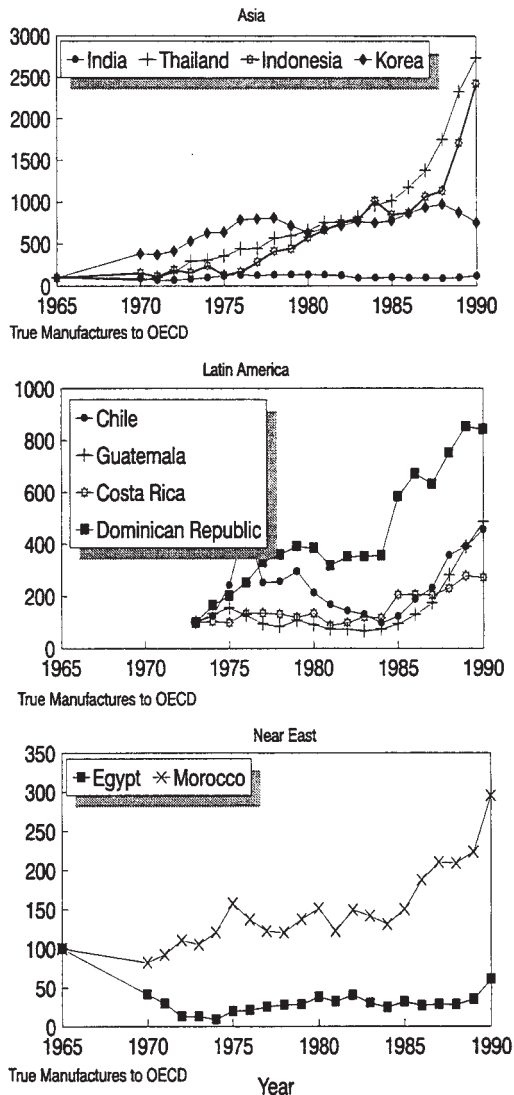
⁸Leamer's results identify Costa Rica as the most open economy of the six for which he presents data, followed by Thailand, the Dominican Republic, Indonesia, Morocco, and Egypt.

Because a satisfactory measure for export success does not exist, this study considered three progressively narrower measures of export growth: total exports, manufactured exports, and true manufactured exports. Total export growth is the broadest measure but is also subject most to exogenous factors. True manufactured exports, the narrowest, is perhaps the clearest measure of success since it is least linked to endowments of natural resources and therefore the most clearly susceptible to influence by the policy environment.

Figure 2.2 illustrates the trends in exports of true manufactures in the sample countries from 1965 to 1990. Export success is measured by an index that the authors call the "index of export success" (IES), which shows the extent to which individual countries achieve faster growth than developing countries generally. Since the sample countries vary widely in the value of their exports, the performance of each country has been indexed relative to a common initial base, usually the value of exports in 1965 (see figure 2.2).⁹ For an individual country, a higher index value means that their exports grew faster than those of developing countries generally; a lower index means the country's export growth was slower than average.

⁹Some countries exported no true manufactures in 1965, or exports were exceedingly small. To eliminate problems associated with use of a small base, the first year that a country exported \$10 million (1989 dollars) is used as a base when this is later than 1965.

Figure 2.2. Index of Export Success for Sample Countries, 1965–90



Source: Study data.

Note: OECD = Organization for Economic Cooperation and Development

Exports are measured by import statistics of countries in the Organization for Economic Cooperation and Development (OECD). First, these countries are the dominant market for such imports. Moreover,

the use of OECD imports eliminates serious data and comparability problems of the national statistics of the exporting countries. In addition to the problems noted previously, many true manufactures are produced through “coproduction” arrangements in which only a portion of the final product is actually produced in a particular country. The final country of export may indeed be only the assembler of imported components, accounting for 15 to 25 percent of the value of the final product. Exports of true manufactures may include large amounts of imported content.

Virtually all commodity exports have some import content, but the problem is acute for manufactured goods transformed under EPZ conditions. For example, in apparel assembly, imported cloth may represent 70 to 75 percent of the value of the export, so nominal export values overstate the economic significance of the export to the exporting country.¹⁰ Nevertheless, rapid growth of nominal exports is an indication of export dynamism, even if an imperfect one.

Except for India and Egypt, all sample countries substantially outperformed the developing country average for the period. Thailand after 1970 and Indonesia after 1975 both showed great dynamism. The Dominican Republic’s exports began to

¹⁰Until export statistics begin to be reported in domestic value-added terms, this problem is insoluble.

grow in the late 1970s, whereas those of Costa Rica, Morocco, Guatemala, and Chile began to grow in the last half of the 1980s. At least through 1990, countries that experienced rapid export growth of true manufactures appeared to be on a persistent expansion path; faster than average growth in one time period implied faster than average growth in subsequent time periods.

Analysis of the specific products exported during the rapid growth phase shows that apparel was invariably the first product category to experience rapid growth. During the initial decade or so of rapid manufactured export growth, apparel exports grew fastest, usually rising from 20 to 30 percent of true manufactured exports to 60 to 80 percent. This pattern was also characteristic of Singapore, Taiwan, and Hong Kong during their early export dynamism. Chile is the only case where apparel exports did not become more than half of true manufactured exports, with its apparel share peaking at 40 percent in 1988. After a period of expansion of apparel exports, the Asian tigers, and more recently Thailand and Indonesia, diversified their manufactured exports into a wider variety of capital and consumer goods.

Using this report's measure of export success and focusing only on the 1985 to 1990 period, the sample countries fall into four groups as shown in table 2.1. The ranking provides a basis for relating this export success to the country policy environment.

Table 2.1. Ranking the Export Success of Sample Countries, 1985–1990			
Dramatic Success	Highly Successful	Moderately Successful	Unsuccessful
Indonesia	Chile	Costa Rica	Egypt
Thailand	Dominican Republic	S. Korea	India
	Guatemala	Morocco	

Policy as the Determinant Of Export Success

The economic literature emphasizes economic policy as the critical determinant of export growth (Edwards 1992; Thomas and Nash 1991; Tybout 1992; Greenaway and Reed 1990). Nevertheless, this generalization has several problems. First, no generally agreed upon means exists to measure the quality of economic policy across countries. Consequently, the empirical evidence on this issue comes from a variety of other sources – arguments from economic principles buttressed by case studies, rough measurements of policy climates linked to export growth, and causal empiricism relating mainly to the four Asian tigers (Krueger 1990). Nevertheless, the basic characterization of the policy environment in the largest of the Asian tigers, South Korea, has been hotly debated. Some economists conclude that South Korea possessed a good policy environment reinforced by special government incentives (Krueger 1990). Others see South Korea as a hothouse of government tinkering and fine-tuning, with the export results flowing primarily from the high qual-

ity of government interventions (see, for example, Bradford 1986).

Which Policies Are Most Important?

Acceptance of policy as a key determinant of export success leads only to another set of questions: Which policies are most important? How good must these policies be? What are the tradeoffs among different policy dimensions? The policy dimensions mentioned most often in this regard include (1) macroeconomic policies (monetary, fiscal, and exchange rate); (2) trade policy (import and export taxes, quotas, and prohibitions); (3) business environment, including procedural requirements for investment and export, sectoral policies that pose obstacles to exporting (e.g., transportation or communication monopolies, government ownership of manufacturing firms); and (4) composite measures that attempt to combine measures of the three foregoing types of policy.¹¹

These alternative measures of economic policy are analyzed in detail in Fox (1994). The comparison reveals that no

¹¹Political stability is often cited as a noneconomic precondition for economic growth. Without delving into this issue, it may be noted that the sample countries have been remarkably stable politically. Guatemala and Thailand are the only 2 of the 10 sample countries that have had nondemocratic regime changes in the past decade, and only two other such changes—coups in Chile in 1973 and in South Korea in 1981—have occurred since the mid-1960s.

single dimension is an appropriate predictor of export success. Rather, a composite measure, combining the aspects previously mentioned, provides the best results. USAID (1993) has developed a largely objective composite rating system that takes into account the major factors. This composite appears to track most closely the relative quality of the policy framework in developing countries.

Table 2.2 provides the USAID ratings for the 10 sample countries and the ranking of each in the overall 84-country universe.¹² Thailand received the highest rating, followed by Chile and Indonesia. South Korea ranked 8th among the sample countries and 26th overall. Nevertheless, the economic policy performance scores show that most of the sample countries are in a relatively narrow range of between 77 and 85. Egypt and India fall far below the others.

The USAID performance ratings correlate well with export success of the sample countries during the 1985 to 1990 period. The ratings separate the two poor performers from the other eight countries, and the rank ordering is close to that for export growth for the eight successful countries (see table 2.1). Thus, this broad measure of economic policy provides a good proxy measure of export success. Measured in this way, policy does matter.

¹²The ratings are for 1991. Comparable historical ratings are not available, so this dataset is an imperfect vehicle for measuring performance for earlier years.

Table 2.2. Economic Policy Performance Data and Ratings, 1991

Rank	Country	Average rate of tariff + surcharge ^a	Percent imports restricted by quota ^a	Exchange rate over-valuation ^a	Domestic financing of government deficit as % of GDP ^a	Stabilization program or need ^b	Inflation rate (CPI) ^a	Nominal prime rate ^a	Real lending rate ^a	Business investment environment ^b	Structural flexibility ^b	Economic policy performance scores ^c
1	Thailand	15	5	0	-5	10	6	15	9	9	10.0	92.0
6	Chile	28	0	7	0	9	22	n/a	9	9	9.5	85.6
7	Indonesia	18	12	0	-1	9	10	27	17	17	9.0	84.4
10	Dominican Rep.	27	0	0	1	9	4	29	25	25	7.0	82.4
14	Guatemala	14	4	0	1	7	10	22	12	12	6.0	80.1
22	Morocco	23	11	5	0	8	8	14	6	6	9.0	77.7
25	Costa Rica	10	0	3	3	8	25	42	17	17	7.5	77.3
26	South Korea	16	4	5	2	8	9	11	1	1	9.5	77.0
66	Egypt	42	26	0	7	9	22	19	-3	-3	8.0	55.5
78	India	98	36	20	12	9	13	21	8	8	7.0	45.7

Source: A.I.D./POL/PAR Ratings, 3/93.

^a Actual values of most recent year. For use in scoring performance these values are scaled on a 0–10 basis, with 10 representing high performance. Form of scaling used varies.

^b Subjective ratings of USAID economists from the relevant regional bureau regarding the country's policy or performance in the specific area.

^c Overall performance rating comes from summing the individual scores and scaling to 100.

GDP = gross domestic product; CPI = consumer price index.

Sectoral Strategies For Export Growth

A major difficulty in linking trade and economic policy to export performance relates to approaches that promote exports but affect only a portion of the economy. Rather than reform the whole range of policies affecting international trade, a number of countries have sought to insulate the export sector from the effects of antiexport policies. Krueger (1990, 108) finds this universal among successful exporters: "In every country with a successful development-through-exporting strategy, exporters were exempted from whatever restrictions prevailed in the import regime." The main approaches used in the sample countries were as follows:

1. *Duty drawback.* The countries all use some regime of temporary entry for products destined for reexport. This provision improves competitiveness of export sectors by eliminating reliance on high-cost or low-quality domestic inputs that restrict competitiveness. Such provisions usually affect only inputs that are entirely imported and are often limited to firms that export all of their output. Nevertheless, the provision eliminates an important policy-defined source of lack of competitiveness.

2. *Export processing zones (EPZs).* In their widest form, EPZs create an artificial policy environment divorced from policy impediments in the domestic economy. In this form, EPZs are essentially extraterri-

torial, with firms operating outside of a country's trade and monetary system (except for currency exchange to pay wages and local services) capable of avoiding the domestic legal regime (e.g., on business practice and labor legislation) and able to avoid infrastructure bottlenecks or pricing problems (e.g., by establishing independent power stations and satellite communications systems). Of the countries in the sample, the Dominican Republic appears to have come the closest to this wide version of the EPZ. India had the narrowest form, with EPZs government owned and firms subject to numerous restrictions similar to those faced by domestic firms.

Whereas all the sample countries used one or both of these approaches to create a favorable policy environment for exports, the effectiveness of such schemes varied widely. In Egypt and India, two countries that had achieved little export success, these special regimes overcame few obstacles, leaving exporters with major problems regarding access to foreign exchange, procedural obstacles and delays in acquiring imported inputs, and other problems. In contrast, duty drawback or EPZ approaches were effectively used in Costa Rica, the Dominican Republic, Guatemala, Indonesia, Morocco, and Thailand. South Korea may have the most liberal regulations, providing duty exoneration for indirect imports (i.e., import content of domestically manufactured inputs).

Economists often object to such devices. In particular, some are fearful that duty drawback and EPZs, by yielding some

positive benefits, may reduce pressure for more comprehensive reform. Such concerns are not easily tested, and longer term trends in countries that adopted one or both approaches are probably the best guide. Both South Korea and Taiwan established EPZs in the 1960s but also adopted broader proexport policies about the same time. Aside from these two countries, Mexico has the longest history of using duty drawback in its border area with the United States. The success of Mexico's *maquila* industrialization program has been argued by some to have been a major catalyst for the broader trade

reform Mexico undertook in the mid-1980s.¹³

The more recent use of duty drawback and EPZs in Costa Rica, the Dominican Republic, and Guatemala is not conclusive, although all three countries instituted major trade liberalizations in the early 1990s—5 to 10 years after the enclave approach began to take hold.¹⁴ In sum, there seems to be no empirical basis for viewing duty drawback and EPZs as diversions from broader trade and economic liberalization. They appear more likely to be catalysts for further reform.

¹³Riding (1985) argues that the economic success of the border program created support for closer economic links to the United States and spawned the growth of opposition political parties in the northern sections of Mexico that challenged the domination of the ruling Partido Revolucionario Institucional (PRI) party.

¹⁴Costa Rica and Guatemala, the only two sample countries that had not been members of GATT, joined in 1991 and 1992, respectively.



Rationale for Project Intervention

APPROPRIATE MACROECONOMIC and foreign exchange management are closely linked to dynamic outward-oriented growth. Duty drawback and EPZ-like policies may further explain such growth. But is there a rationale for intervention to promote exports? Most developed and developing countries have sought to supplement policy by subsidizing services to exporters. Indeed, all of the sample countries in this report have explicit programs to promote exports. What is the justification for intervening in export and investment services markets, and is intervention related to export success? This section explores possible rationales.

Calculating the economic rate of return (ERR) to projects is the obvious means for determining whether the uses of resources are justified. Projects with high ERRs represent better uses of donor (or host country) funds than low-return projects. (The issue of ERRs for export promotion projects is treated in chapter 7). The evidence suggests that ERRs for some projects are quite high. Nevertheless, the finding of high ERRs begs a deeper question: If the

returns to export services are high in some cases, why does the market not provide them? Trade theory has not paid much attention to the processes involved in marketing exports. Similarly, the literature on determinants of investment in developing countries has largely ignored the phenomenon of investment promotion services (see Keesing and Lall 1988, Keesing and Singer 1990a, 1990b, 1992; and Wells and Windt 1990, 41).

The common rationale for government export promotion activity is that exports will grow faster and that faster growth is good. The first half of the argument deals with *effectiveness*. Do subsidized export promotion services actually cause exports to grow faster? (This issue is addressed in chapter 7.) The second half of the argument relates to *economic impact* of faster export growth. Is faster export growth better? The first half of the argument can be accepted without the second. Economists tend to agree that subsidizing a particular economic sector is likely to raise sector production. The question is whether the expansion resulting from sub-

sidy to a favored sector leads to greater welfare than the activities that are foregone would have (e.g., a subsidy financed by taxation means that taxpayers forego purchases that would have increased production in other sectors).

Governments may adopt export promotion programs without a rationale acceptable to economists. Frequently, political support seems to be based on some variant of the mercantilist fallacy that exports increase national economic welfare and imports reduce it. While rejecting the mercantilist fallacy, economists also agree that such programs may be justified in some cases. Economists cite “market failure” as the principal economic rationale for positive economic impact of intervention in export markets in developing countries. Market failure means that “leaving everything to the market” will produce a lower level of economic welfare than correcting market imperfections. Market imperfections are generally regarded as greater in poor countries than in economically advanced ones.¹⁵ The discussion that follows is organized around three types of market failures that have been argued as relevant to export promotion: public goods, externalities to private production, and policy externalities.

¹⁵In neoclassical economic theory (the “welfare optimizing” model), the existence of market failures are summed up in the functioning of the price mechanism. Market failures exist when the price mechanism does not work well.

Types of Market Failure Relevant to Export Promotion

Public Goods

All markets require certain foundations to function efficiently and fairly. Many aspects of these foundations can be viewed as public goods and require collective action, such as through the coercive power of government. These aspects include macroeconomic policies (e.g., monetary stability), a credible financial system, a system of property rights, a rule of law that enforces property rights and contracts, and systems of information.¹⁶ Such foundations become available to everyone whether or not they are willing to pay the costs of producing them. A stable monetary system benefits all of society. Pure public goods are *nonexcludable*; “free riders” cannot be excluded from their benefits. As well, public goods generate spillover benefits that cannot be priced nor charged to all beneficiaries.

¹⁶The most basic public good is a common language, because it facilitates all other transactions among members of a society. Language also illustrates the limits to effectiveness of public policy in promoting such public goods. Since its inception under Cardinal Richelieu in 1635, a national academy to promote this public good has existed in France. The English language has had no such public institution, and private efforts (e. g., one funded by Andrew Carnegie) have not been effective in improving the language through simplification and the elimination of ambiguities. Yet it is by no means clear that 350 years of public policy in France have produced results superior to those achieved through the chaotic evolution of English over the same period.

Information may be an important public good. It is “nonrival,” meaning that consumption by one person does not impede consumption by another. One person’s use of an automobile precludes simultaneous use by others; however, all farmers can simultaneously use the product of agricultural research. While information can be held closely and often (but not always) can be excludable, its excludability is limited. Information can be costly to gather but cheap to disseminate. Consequently, firms may not be induced to invest sufficiently in the production of information, since their ability to profit may be limited. From a theoretical perspective, Greenwald and Stiglitz (1986) have shown that a presumption exists that markets work imperfectly when information is imperfect. For developing countries, specific problems are the credibility and reliability of information and the costs of identifying and accessing disinterested sources. Weaknesses in these information markets may be most problematic for firms in developing countries new to exporting or for firms new to investing in developing countries.¹⁷

What kinds of information would affect the success of firms in exporting from developing countries? Several hypotheses have been advanced. Romer (1993) writes

¹⁷The existence of a government-supported export or investment promotion effort may be viewed by the private sector as information that demonstrates some permanence and seriousness of government commitment to such policies. This informational benefit would occur even if the promotional activities were of no value.

of ideas as an information failure in developing countries, linked to failure to export. Romer argues that some innovations for rapid export growth, such as EPZs that assemble imported components for export, have not become more widespread because firms and government officials do not recognize the potential they offer. It is only the idea that such an approach is feasible, Romer argues, that spurs such innovations. In this case, a pioneering firm or approach could well provide the needed demonstration. Romer argues that Hong Kong has provided such a demonstration for China and that the best predictor of investment levels in export industries in China is proximity to Hong Kong.

Keesing and Singer (1990a) have made the related argument that firms in developing countries are unaware of their own inefficiency. Such firms attribute too much of their inability to export to external factors and too little to their lack of efficient production. Proponents of this view believe that import restrictions that have created protected domestic markets have given entrepreneurs a false sense of competence. These entrepreneurs are unaware of the critical roles that quality control, price, and on-time delivery play in international competitiveness. Once their eyes have been opened to the importance of these factors, technical assistance for production can provide them with the means for lowering costs and raising quality. Firms that become efficient producers can then export competitively.

Production Externalities

Economists have long accepted “infant industries” as the single legitimate exception to the prescription of free trade. (In recent years, imperfect competition has begun to provide a second rationale, at least from the perspective of an individual country.) Infant industries are enterprises that could become efficient producers if their startup costs and needed learning-by-doing were absorbed and if the diseconomies of small-scale production were overcome. Protection from foreign competition is the most frequent approach to putative infant industries, but economists consider subsidies to such firms a superior approach.

Although the infant industry concept is usually applied to productive enterprises, it can be equally applied to export services. Adam Smith’s famous observation that the division of labor is limited by the extent of the market is likely to apply to specialization in export services. For example, if exporters of true manufactures spend 2 percent of export earnings on buying specialized export services, an export services market of \$2 million per year presumably would exist in Chile and of \$630 million per year in South Korea. The small size of the Chilean market is unlikely to generate expertise in as wide a range of specialized services as is available to South Korean exporters. Government provision of export services, or temporary subsidies for provision of such services, might be warranted.

The infant industry concept applies to the individual firm. A related case occurs when subsidy of a path-breaking investment in an underexploited sector with rapid export growth potential leads to substantial follow-on investment in that sector by other firms. This “bandwagon effect” benefits both the developing country and subsequent investors in those sectors (Nathan Associates, Inc. and Louis Berger International, Inc. 1992). Expanding the provision of export and investment promotion services can quicken the private sector response to these perceived opportunities. Entrepreneurs will respond in time to policy improvements, but promotional support may accelerate investment and export growth. With increased knowledge, market contacts, and access to buyers, firms will enter exporting faster and be able to export more.

Policy Externalities

Changes in the productive structure at the firm or industry level may lead to supportive changes in the country’s policy framework. There are at least three rationales for this possibility. First, evident success during the early stages of export promotion efforts can increase public support for the policy measures that support export growth—for example, lower tariffs, greater freedom for foreign investment, and appropriate exchange rates—because these policies seem to bring positive results (see, for example, Fox 1990). A second and related rationale comes from what Akerlof (1991) has termed “salience.” Policymakers may place much greater reliance on

visible and concrete manifestations of policy than on the analytical frameworks and long chains of deductive reasoning that are so persuasive to professional economists. A picture is worth more than a thousand words. In this case, an example of a new factory successfully exporting to industrial countries could be worth more than many reasoned arguments in convincing policymakers to take actions that would multiply such results.

A third rationale addresses the response speed of firms to favorable policies. Governments and ministers come and go. Thus a timely response to a new policy is critical to the policy's continuation. A rapid supply response to export incentives, even if achieved by subsidy, will reduce the likelihood that the next minister or government will abandon outward-oriented policies for some other policy. How quickly market forces produce the supply response expected is likely to depend on country conditions. In a poor country beginning a shift from import substitution to a more open policy regime, exporters may have little knowledge of foreign markets and may lack contacts with buyers abroad, and the know-how for adapting production to the market. Private providers for these services may not exist or just be beginning to emerge.

Thus, donor-sponsored support services might be justified on the basis of the benefits they bring to society that exceed what the market would provide. But, however valid these justifications are for intervening in service markets, donors must

address the following questions: Is market failure really evident in these export or investment service industries? If so, can public action remedy the failure?

Significance of Market Failure: Evidence From The Survey

The survey work for the study did not provide a mechanism for reaching conclusive findings on market failure. Testing hypotheses in this area is difficult because the questions are subtle (skeptics might say ephemeral). Nevertheless, some questions addressed specific aspects of the issue and provided tentative indications of the presence of externalities. No quantitative estimate of the magnitude of such externalities, however, can be drawn from the data. Survey findings on the specific areas where market failure might be expected are described below. (See chapter 4 for an overview of the assessment methodology.)

Information Gaps

Information appears to be a major factor in export success. The top five services valued highly by surveyed exporters could be classified as information services. Country, sector, and foreign-market information were services of a general nature, whereas buyer contacts and technical assistance for production required tailoring to fit the firm's specific needs. Consequently, country, sector, and foreign-market information services fall clearly into the public good category; at least 80

percent of the firms that highly valued these information services went outside the firm to acquire them. Governments in all countries provided free or subsidized information that addressed this need. Nevertheless, firms obtained the great bulk of highly valued information (at least 80 percent in each area) from nongovernmental sources.

Whereas government-provided information was of marginal value to most exporters, firms in the Latin America and the Caribbean sample highly valued information provided by nongovernmental A.I.D.-supported intermediaries (ASIs). ASIs provided firms surveyed with 49 percent of their country information and 40 percent of their sector information; local governments provided only 14 percent and 4 percent, respectively. Since the ASIs did not differ from government promotional agencies in the types of information they provided, the higher quality of their information was probably the crucial factor in the ASIs' higher rating. These survey results suggest that although information gaps may indeed be a source of market failure, government agencies demonstrated little capacity to fill them.¹⁸

The potential importance of information in the form of knowledge and contacts acquired through links to the world economy is suggested by the South Korean, Thai, and Indonesian case studies.

¹⁸Keesing and Singer (1990a) emphasize the inadequacy of government agencies as providers of information services.

In South Korea, Japanese technical transfers during Japan's colonial control was an important source of industrial and export expertise for South Korean manufacturers. Similarly, substantial levels of technical assistance and training from developed countries strengthened the local manufacturers' capacity to secure buyers, draw investors, and take advantage of policy incentives. (For example, U. S. and other donor assistance in the 1960s stimulated industrial development in South Korea and Thailand, creating a base for future export development.) Moreover, immigrants in developing countries maintain ties to their countries of origin that provide important links to foreign markets and help with securing buyers. For example, Chinese immigrants to South Korea, Thailand, and Indonesia used family and personal connections throughout Southeast Asia to develop export businesses. These contacts were often important sources of financing, technical support, and access to buyers.

Much of the case for public provision of export services rests on the lack of economic incentives for private sources to provide services. The empirical questionability of this view is evident in the specific case of buyer contacts. Buyers are important sources of many services, but contacts with other buyers would not seem to be one of them, appearing to be completely against their self-interest. Providing the exporter with alternative buyers would reduce any monopsonistic power the buyer would have and, in any event, could reduce the exporter's commitment

to meeting that buyer's needs. Nevertheless, buyers were themselves important sources of contact with other buyers in Asia¹⁹ and were more important than the domestic government in this regard.

Production Externalities

Although the study did not address production externalities specifically, results of the survey in Latin America and the Caribbean suggested that bandwagon effects influenced the willingness of foreign investors to enter specific countries. The interviews suggested that these effects were sector specific: successful clothing exporters in a country encouraged others to invest in clothing but had no effect on investors in electronics or data processing. The survey further suggested that stimulating investment in the electronics assembly industry in the Dominican Republic led to substantial follow-on investment and rapid export growth in that industry. It also suggested that numerous firms had been established by former employees of successful exporters.

Bandwagon effects, however, do not necessarily require government intervention. Where the private sector is dynamic and is sustainably expanding into new export sectors, it is clear that private markets are already working. Donor intervention to further accelerate export growth is superfluous in Thailand, Indonesia, and

South Korea, which have achieved outstanding export growth and have well-functioning private export services markets. In South Korea in the 1960s, USAID underestimated the ability of South Korean entrepreneurs to respond to shifts in incentives. Market failure was assumed where in fact none existed, and USAID and South Korean Government resources were directed to establishing public sector promotion agencies that added little to South Korea's export growth.

Policy Externalities

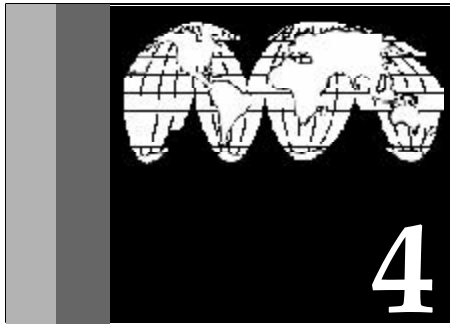
The country reports for this study suggest that project interventions have helped push policy forward. In Latin America and the Caribbean, ASIs have worked with governments to develop policies and regulatory regimes that support export-led growth. These institutions have served as a voice for the export sector. In the Dominican Republic, USAID interventions contributed to policy reforms granting indirect exporters the same benefits awarded to direct exporters. Policies supportive of indirect exporters (firms producing intermediate goods under subcontract to exporters) strengthened the export sector in the Dominican Republic. Subsequently in 1993, the country began to lower import barriers across the board and to dismantle the import substitution regime that had been in effect for several decades.

In India a USAID project stimulated close collaboration among foreign and domestic firms, which gave high-technology

¹⁹ In Latin America and the Caribbean, the survey did not separate buyers from suppliers, foreign partners, or other personal business contacts.

exporters and policymakers a glimpse of the potential benefits of better policies and technology. In a country isolated from the world economy and highly restrictive of competition, the project was invaluable. Still, the highly regulated policy environment, incipient efforts at trade liberalization, and ineffective government bureaucracies inhibited India's overall export growth. For most firms interviewed in India, very few services (e. g., market information and trade fairs) were valued and used to get into exporting, especially compared with firms in countries with more favorable policy climates. Indian firms were dissatisfied with government service providers, and the private market for export services in India was practically nonexistent. However, in Thailand and Indonesia, outward-oriented government policies, such as prudent foreign exchange management and a realistic exchange rate, spurred export growth. Thai and Indonesian exporters used numerous support ser-

vices to enter exporting. As the governments pursued more outward-oriented policies, government trade-promotion organizations filled an information gap for new exporters, functioning as allies rather than posing obstacles. Moreover, the private market for export services was taking off in Thailand and Indonesia. This knowledge base and international networks form the foundation for exporters in developing countries to access buyers and investors and the technical expertise that comes with such access. CDIE survey data made clear that buyers and foreign partners are key links to further buyer contacts, foreign market information, and technical assistance. Government action to stimulate export expansion—a more rapid supply response to exporters—is justified in countries that are making significant policy improvements. Still, there is little basis for endless intervention since the services industry will expand over time in response to exporters' demand.



USAID Export Promotion Projects

Background

USAID's Approach To Export Promotion

DEVELOPING COUNTRIES have promoted export expansion in several ways. One approach, trade policy, relies on uniform across-the-board incentives, export subsidies, or investment incentives. Another approach provides export services, such as marketing, shipping, freight forwarding, or customs. A third offers firm- or industry-specific assistance focusing on technical or marketing issues. The trade policy approach is passive in that it offers an incentive for increased exports; however, it does not address supplyside constraints existing in the beneficiary countries. In contrast, export services and firm- or industry-specific assistance explicitly target the supply-side constraints, which are typically formidable in developing countries.

Export growth in many developing countries has been undermined by the “antiexport bias” that still governs trade

policies and firm-level services in these countries. Exchange rates subsidize imports and penalize exporters, financial markets do not allocate credit to new export investments, and government bureaucracies impose treacherous preshipment export licensing requirements. These obstacles are compounded by the problems present in any poor country of inadequate infrastructure, of unreliable power supplies, and of a poorly educated labor force. At the same time, the private sector typically has had little experience in exporting and even less in competing with nontraditional export products in world markets. Foreign investment, a traditional source of new technologies in developing countries, often has been stifled by the same factors affecting domestic enterprise. Moreover, these developing country governments have had little experience attracting foreign investment.

USAID has supported export promotion efforts in developing countries for more than three decades. A central element of many USAID efforts has been policy-based Cash Transfer programs in-

tended to help countries stabilize their economies by controlling public sector deficits and money supply growth and undertake structural reforms to correct antiexport bias. It was clear from the start, however, that policy reform alone could not rapidly create the conditions necessary for a quick supply response by exporting firms. In turn, USAID projects aimed to stimulate the provision of export services, as well as firm- and industry-specific assistance.

USAID's approach in the 1960s was to help developing country governments (e.g., in South Korea, Thailand, and India) address macroeconomic stabilization and stagnating exports. USAID supported policy and regulatory reform and assisted in providing services directly to exporters and investors. In South Korea, the enormity of U.S. assistance permitted USAID to exert substantial influence over the Government's macroeconomic policies. USAID also helped create government export-promotion institutions, such as the Korea Trade Promotion Association (KOTRA). In this early phase, USAID's approach was to focus on policy reform while "filling the gaps" by creating public export and investment promotion institutions and providing highly targeted assistance to individual firms.

After a hiatus in the 1970s, USAID efforts in the 1980s focused again on policy-based programs aimed at achieving structural reforms to correct antiexport bias. However, the supply-side constraints made clear that policy reform could not

rapidly stimulate dynamic outward-oriented growth, particularly in the Caribbean Basin. USAID addressed these constraints by improving the provision of export services (e.g., credit, marketing, investment, one-stop export windows, and training services) and expanding firm-specific assistance (e.g., production-related technical assistance). In the Latin America and Caribbean region, USAID programs supported the development of trade and investment promotion skills in the private sector instead of creating this capacity in the public sector. Through technical assistance, training, and institution building, USAID helped local organizations principally to expand export services, investment services, and firm-specific assistance. In countries with unfavorable policy environments for trade, USAID assisted in establishing duty drawbacks and EPZs.

In Asia, USAID took a modest, exploratory approach to promoting trade and investment. In Thailand and Indonesia, USAID sought to stimulate export growth through investment promotion by supplying private sector expertise to government investment promotion institutions.²⁰ In India, USAID adopted an approach involving joint research and development projects by Indian and U.S. firms, which turned out to be a valuable approach to promoting exports, although export promotion was not an explicit goal of the

²⁰ Since 1990, USAID's approach to attracting U.S. investment has relied on establishing direct links between U.S. investors and specific investment opportunities.

project. In Egypt, USAID supported a private investment promotion institution providing firm-specific services. In Morocco, USAID's strategy was to support a private-sector-managed export promotion program focusing on buyer contacts.

The framework shown in box 4.1 helps one conceptualize the relationship between subsidized promotion services and export growth. It lays out the hypothesized relationships among inputs, outputs, and measures of impact. Obviously, not all USAID export and investment promotion projects conform to each element in the framework. However, the purpose of most USAID projects is to increase investment in export firms or to increase

nontraditional exports, ultimately to generate foreign exchange and employment.

Overview of USAID-Supported Service Providers

USAID has supported investment promotion through both government investment authorities and private, investment-promotion institutions (table 4.1). In Thailand and Indonesia, USAID used private sector expertise to build up the service delivery capacity of public sector investment promotion institutions. With USAID's assistance, private consulting firms worked to provide promotion institutions with targeted information, investment campaigns, investor referrals, investment mission support, deal-making assistance, and training, among other services, to help facilitate foreign investment. In Egypt USAID initially attempted to strengthen a public sector investment promotion agency; then, after abandoning that approach, created a private sector investment promotion institution. In the Latin America and Caribbean region, USAID either helped create or supported independent, private, investment-promotion institutions. These institutions were heavily dependent on USAID until recently.²¹ Like their counterparts in Asia, these institutions provide general information (e.g., country climate and sector

Box 4.1. Analytical Framework

Inputs—Donor-subsidized export and investment services.

Outputs—Information and contacts with foreign buyers or investors; technical assistance and improved adaptation of production to buyers' requirements; training; greater "learning by doing"; and a dynamic service provider market.

Measures of Impact—More investment in export-oriented firms; increased nontraditional exports; higher foreign exchange earnings; improved employment generation and absorption of surplus labor.

Source: Cressida McKean: Compilation based on USAID Project Papers relating to export and investment activities.

²¹Both the Coalition for Development Initiatives in Costa Rica/PIE (CINDE/PIE) and Investment Promotion Council in the Dominican Republic (IPC) received 90 percent of their program funding from USAID in 1989.

information) and support services to foreign investors (e.g., one-stop shop).

USAID has used a wide variety of approaches to support the provision of services to exporters in developing countries. USAID assistance to export promotion institutions has included support to government trade promotion institutions, exporter associations, privately held export promotion institutions, and freestanding programs (table 4.2).

Assessment Methodology

This assessment grew from senior USAID managers' demands for knowledge of "what works." Specifically, they wished to know whether subsidies for export and investment promotion institutions in developing countries were warranted and if they should continue. Much of the impetus came from the Latin America and the Caribbean region, where nearly two-thirds of USAID export and investment promo-

tion projects were located as of 1990. Other regions, however, were developing similar projects. (See appendix A for a more in-depth discussion of the assessment approach and methodology.)

After reviewing the literature, examining USAID project documents, and interviewing A.I.D. managers and experts, CDIE decided to proceed with this assessment through several phases. The first phase focused on export-and-investment-promotion-services projects in the Latin America and Caribbean region, with subsequent phases focusing briefly on Asia and then briefly on the Near East region. (Programs in Africa were excluded since such projects were just getting underway in that region.)

CDIE defined the universe of export and investment promotion activities to include provision of services and firm-specific assistance that directly support export growth. Examples of promotion services

Table 4.1. Investment Promotion Institutions Examined in the Study

Country	Promotional Institution	Type of Organization
Costa Rica	Costa Rican Program for Investment and Export Promotion (CINDE/PIE)	Private Institution
Dominican Republic	Investment Promotion Council (IPC)	Private Institution
Thailand	Thailand Board of Investment (BOI)	Government Agency
Indonesia	Indonesian Board of Investment Coordination (BKPM)	Government Agency
Egypt	U.S. Investment Promotion Office (USIPO)	Private Institution

Source: Nathan Associates et al. 1992; Benedict et al. 1993; McKean et al. 1994; Wichterman 1994.

Table 4.2. Export Promotion Institutions Examined

Country	Promotional Institution	Type of Organization
Costa Rica	Private Agricultural and Agro-Industrial Council of the Coalition for Development Initiatives (CAAP)	Private TPO
Costa Rica	Center for Promotion of Export and Investment (CENPRO)	Government TPO
Guatemala/Regional	Support Project for Exporting Nontraditional Agricultural Exports in Central America (PROEXAG)	Targeted Program
Guatemala	Guild of Exporters of Nontraditional Products (GREMIAL)	Membership Organization
Dominican Republic	Council for Agribusiness Cooperation and Coinvestment (JAAC)	Membership Organization
Thailand	Department of Export Promotion (DEP) of Ministry of Commerce ^a	Government TPO
Indonesia	National Agency for Export Development of the Ministry of Trade (NAFED) ^a	Government TPO
South Korea	Korean Trade Promotion Agency (KOTRA)	Government TPO
Morocco	Trade and Investment Services (TIS) Program of the International Executive Service Corps (IESC)	Targeted Program
India	Program for the Advancement of Commercial Technology (PACT)	Targeted Program
Chile	Fundación Chile	Private TPO

Sources: Nathan Associates, Inc. et al. 1992; Fox et al. 1994; Wichterman 1994; McKean et al. 1994; Benedict et al. 1993; Rock 1993.
Note: TPO = Trade promotion organization.
^aUSAID has not provided assistance to DEP of Thailand, NAFED of Indonesia, or Fundación Chile but field assessments of these programs provided the information need to include them in this report.

include information (e.g., foreign market information), contact making (e.g., buyers' contacts), startup support (e.g., feasibility studies), technical assistance (e.g., firm-specific production support), and government facilitation (e.g., one-stop shop). (See box 4.2 for a list and definition of service categories. The definition ex-

cludes several related USAID activities such as export finance projects and policy reform programs.)

A desk review of projects in the Latin America and the Caribbean region provided a preliminary typology of USAID trade and investment project approaches

Box 4.2. Service Categories Used in the Survey

Information—Prepared information on export target countries, sector-specific information, in-country question and answer, overseas representation, and information on foreign markets.

Private Contact Making—Directories, deal making for joint ventures, trade shows, trade missions, buyer contacts, and sample preparation.

Preinvestment or Export Support—Firm-specific research; support for site visits; financing for research and development; legal, accounting, and credit assistance; and feasibility studies.

Technical Assistance—Production, marketing, management, and training.

Government Facilitation—"One-stop shop," approvals/paperwork, government contacts; customs and lobbying/policy reform.

and evaluated their performance based on project evaluations.²² Of the projects examined, four were deemed successful, nine achieved mixed results, and three achieved low results. The successful projects, which achieved significant results in exports and employment, were in countries with favorable policy environments; however, favorable policies did not guarantee project success.²³ Rather, "the more successful projects are effective at targeting and adjusting project services to the strengths and weaknesses of the economic environment, the target group and host country governments." (Development Economics Group 1990, 23).

CDIE followed the desk review with fieldwork, using a multiple case study approach that initially examined export and investment promotion institutions in four Latin American countries: Costa Rica, the Dominican Republic, Guatemala, and Chile. Since the study aimed at finding approaches that work, it targeted export and investment promotion institutions with "relatively successful" programs working in favorable policy environments. Another criterion was that the promotion institutions examined have a sufficiently long track record to make the search for impact meaningful. CDIE selected specific cases that reflect the diversity of service approaches and institutional structures: assistance strategies that are technical-assis-

²²Development Economics Group (1990) used available project evaluations to examine the performance of 15 projects based on 7 criteria of success: the productive structure; the policy environment; the target group export capability; the host country support; the project delivery mechanism; USAID management effectiveness; and risk.

²³The export processing zone (EPZ) legislation in the Dominican Republic and the export contract legislation in Costa Rica were instrumental to success.

tance intensive versus standardized approaches (e.g., information dissemination) and private versus public promotional intermediaries. The CDIE assessment team visited Costa Rica, the Dominican Republic, and Guatemala to examine promotional institutions that had received substantial USAID assistance and conducted limited fieldwork in Chile. Chile was chosen as a “control” country—a country without any USAID trade and investment projects but with a favorable policy environment, with its own export and investment promotion programs, and with significant success in nontraditional exports.

The second phase of the assessment, examining promotional institutions in four Asian countries, followed the same approach and used the same questionnaire as in Latin America. However, several new issues influenced the design of this phase. USAID had few completed export and investment promotion programs in Asia, and they were smaller in scope and more diverse than similar programs in the Latin America and Caribbean region. Project evaluations concluded that similar programs in Asia were not particularly successful, at least compared with those in Latin America and the Caribbean. The programs faced highly diverse policy environments and had not benefited from the strong U. S. commitment to trade and investment evident in the Caribbean Basin region. Moreover, Asia Bureau managers were most concerned with the justification for intervening in the support services market in developing countries. In particular, these managers wondered whether

firms were already accessing services from the private nonsubsidized market (e.g., buyers or family).

In Asia, CDIE examined successful and unsuccessful promotion institutions, as well as institutions in economies with different trade policy orientations. In addition, CDIE looked at ASIs and non-ASIs, since the latter were particularly active. One concern was whether private export service providers were responding adequately to firms’ demand for services. The CDIE assessment teams visited India, Indonesia, and Thailand and conducted a desk study with limited fieldwork in South Korea (since interviewing South Korean exporters about services used in the 1960s would not have been feasible or meaningful).

In both Latin America and Asia, most projects lacked firm-level baseline data and performance monitoring systems. Interviews with exporting firms were therefore a primary means for assessing the impact of promotion institutions. The CDIE assessment team surveyed 40 to 50 export firms in each of the six field sites: Costa Rica, the Dominican Republic, Guatemala, India, Indonesia, and Thailand, interviewing a total of 283 firms. The survey examined the export firms’ use of support services, the importance of services to their export operations, and the source of these services. The questionnaire addressed firms’ needs for 33 services in 5 broad categories: information, private contact making, startup assistance, technical assistance, and government facilitation. Firms

were asked to rate the importance of a service received, using a four-point scale: 1 (useless), 2 (useful), 3 (very useful), and 4 (critical), with ratings of only 3 and 4 classified as indicating impact. The respondent named the primary sources of export-related services, which were grouped into five categories: (1) internal sources (e.g., the firm's own staff prepared a feasibility study); (2) government (including some USAID-assisted agencies); (3) private sector for pay (for-profit professional services, such as lawyers, accountants, and consultants); (4) private sector not for pay (personal and business contacts, trade associations, and nonprofit institutions); and (5) buyers and foreign partners.

The sample of firms selected for each survey is considered representative of export firms in that country, although time and resource limitations made it impractical to construct a fully random sample. The study universe included all USAID-assisted firms identified by the promotional organizations and random firms

taken from lists compiled by export associations, government agencies, or other lists of exporters.²⁴

In the Latin America and Caribbean cases, one-fourth of the sample in each country included randomly selected firms. However, in Asia, the sample was more heavily weighted to random, non-USAID-assisted firms, since it was more difficult to identify assisted firms. Still, many firms in the Asia sample received services from other governmental or nongovernmental programs and should not be regarded as firms that went ahead in the absence of any government assistance. The sample reflected the distribution of the country's manufactured exports by product group by including only the five sectors that accounted for the largest share of recent export growth. Since information on the share of exports attributable to joint ventures and wholly owned subsidiaries was not available in any country, a mix of foreign and locally owned firms was sought. Firms were screened out if they (1) had begun exporting before 1985 (to

²⁴It was not possible to obtain a comprehensive list of all exporters in the countries since no country gathers comparable data systematically on all exports. The universe was limited to manufacturing in Asia and to light manufacturing and agribusiness in Latin America. The distribution between manufacturing and agribusiness firms reflected the value-added distribution by sector. The procedure in each case was modified to reflect the realities of the lists available for sampling. In most countries, the team contacted (or sought to contact) every firm that could be identified as an exporter and the recipient of nontrivial assistance under one of the USAID-assisted programs.

²⁵Several sources of potential bias must be noted. First, it was not possible to verify the information provided from sources external to the questionnaire. Firms had little incentive to provide false information, but underestimation or overestimation of exports, employment, and sales may have occurred. There is no reason to expect that the degree of bias varied across firm categories, however. Second, the interview was generally conducted with only one firm representative—a senior executive with a broad knowledge of the firm's export or investment operations—but that person may not have been the most informed.

eliminate recall problems or dated data); (2) had exported less than \$100,000 worth in products in the most recent year (to focus on significant exporters); and (3) had less than one year of experience as exporters.²⁵ The assessment teams also conducted interviews with representatives of promotional institutions, USAID personnel, and other in-country experts and reviewed available project documents.

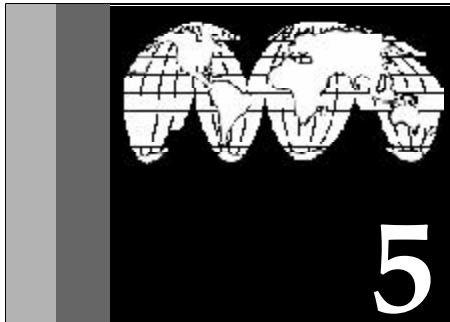
The principal approach to survey data analysis involved preparing basic cross tabulations to summarize the data and to help identify points of similarity and variation. In pooling the data within and across countries, the authors did not use weights because the sample was stratified and because information on sub-population size was extremely limited. In the first phase, the regression analysis of the Latin America and Caribbean countries failed to yield useful results. Due to data and resources limitations, regression analysis was not used in Asia. Two points regarding the data and their analysis should be highlighted to aid reader interpretation:

- **Quantifiability.** Service use by firms is not strictly subject to quantification. For example, for a small firm, a feasibility study may be a quick, back-of-the-envelope calculation;

whereas for a large firm, the same term may refer to a study prepared by a team of people working for several months. In interviews conducted within a limited time frame, it is not possible to define each service used in sufficient detail to capture this variation for analysis.

- **Additivity.** Just as different feasibility studies use varying levels of inputs and affect the recipients differently, the total level of service use is imperfectly captured by adding the number of services received by a given firm. A firm that received eight of the services defined did not necessarily receive twice as much assistance as a firm that received four services. On average, however, it would be expected that the firm receiving eight services would have received more total support than the firm having received four services. In short, comparisons of the numbers of services used should be regarded as ordinal measures, not cardinal measures.

The final phase of this assessment was a selective desk review of USAID projects in the Near East region, drawing on project evaluations, with case studies examining USAID programs in Egypt and Morocco (Wichterman 1994).



Use of Export And Investment Promotion Services

THIS SECTION EXAMINES export and investment promotion service use and providers. After providing an overview of the export performance of sample firms, the section examines which support services make a difference to exporters and where exporting firms obtain highly valued support services. Chapter 6 will discuss effective strategies and providers of support services to exporters.

Performance of Surveyed Firms

Surveyed firms achieved significant export success. The majority of firms (64 percent in the Caribbean Basin and 71 percent in Asia) reported real export growth of more than 8 percent annually (table 5.1). In Asia, more than one-half of the firms affirmed they had grown at more than 35 percent annually.

Foreign firms were somewhat more successful than domestic firms (see table 5.2), which may reflect their greater capacity to market internationally. Performance comparisons were also made between

Table 5.1. Export Growth of Firms in the Caribbean basin and Asia Samples, Yearly Average

Real Export Growth (percent)	Percentage of Firms, Caribbean Basin (1987-1990)	Percentage of Firms, Asia (1986-1991)
< 0	17	18
0-8	19	11
8-35	30	19
> 35	34	52
Total	100	100

Source: Survey data.

firms that started out exporting 100 percent of production (pure exporters) and firms initially oriented completely to the internal market (import substituters). Overall, this initial orientation did not make a significant difference in the ability of the firms to achieve rapid export growth. More than two-thirds of firms with both initial orientations achieved export growth of 8 percent or more.

Initial market orientation did make a difference in some countries for domestically owned firms. As shown in table 5.2,

Table 5.2. Successful Exporters

Country	All Firms by Ownership		Domestic Firms by Market Orientation	
	% of Domestic Firms	% of Foreign Firms	% of Originally Export Oriented ^a	% Originally Domestic Oriented ^b
India	43	43	43	25
Dominican Republic	50	81	50	33
Indonesia	79	75	79	71
Guatemala	70	75	70	72
Costa Rica	63	83	63	67
Thailand	62	71	62	67
All Firms	63	77	63	61

Source: Survey data.
Note: Successful exporters are firms with exports growing in real terms at 8 percent or more annually.
^aFirms starting out exporting 100 percent of their production.
^bExporters that initially sold 100 percent of their production to the domestic market.

domestic import substituting firms in India and the Dominican Republic were far less successful than were pure exporters in achieving rapid export growth. It seems likely that the heavily protected markets and poorer policy environments in these countries were a factor. Heavy tariff protection, controls on foreign exchange, and extensive government regulation probably made it harder for locally owned firms to make the transition to exporting.

Support Services Highly Valued by Exporters

Domestic firms typically prepare for exporting by gathering information about

foreign markets, adapting production to the requirements of the market, and contacting buyers, among other activities. Foreign firms investing in export activities often obtain information about the investment climate, undertake site visits, identify local partners, and prepare feasibility studies and paperwork to comply with local regulations. Both domestic and foreign firms can obtain such services from internal sources (i.e., within their firm) or from external sources, either from private suppliers (i.e., buyers, suppliers, colleagues, banks, or consulting firms) or from subsidized providers of support services (i.e., government agencies or donor-supported institutions). Interviewed firms gave most of the credit for

Table 5.3. Use and Source of Valued Services for All Manufacturing Firms

Service	% Firms Using Service	% Users Valuing Service Highly	Source of Service	
			% Internal	% External
Foreign market information	50	91	20	80
Technical Assistance/production	56	90	34	66
Buyer contacts	62	87	29	71
Sector information	51	76	18	82
Training	49	75	44	56
Country information	51	73	6	94

Source: Survey data.

Note: There were 218 manufacturing firms surveyed.

their export success to sources from outside their firm, attributing about two-thirds of the credit to external providers. External providers also are the principal sources for the six services most highly valued by surveyed firms: foreign market, sector, and country information; production-related technical assistance; buyer contacts, and training (table 5.3).

Services Used Most By Domestic Exporters

Most of the domestic exporters of manufactures surveyed reported that foreign market information, buyer contacts, and production-related technical assistance contributed significantly to their ex-

port performance. This pattern reflects the learning process for export marketing. Keesing and Singer (1990b, 20) have described a three-stage process:

The first stage is selecting an export market (or markets)... on which to concentrate and exploring those markets to find out what they require. The second stage is adapting the supply package (and the various links in the supply chain) to suit the target markets' preferences. The third stage is actively finding (or attracting) customers and getting orders.

Keesing and Singer (1990b, 20) conclude that "supply difficulties are generally the most important obstacle to expanding promising manufactured exports." Since developing-country firms

Table 5.4. Ranking of Services by Domestic Manufacturing Firms

Service	% Firms Citing Service as Significant to Their Export Success		
	Caribbean	Asia ^a	All
Buyer contacts	76	76	76
Foreign market information	62	64	63
Technical Assistance/production	53	61	59
Country information	41	62	54
Sector information	35	63	53
Sample preparation	n/a ^b	45	45
Trade shows	41	36	37
Technical assistance/marketing	9	48	37
Training	38	34	35
Credit facilitation	50	22	30

Source: Survey data.

^aThis sample excludes assisted firms in India.

^bOnly firms in Asia were asked about sample preparation.

typically produce to buyers' orders, the role of the buyer in the export process is critical (Keesing 1983). Egan and Mody (1992) document the importance of marketing and production-related assistance provided by buyers: "Buyers provide a crucial link into the maze of product varieties and market channels." The CDIE survey data confirm the importance of those services in helping exporters cope with supply-based constraints. Developing-country exporters interviewed sought out foreign market information and buyer contacts to get access to buyers, who often became an important source of production-related technical assistance. Table 5.4 shows the percentage of domestic manufacturing firms in the sample that cited

export services as having a significant impact on their export success.

Interviews with foreign buyers and importers further confirmed the importance of "export know-how" on developing country suppliers of exports (Rock 1993; McKean 1992, 15.; Benedict et al. 1993, 8; Bremer and Bell 1993). Vernon-Wortzel et al. (1988, 52 table) reached a similar conclusion based on a survey of U.S. buyers and importers: The top five criteria cited for purchasing imports from developing countries include (1) meeting buyers' specifications for timeliness of delivery, (2) marketing in the United States, (3) meeting production quality standards, (4) providing reliable delivery, and

(5) meeting style specifications. In short, developing-country suppliers must learn how to meet the exacting standards set by buyers in developed- country markets.

Services Used Most By Foreign Firms

Foreign firms²⁶ making decisions about investing in export industries in developing countries gather information concerning the investment climate, government regulations, and export markets, for example. They assess the feasibility of potential sites, identify local partners for the investment, and prepare feasibility studies and other paperwork to comply with local regulations and procedures.

The foreign firms surveyed highly valued country information, sector information, legal assistance, government approvals, and production-related technical assistance in making investment decisions (table 5.5). However, firms differed in their service needs. For example, in countries that had only recently developed a more favorable investment climate (e.g., Guatemala and Indonesia), firms placed a higher value on country and sector infor-

²⁶ This assessment defines “foreign firms” as subsidiaries of foreign companies (American, Japanese, and so on) and as joint ventures between foreign and host country companies. In the Latin America and Caribbean region, nearly all the foreign firms surveyed were subsidiaries of U.S. companies. In the Asia region, 80 percent of the foreign firms were joint ventures. CDIE conducted followup interviews with staff in the U.S. headquarters of U.S. firms with international operations in the sample Asia countries.

Table 5.5. Ranking of Services by Foreign Manufacturing Firms	
Region/Service	% Firms Citing Service as Significant to Export Success
Latin America and the Caribbean	
Customs assistance	61
Legal assistance	58
Assistance with government approvals	52
Site visit support	39
Country information	39
Asia	
Technical Assistance in production	71
Sector information	70
Country information	65
Training	55
Foreign market information	52
<i>Source: Survey data.</i>	

mation than did firms in countries better known for a favorable investment climate (e.g., Costa Rica, Dominican Republic, and Thailand).

Another example is strong demand for production-related technical assistance by foreign firms in Asia, predominantly joint ventures. This example and interviews with U.S.-based investors suggest that foreign firms creating joint ventures in Asia need services (i.e., sector information, site visit support, production-related technical assistance, and training) to identify and improve the capability of their local partners. In contrast, most foreign firms in the Caribbean Basin cited customs assistance, legal support, and help with government approvals as critical to their

export operations. Foreign firms setting up new subsidiaries needed help coping with local regulations and procedures.²⁷ However, they had much less need for production-related technical assistance since they brought their own technology to a newly established subsidiary.

Another trend identified in interviews with U.S. investors was that foreign firms new to investing abroad preferred receiving country-specific information (e.g., on the investment climate) and sector-specific information (e.g., about the installed capacity of local industry). However, investors who were further along in their decision-making process desired more firm-specific support to consolidate a joint venture arrangement or to establish their subsidiary. This trend closely parallels the findings of Wells and Windt (1990, 66) in their review of investment promotion. They conclude that “impersonal techniques, such as advertising, seem to be more effective in influencing investors who are in the early stages of the investment decision-making process, while personal techniques, such as presentations to specific companies, are the only techniques that seem to be effective in the later stages of the process.”

Exporters of Nontraditional Agricultural Crops

Learning how to produce and get a nontraditional agricultural export (NTAE)²⁸

²⁷In the Caribbean, 80 percent of foreign firms surveyed were wholly owned subsidiaries.

to developed-country markets is technically complex. Exporters of cut flowers, melons, or snow peas have to adapt production, harvesting, and transport technology to highly variable local conditions. They need to ensure acceptable levels and quality of supply and maintain quality in postharvest handling. This entails tremendous risk and meeting the stringent demands of buyers in developed-country markets.

The services required for NTAE are typically technology intensive and highly crop and product specific. It is not surprising that surveyed NTAE firms gave a high priority to production-related technical assistance (table 5.6). At the same time, these firms placed considerable importance on accessing buyers through such services as foreign-market information and buyer contacts. Both types of services help strengthen the firms’ capacities to develop long-term relationships with buyers and importers in developed-country markets. This pattern of service use is consistent with the findings of a highly successful NTAE project in Central America, PROEXAG, that know-how – whether related to products, markets, technology, or management – is critical to enterprise viability (Lamb 1991).

²⁸NTAE exporters were included in the Caribbean sample, given the importance of these clients to ASIs in the region. These firms were not included in the Asia sample since USAID had not yet provided significant assistance to NTAE export firms in the region.

Table 5.6. Ranking of Services by Agricultural Firms In the Caribbean Basin

Service	% Firms Citing Service as Significant to Their Export Success		
	Domestic	Foreign	Total
Foreign market information	74	64	72
Technical Assistance/production	67	73	68
Buyer contacts	71	45	66
Training	57	64	58
Sector information	55	64	57
Credit facilitation	48	45	47
Question and answer	50	27	45
Trade shows	43	36	42

Source: Survey data.

Sources of Highly Valued Services

A key question concerning service use is whether governments and donors are filling a gap in providing highly valued services to exporters that private sources (i.e., buyers and suppliers) do not provide. This subsection discusses sources of the five services most highly valued by exporters surveyed and whom they credit for their export success.

1. *From where do firms get foreign market information?* Export firms obtained information about foreign markets (e.g., market structure and prices) for their products principally from their buyers, business contacts, and sources in for-profit

private sector firms. However, in Indonesia and Thailand, one-fourth of export firms obtained most foreign market information from local government sources, such as the Department of Export Promotion (DEP) in Thailand. In the Caribbean Basin, export firms obtained country information (e. g., trade environment and regulatory framework) and sector- or product-specific information (e.g., cost data and technical articles) from USAID-assisted exporter associations and chambers of commerce.

2. *From where do foreign firms get country- and sector-specific information (e.g., information about the investment climate and investment opportunities in specific sectors)?* Foreign firms making export-oriented investments in the Caribbean Basin highly

valued country- and sector-specific information from ASIs. In this region, the U. S. Government actively promoted export-oriented investment through the Caribbean Basin Initiative (CBI) to stimulate economic growth and greater trade with the United States. In contrast, foreign firms in Asia relied much more on their buyers or local partners for these same services. They did not look to government investment-promotion institutions for information on the investment climate or for investment opportunities in specific sectors.

3. *How do firms make buyer contacts?* Export firms rely heavily on buyers (e.g., importers and wholesalers) or on sources within the firm (e. g., manager's personal contacts) as their principal marketing channels. In South Korea, survey data from the mid-1970s reveal that domestic entrepreneurs rated buyers and other private sources the most valuable by far.²⁹ When exporters were asked how they made first contact with buyers, the most frequent response was through foreign buyers (40 percent of the time). Firms cited KOTRA, the South Korean Government export promotion agency, *least* as a source of initial contact with buyers. Interviews conducted for this study with firm managers actively involved with exports led to a similar conclusion. Managers of export firms in Indonesia, Thailand, and South Korea cited buyers, kin and business

associates, and Japanese trading companies as the most important sources of market-related services. Still, domestic government trade promotion organizations (TPOs) in Thailand (i.e., DEP) and Indonesia (i. e., the National Agency for Export Development [NAFED]) were also highly valued sources of buyer contacts. Buyer contact services by government TPOs benefited most firms that were very new to exporting and those not yet well established. Elsewhere, government agencies did not fill this information gap effectively. In India, domestic firms relied not at all on the many government export agencies for buyer contacts (i.e., the Ministry of Commerce, the Trade Fairs Authority, the Trade Development Agency, Export Promotion Councils, and Indian embassies abroad).

4. *From where do export firms get production-related technical assistance?* Firms in Latin America and the Caribbean relied principally on for-profit private sector providers (i.e., consultants and accountants) or their internal resources for production-related technical assistance. USAID-assisted providers were *not* significant sources of technical assistance. The only USAID-assisted source of firm-specific technical support was CINDE (Coalition for Development Initiatives) in Costa Rica. In Asia, exporters got technical assistance from their buyers and suppliers or from their partner.

5. *Whom do firms credit for export success?* Buyers, foreign partners, suppliers, and business contacts are critical sources

²⁹Importers, 39 percent; 15 percent; export firm's own branch, 11 percent; Japanese trading company, 9 percent; retail store, 4 percent; South Korean trading company, 4 percent.

Table 5.7. Ranking of Sources by Manufacturing Firms

Service	% Firms Citing Service as Significant to Their Export Success		
	Total	Domestic	Foreign
Internal	36	34	40
Buyer/supplier/partner	26	30	22
Private sector/no pay	12	11	13
Private sector/pay	10	6	16
Domestic government	10	14	5
Donor/foreign government	5	5	5
Total	100	100	100

Source: Survey data.

of information, advice, and technical services to exporters. A CDIE report on export promotion in South Korea captures the importance of these links to developed-country business partners (Rock 1993, 16):

Export services provided by the international private sector do make a difference. Until exporters established their own overseas offices or came to depend on Korean trading companies, they relied heavily on marketing assistance from Japanese trading companies and importers/buyers; some exporters continue to rely on Japanese trading companies. They also relied heavily on foreign machinery suppliers for production innovation assistance. Quality control assistance also came from international sources. Each of these services was highly valued by exporters. Given the extensive production and mar-

keting contacts that developed between Korean exporters and a panoply of foreign export services providers, it is difficult to believe that those services did not have a significant impact on export expansion.

As table 5.7 indicates, apart from themselves, exporters gave their buyers and suppliers substantial credit for their export performance.

Foreign firms attribute their success more to themselves and to their business partners or others in the for-profit private sector sources. Domestic firms interviewed were typically much more reluctant to contract a consulting, accounting, or law firm for export-related services. Interviews with for-profit private firm managers provided further confirmation that local export firms tended to be unfamiliar with

**Table 5.8. Domestic Firms' Use of Government Services
(average number used per firm)**

Country	Total Use	High Value Use	Critical Use
Costa Rica	1.4	0.7	0.0
Dominican Republic	1.4	1.1	0.4
Guatemala	0.5	0.3	0.1
India	1.1	0.5	0.0
Indonesia	1.5	1.2	0.5
Thailand	3.3	2.1	1.1
Average	1.6	1.0	0.5

Source: Survey data.

these firms and unwilling to pay these firms' rates for services. Foreign firms investing overseas were much more likely to be clients of consulting outfits, investment banks, and law firms.

6. *What support services do governments provide well?* The survey results identify major differences among countries in the quality of government service provision. According to export firms, the Thai government provided more and better services to exporters than did governments in the other survey countries. The Guatemalan government provided the fewest and least useful services. Table 5.8 summarizes use of government-provided services by domestic firms in each country.³⁰ The table shows wide variations across countries in total service use per firm, as well as in use of highly valued services and those deemed critical to export success.

Only Thailand stands out as a country where government provided a significant number of services to domestic firms. The governments of Costa Rica, the Dominican Republic, Guatemala, Indonesia, and India provided fewer and less valuable services than did the Thai government.

There is no simple guideline to answer the question of what services a government should provide. There is substantial cross-country variation in the extent to which firms use particular government services, and the extent to which they credit them for success. Table 5.9 shows wide country variations in service use for

³⁰Foreign firms are excluded to eliminate the complications from investment-related services. Moreover, domestic firms, lacking connections to foreign markets and technology, are likely to have the greatest need for government-provided export-related services.

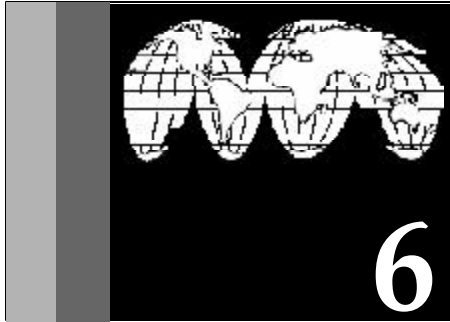
Table 5.9. Domestic Firms' Use of Government Services and Service Impact, Asia Sample

Service	India		Thailand		Indonesia	
	% Firms		% Firms		% Firms	
	Using Services	% Firms Impacted	Using Services	% Firms Impacted	Using Services	% Firms Impacted
Buyer contacts	5	0	29	26	15	15
Trade shows	18	14	53	32	48	30
Market information	23	9	12	12	18	18

Source: Survey data.

the most highly used government services. Nearly 30 percent of domestic firms sought buyer contacts from the Thai government, and nearly all obtained useful information. In India, few firms sought buyer contacts from the government, presumably because government-provided contacts were use-

less. Firms in India turned more to government for market information than did firms in the other countries, even though India's yield was lower. This may be related to the lower availability of alternative sources of market information in India.



Effective Service Strategies and Service Providers

A CENTRAL ISSUE FOR DONORS and governments committed to expanding exports is the contribution of subsidized promotion institutions to export growth. World Bank research on government TPOs has concluded that promotion assistance has rarely been effective in systematically expanding exports (Keesing and Singer 1990a; Hogan 1992). Similarly, an International Finance Corporation (IFC) study on investment promotion institutions concludes that government organizations are often ineffective in stimulating investment, including investment in export-oriented activities (Wells and Windt 1990).³¹ USAID has assisted export and investment promotion institutions in both the public and private sectors. This chapter assesses which intermediaries are most effective.

Export Promotion

Governments and donors have turned to a variety of export promotion strategies and providers to stimulate export growth. Service strategies range from disseminating market information and sharing buyer contacts among a wide variety of exporters to a proactive approach targeting firms more selectively. Providers include government TPOs, private TPOs, membership associations, and highly targeted donor programs. Table 6.1 compares the performance of different export promotion providers. The matrix identifies the type of provider and principal elements of the service strategy and ranks the providers by three measures of performance: (1) effectiveness in targeting the “right” firms, (2) quality of services delivered, and (3) private sector commitment to activity.

The column entitled “Effectiveness in Targeting the ‘Right’ Firms” examines whether the provider has the autonomy and capacity to systematically filter out firms. Many export promotion programs

³¹The authors limited their analysis to what they considered to be the two most popular structures: government and quasi-government agencies.

Table 6.1. Export Promotion Strategies and Providers

Service Provider/Country	Principal Elements of Service Strategy	Effectiveness in Targeting “Right” Firms	Quality of Services Delivered	Private Sector Commitment to Activity
<i>Government TPO</i>				
KOTRA (Korea)	Market information Overseas representation Buyer contacts	Fair	Fair	Fair/Good
DEP (Thailand)	Buyer contacts Market information Overseas representation Trade missions	Good	Excellent	Good
NAFED (Indonesia)	Market information Overseas representation Buyer contacts Trade missions	Fair	Fair	Fair
CENPRO (Costa Rica)	Market information Buyer contacts One-stop shop	Fair	Fair/good	Fair
PROCHILE (Chile)	Market information Overseas representation Buyer contacts Training	Excellent	Good/excellent	Fair/good
CMPE (Morocco)	Market information Buyer contacts	Weak	Weak	Not present
Ministry of Commerce/ EPCs (India)	Market information Buyer contacts Trade fairs	Weak	Weak	Weak

Table 6.1. Export Promotion Strategies and Providers (continued)

Service Provider/Country	Principal Elements of Service Strategy	Effectiveness in Targeting “Right” Firms	Quality of Services Delivered	Private Sector Commitment to Activity
<i>Private TPO</i>				
Fundacion Chile (Chile)	Buyer contacts Technical assistance Feasibility studies	Fair	Fair	Fair/Good
CINDE/CAAP (Costa Rica)	Technical assistance Market information Government facilitation	Good	Excellent	Good
<i>Membership Organization</i>				
GREMIAL (Guatemala)	Buyer contacts Market information Technical assistance	Fair	Fair	Fair
JAAC (Dominican Republic)	Market information Technical assistance Training	Fair	Fair/good	Fair
<i>Targeted Program</i>				
PROEXAG (Central America Regional)	Technical assistance Training Buyer contacts	Excellent	Good/excellent	Fair/good
TIS/IESC (Morocco)	Buyer contacts Marketing Technical assistance	Weak	Weak	Not present
PACT (India)	Joint research and development Technical assistance relating to production	Weak	Weak	Weak

(e.g., those executed by TPOs) fail because they facilitate buyer contacts with firms not yet ready to export. Export promotion programs can effectively screen out those not yet able to export by a systematic selection process (rating firms' export capacity based on a preestablished criteria), cost sharing (charging for part of service costs, which is a measure of commitment and readiness), or other approaches.

The column "Quality of Services Delivered" examines whether exporters highly value the service from a subsidized intermediary. An important determinant of quality is the staff delivering the service: their technical qualifications, private sector expertise, and financial incentive. Another measure of quality is whether the service leads to buyers, a critical link in the export process. Final measures include how exporters rate the provider in delivering a particular service and whether buyers or others in the private sector are already supplying the service on a nonsubsidized basis.

Lastly, the column "Private Sector Commitment to Activity" examines whether the private sector has a stake in the outcome of service provision. Government domination and lack of private sector involvement undermine the effectiveness of many TPOs. Measures of private sector commitment include significant participation on the providers' boards of directors, contribution of counterpart funds, and representation on sector-specific export councils.

Assessment of Performance: Export Promotion Providers

Public Sector TPOs

Governments in developing countries rely on TPOs to provide exporters with a standardized package of services, including foreign market information, buyer contacts, trade fair assistance, trade missions, training, and overseas representation. However, few government TPOs have been effective.³² Keesing and Singer (1992, 52) argue that government TPOs are effective only in exceptional circumstances. Their contention is that for such TPOs to be effective, the countries where the TPOs are located need to have already achieved excellent policies and a strong policy commitment to expand manufactured exports. They argue that TPOs rarely meet four key conditions: having (1) the support of the business community, (2) adequate funding, (3) qualified staff who are paid commercially competitive salaries, and (4) autonomy. Hogan (1992, 49), however, is more reluctant to concede the installed capacity of government TPOs and argues

³²In no country in this study was local government a source for production-related technical assistance. As Keesing and Singer (1990a) have argued, donors have focused their efforts on permanent public sector institutions, but these institutions are the least capable of providing a service critical to export firms: firm-specific technical assistance.

that donors should not “throw the baby out with the bath water.”³³

DEP in Thailand and ProChile, the Chilean export promotion institution, are among the few exceptions. Both DEP and ProChile had substantial decision-making authority and flexibility to target exporters. DEP had a well-developed selection process to weed out firms not yet able to export; ProChile, with its strong links to private exporter associations, was able to define its sectoral strategies independent of government interference. Both had technically qualified staff who were highly regarded in the export community and have been good sources of buyer contacts. Furthermore, neither DEP nor ProChile was supplanting a private export-service market already reaching firms new to exporting. In fact, the private sectors in both countries were committed to these institutions. Exporters willingly shared some of the costs of services and directed future strategies by actively participating in public and private sector export councils. Two significant advantages shared by both Chile and Thailand were their highly favorable policy environment and governments fully committed to promoting non-traditional exports.

³³He states that successful TPOs have several factors in common: autonomy in operations; confidence from government and exporters; relevant services keyed to real needs; overseas representation in the country’s major markets; staff, experienced and trained for the job; sufficient finance – to do the job well.

Why have most government TPOs not been effective? First, they often lack decision-making autonomy and, in turn, are less able to systematically target sectors most able to benefit. For example, the regulatory mandate of CENPRO in Costa Rica required it to operate in a general, nontargeted fashion, focusing on regulatory services, such as one-stop shop and export contract approval, and disseminating low-cost, prepackaged information (Nathan Associates, Inc. and Louis Berger International, Inc. 1993). In other cases (CMPE in Morocco, Ministry of Commerce/export promotion councils (EPCs) in India), government bureaucrats dominated TPO decision-making.

Second, most government TPOs (KOTRA in South Korea, NAFED in Indonesia, COPE in Morocco, and the Ministry of Commerce/EPCs in India) lack the specialized marketing and technical expertise needed to be highly valued sources of buyer contacts, much less production support, to exporters (Benedict et al. 1993; Fox et al. 1993; Rock 1993; Wichterman 1994).³⁴ A serious problem is the lack of technically qualified staff with private sector skills and sufficient financial incentive to do the job well. In South Korea, export firms considered KOTRA’s overseas offices to be “havens abroad” in the early 1970s, but the fact that many buyers came to Korea on their own restricted KOTRA’s buyer-finding role (Rock 1993, 10). In Indonesia, firms

³⁴Keesing (1983) considers KOTRA one of the more successful TPOs.

new to exporting relied modestly on NAFED as a source of buyer contacts but depended much more on their family and colleagues for access to buyers. Indian exporters surveyed had practically no confidence in TPOs as a source of buyer contacts, overseas representation, and foreign market information.

Third, many government TPOs do not have the support of the export community; this was clearly evident in ratings by firms surveyed. TPOs have either neglected to draw in private sector involvement through sector-specific EPCs or have let such councils be dominated by government bureaucrats.

Private TPOs

Private TPOs such as the Fundación Chile and CAAP in Costa Rica have had greater autonomy than government-created TPOs in developing a targeted service strategy focused on a select number of firms. With USAID funding, CAAP has been able to target specific crops, to develop an integrated package of assistance responsive to the needs of select exporters, and to devote significant funds for firm-specific technical assistance and training. CAAP has also established highly specialized overseas representatives to serve its clients.

The endowed Fundación Chile is even more targeted, focusing principally on technology transfer and startup ventures. Still, the sustainability of private TPOs remains an issue. CAAP was entirely depen-

dent on USAID funding until recently. Fundación Chile, however, has access to a \$50 million endowment from IIT and the government of Chile.

Exporter Associations

Exporter associations represent another approach to export promotion. Like government TPOs, membership organizations (GREMIAL in Guatemala, Council for Agribusiness Cooperation and Coinvestment [JACC] in the Dominican Republic) tend to provide standardized services to a wide variety of exporters (e.g., foreign market information, directories, and trade fairs). However, they are unsuited to providing customized services, such as production-related technical assistance. Not only does their membership have technical needs that vary greatly by product, but members are often unwilling to have subsidized firm-specific services provided to select groups within the membership.

Although often weak in targeting the “right” firms, these membership associations can deliver high-quality services that are highly responsive to the private sector. Export firms surveyed in Guatemala highly rated the buyer contact and market information services provided by the Guild of Exporters of Nontraditional Products of Guatemala (GREMIAL). One reason for the high rating is that GREMIAL has developed and maintained a strong private sector membership base. Through sector- and product-specific commissions, the

membership exerts a strong leadership role in directing GREMIAL's programs. Another reason is that the Guild's membership fees cover a significant portion of its operating expenses (about 35 percent in 1990) and permit it to be more independent of USAID funding.

Targeted Time-Bound Programs

Targeted time-bound export promotion programs typically have substantial flexibility to target firms ready to export and to provide a variety of high-quality services to those best able to benefit. Donors' dissatisfaction with the performance of TPOs has led them to emphasize time-bound approaches using the help of consultants or other experts working directly with enterprises (Keesing and Singer 1992). Some key advantages of targeted programs are that they are undertaken for a limited period, are typically highly result oriented, and have a built-in "sunset clause," which TPO institution-building projects do not. However, as a short-term, freestanding, donor-funded program, targeted programs have limited success in securing long-term private sector commitment to their activities.

The USAID-assisted PROEXAG project in Central America was a highly successful targeted export promotion program. It relied on its high-quality technical staff to select priority crops and then tailor service strategies based on the crop's stage of development (production, postharvest handling, processing, transport, and market-

ing). PROEXAG's service strategies were also heavily training and technical assistance intensive. Its effectiveness was due to the outstanding quality of its technical staff, its strong relationships with buyers and other private sources of technical expertise, and its ties to host country grower associations.

The USAID-funded Trade and Investment Services (TIS) project in Morocco also targeted products with high export potential and systematically screened Moroccan producers to find and test those capable of supplying the U.S. market. TIS actively sought out buyers in the U.S. market for prescreened Moroccan exporters. TIS provided contacts to buyers and importers that have been highly valued by Moroccan exporters.

Cost-Sharing Grants

An innovative approach to export promotion has been matching or cost-sharing grants for packages of assistance. Donors, such as the World Bank and USAID, established funds to provide cost-sharing grants to firms to help pay the costs of services from suppliers of their choice. Most of these efforts are too recent to systematically assess their effectiveness. Nonetheless, the evidence available from such programs in India suggests that participating firms had higher rates of export growth and capacity utilization than non-participants (Keesing 1992). One important advantage of the program is its built-in screening mechanism, which requires that firms pay for about half of the

cost of the services. The fund is, therefore, limited to only those firms able and willing to risk their own funds, in effect a “market test” of their capacity to export. Since export firms risk their own money and identify their own private sector suppliers, the program strengthens the private sector’s commitment to the services.

Nonetheless, the quality of services delivered still appears dependent on the technical strengths and weaknesses of the implementing institutions. For example, in India the USAID cost-sharing Program for the Advancement of Commercial Technology (PACT) and the World Bank matching grant program were effective largely because technically competent staff and a well-run financial institution, Industrial Credit and Investment Corporation of India (ICICI), managed the program. However, in Indonesia a newly established quasi-public Export Support Board (ESB) managed a similar fund with less satisfactory results. One reason is that ESB has been unable to remain fully independent of public sector budget requirements (Keesing 1992). USAID has experimented successfully with this cost-sharing approach with the International Executive Service Corps (IESC) Program in Sri Lanka and other programs, such as the USAID project, Technology Initiative for the Private Sector.

Overall Conclusions

This review of export promotion strategies and providers suggests the following:

- The policy environment and the commitment of the government to promoting exports is critical to the effectiveness of export promotion activities, particularly of TPOs.
- The institutional structure of the promotional organization must fit the type of service provided. Government TPOs and membership organizations are more suited to effectively providing standardized services, whereas private TPOs and targeted programs are better suited to providing firm-specific, customized services.
- The quality of export promotion services is integral to the provider’s decision-making and operational autonomy, the caliber and technical skills of its staff, and whether services stimulate contacts with buyers.
- The commitment of the private sector to the service strategy and provider substantially increases the effectiveness and sustainability of the activity.

Investment Promotion

Governments and donors have turned to investment promotion activities to stimulate export growth in developing countries. Foreign investment promotion services include dissemination of country- and sector-specific information, advertising, investment seminars, site visit support, overseas representation, investment profiles, feasibility studies, and investment

with local partners, acquiring government approvals and permits, and providing help once the investment has materialized. The providers of these services range from government agencies to quasi-government institutions to private organizations. Donors, such as USAID and the World Bank/IFC, have provided technical support to strengthen the provision of investment services in developing countries.

This assessment examined USAID-assisted investment promotion institutions in five countries.³⁵ Two were government agencies, the Board of Investment (BOI) in Thailand and the Investment Coordinating Board (BKPM) in Indonesia. Three others were private investment promotion institutions: CINDE/PIE in Costa Rica, the Investment Promotion Council (IPC) in the Dominican Republic, and the U.S. Investment Promotion Office (USIPO) in Egypt.

Table 6.2 compares the performance of different investment promotion providers. The matrix identifies the type of provider and the principal elements of the service strategy and then ranks the providers based on three measures of performance: (1) effectiveness in targeting the “right” firms, (2) quality of services delivered, and (3) private sector commitment to the activity. Each provides an important basis for assessing the effectiveness of different service approaches and providers.

³⁵USAID did assist a quasi-government investment promotion institution: the Jamaica National Investment Promotion Board (JNIP), but the assessment team conducted no site visit to Jamaica.

The column “Effectiveness in Targeting the ‘Right’ Firms” examines whether the provider possesses the autonomy to provide services relevant to investors in that country. Government investment promotion agencies typically lack the authority to operate independently as service providers, since they are often principally responsible for screening investment proposals and negotiating with foreign investors for the government. Given their greater autonomy, quasi-governmental institutions (e.g., an independent board of directors) are better able to target clients effectively.³⁶ Private institutions have even more independence in developing a targeted approach to investment promotion service delivery.

The column “Quality of Services Delivered” examines whether investment promotion services influence firms’ decisions to invest in export operations. An important element is the quality of the staff providing the service: the staff’s technical qualifications, private sector expertise, and financial incentive to do the job. Another indication is the institutions’ capacity for overseas marketing (e.g., competently staffed overseas offices). A final measure is how investors rate the provider of a particular service, whether the service leads to an investment decision, and whether the investors could obtain this service from the existing market.

³⁶The JNIP, the Economic Development Board in Singapore, and the “Locate in Scotland” Program are examples of quasi-governmental institutions.

Table 6.2. Investment Promotion Strategies and Service Providers

Service Provider/Country	Principal Elements of Service Strategy	Effectiveness in Targeting “Right” Firms	Quality of Services Delivered	Private Sector Commitment to Activity
<i>Government Institution</i>				
BOI (Thailand)	Information about country Investment missions One-stop shop	Fair	Weak	Weak
BKPM (Indonesia)	Information about country One-stop shop Investment profiles	Weak	Weak	Weak
<i>Private Institution</i>				
CINDE/PIE (Costa Rica)	Information about country Overseas sector representation Site visit support	Excellent	Excellent	Good
IPC (Dominican Republic)	Information about country and specific sectors Site visit support	Excellent	Good	Good
USIPO (Egypt)	Joint ventures Feasibility studies	Weak	Weak	Weak

Private Sector Commitment to Activity examines whether the private sector in the host country has a stake in the outcome of investment promotion services. One indication is participation of the host country private sector in setting the institution's programmatic direction (e.g., board of director representation). Another is contribution of counterpart funds.

Assessment of Performance: Investment Promotion Providers

Government Institutions

One investment promotion strategy has been to establish government investment promotion agencies under the direct authority of the Ministry of Industry or the office of the head of state. BOI in Thailand and BKPM of Indonesia, both government institutions, were initially established by their governments to screen investment proposals and negotiate with investors. Only subsequently has investment promotion been added as a function, and neither BOI nor BKPM has been effective in developing targeted investment promotion strategies.

In the 1980s, BOI launched a series of investment missions to the United States and a matchmaking database to facilitate contacts between potential investors and local firms. Not one U.S. investment resulted from these activities. BOI was hampered by its lack of focus on providing

services to investors, given its existing screening mandate and its civil service structure. With USAID assistance, BOI sub-contracted investment promotion services from private consulting firms but neglected to strengthen its internal capacity to provide such services.³⁷ BKPM adopted a similar strategy and achieved no impact on investment.

Not surprisingly, these government institutions were unable to provide high-quality services to investors. Foreign firms surveyed did not rely on government agencies for any highly valued service and did not value government-provided services, such as one-stop shop, investment profiles, and investment missions. Rather they relied much more on their buyer or head office for these services. Firms surveyed stated that support services provided by institutions did not influence their investment decisions and rated the quality of services as "so so." While investors valued the government contacts and help with government approval, their ability to provide effective one-stop-shop services was limited, since permit approval authority still rested with multiple government agencies. Another serious problem was the lack of highly qualified technical staff to undertake these activities because of civil service salary restrictions.

³⁷Only in 1992 when the BOI was losing its mandate to grant investment incentives did it begin to pay serious attention to promotion services.

Private Institutions

Another strategy has been to stimulate service provision by private investment promotion institutions. The principal impetus underlying the establishment of private investment promotion institutions has been the failure of governments to provide such services effectively. Unlike their government counterparts, private investment promotion institutions (CINDE/PIE in Costa Rica, IPC in the Dominican Republic, and USIPO in Egypt) have typically had highly targeted service strategies. Their autonomy to target services has been due to the substantial financial support from USAID to these institutions, made possible largely by the U.S. Government's commitment to stimulating economic growth in the Caribbean Basin and its geopolitical objectives in Egypt. Most private investment promotion institutions provide a similar set of services, including country information, question and answer, site visit support, and assistance with government approvals. However, CINDE/PIE in Costa Rica and IPC in the Dominican Republic have been significantly more effective than USIPO in Egypt has been.

Since Costa Rica was not well known by foreign investors in the mid-1980s, CINDE/PIE's approach was to "sell the country." CINDE/PIE focused first on supplying information about the investment climate to potential investors, then on targeting sector-specific information to inves-

tors through overseas offices, and on followup with site visit support in the country. Given substantial USAID assistance, CINDE/PIE was well structured for marketing abroad with several overseas offices. In the Dominican Republic, IPC adopted a different strategy, which emphasized in-country support (e.g., site visit support and government approvals) since free-zone authorities in the Dominican Republic were already "marketing the country" abroad. Both CINDE/PIE and IPC provided services valued by investors. First, these institutions were able to attract highly qualified, motivated technical staff and to pay competitive salaries. Also, more than half of the foreign firms surveyed used IPC and CINDE/PIE for country information (e.g., investment climate) and sector-information (e.g., electronics industry) services, which they valued highly. While these institutions were not critical to foreign firms' investment decisions, the firms rated the quality of CINDE/PIE and IPC services as "good."³⁸ U. S. foreign direct investment in export-oriented activities in Costa Rica and the Dominican Republic has grown substantially since the mid-1980s.

USIPO, however, was less successful in promoting foreign investment in Egypt. Unlike CINDE/PIE in Costa Rica and IPC in the Dominican Republic, USIPO was unable to "sell Egypt" to foreign investors. Evaluations conclude that the sustained

³⁸ Foreign firms did not rely on government institutions for any highly valued service other than training.

able to “sell Egypt” to foreign investors. Evaluations conclude that the sustained state domination of the Egyptian economy, evident in Egypt’s trade policy and regulatory environment, was such a disincentive to foreign investors that no amount of promotion services could compensate. Another serious problem was the poor quality of USIPO services. USIPO lacked highly qualified staff and was unable to market its services (e.g., joint venture identification) to investors.

An IFC review of investment promotion by Wells and Windt (1990) came to several conclusions directly relevant to these findings. Not surprisingly, they pointed to the importance of a favorable economic and policy climate for effective investment promotion in developing countries. Their analysis found that investment promotion *did* have a statistically significant relationship with inflows of foreign investment, but that income and political stability were more important than the promotion variable in developing countries (44).³⁹ “Promotion is likely to have the largest effect where other factors that attract investment—production factors such as income levels and degrees of political stability, for example—are most

³⁹The dependent variable is per capita foreign direct investment, and the independent variables are effective demand (per capita gross national product [GNP]) market growth (GNP growth rate); balance of payments on current account; inflation; political stability (Frost and Sullivan’s (1983) political stability index); and investment promotion (*Business Facilities* listing of countries actively promoting in the United States).

similar, as is true of industrial countries.” In short, it is not surprising that promotion services made little difference in Egypt, where the investment climate has not significantly improved over the last decade. Wells and Windt also concluded that quasi-governmental or private organizations have been more effective in promoting export-oriented investment than have government agencies.

Overall Conclusions

This review of investment promotion institutions suggests the following:

- The policy environment and the economic climate are central to the effectiveness of investment promotion activities in developing countries.
- An autonomous investment promotion institution is a more effective provider of promotion services than a government-dominated institution.
- The quality of investment services is linked to the provider’s decision-making autonomy, its overseas marketing capacity, the technical skills of its staff, and whether services are directly relevant to investors’ decision-making needs.



Economic Returns Of Donor-Supported Promotion Services

THE ULTIMATE TEST of the success of donor programs is the extent to which the benefits of such programs to the recipient country exceed their costs. Cost-benefit analysis is generally accepted as a theoretically sound methodology available for measuring economic return to a specific development project or program. It is frequently used *ex ante* as a tool for project selection, but it has been used far less often for monitoring or *ex post* evaluation. *Ex post* evaluation requires a descent from the simple analytics of projected effects to the complex realities of actual events that may have been affected by myriad factors other than their causal link to the project. Consequently, *ex post* evaluation is more difficult. (This chapter summarizes the detailed analysis of the CDIE Technical Report No. 14, *Measuring Costs and Benefits of Export Promotion Projects: Findings From USAID Experience* and the Program and Operations Assessment Report No. 2, *Export and Investment Promotion: Sustainability and Effective Service Delivery* (see Bremer and Bell 1993;

Nathan Associates, Inc. and Louis Berger International, Inc. 1992).

Economic Rates of Return

A cost-benefit analysis compares the value of a project-related cost stream to the value of a project-related benefit stream to measure the net contribution of a project to a national economy. The basic data requirements and approach for an analysis of the economic return to a promotion project are essentially the same as for any cost-benefit analysis: a stream of financial benefits and costs together with an appropriate set of economic prices (i.e., “shadow prices” that reflect opportunity cost where this differs from the price paid) to translate financial flows into their economic equivalents and capture any costs and benefits missing from the financial analysis. Generation of a cost stream and shadow prices can be vexing in practice but raises few issues unique to this class of projects. The cost stream consists of project expenditures, adjusted to reflect economic

opportunity costs if necessary. These costs are relatively easy to capture.

The benefit stream, however, is much more complex. It consists of the net benefit to the economy, taking into consideration (1) the total benefits generated (income), (2) the nonproject resources required to generate this income (the company's investment, for example), and (3) the degree to which the net benefits (1 minus 2) are attributable to the project intervention being studied.

The benefits to promotional services are particularly difficult to estimate, for such services to firms do not generate benefits directly. Their impact on the economy is felt from additional economic activity, through higher exports and new investments by firms in the private sector. The lack of a direct causal link between the actions supported by the project and those of firms makes attribution a major issue. Firms that received services can be identified, but one cannot be certain that the firms took actions because of the services.

Methodological Issues in Rate of Return Analysis

The promotional institutions supported by USAID do not generate economic benefits directly. They support the expansion of other enterprises that generate the benefits – more and better jobs and increased exports. This indirectness raises a fundamental methodological question: How do we know that the firms would

not have done the same thing without the promotional support?

The methodology used for the cost-benefit approach used in the Caribbean Basin cases was to compare the firm-by-firm “success list” of specific investments or exports identified by the assisted institution. Staff from a representative sample of the firms were interviewed and their own estimates of both the importance of the institution (i.e., attribution) and its importance in providing highly valued services were used as the basis for causality. The proportion of the firms' export growth that corresponded to the share of credit given to the promotional institution was treated as the impact of the project. Employment resulting from that volume of exports was then calculated.

Since most of the employment generated from any new activity draws workers from other activities, it is only the increment in their productivity compared with the alternative that constitutes a benefit of the new project. In Costa Rica, survey data determining the difference between wages of workers in the export industry compared with the same workers' wages in previous occupations were used to estimate this productivity increase. In other countries, the employment rate in each country was used as a proxy for shadow wage rate (e. g., where the unemployment rate was 10 percent, the shadow wage was assumed to be 10 percent below the minimal wage).

In India, the only Asian country where cost-benefit analysis was undertaken, a different methodology was used. The India project did not meet the criteria for an ex post evaluation, for only 1 of 40 subprojects had reached the commercial stage, and that firm only barely. That subproject, however, was a major success, based on the commercialization investment underway. The team chose to accept the firm's rate-of-export projections, to attribute this to the project, and to measure the resulting benefits against the cost of all 40 subprojects. Because India maintains controls on foreign exchange, export earnings were treated as having a shadow price equal to the parallel rate or 20 percent above the official rate. Wages were also assumed to have a shadow rate 20 percent below the wage paid to compensate for higher productivity in export activity in an economy largely isolated from the rest of the world.

Rates of Return On USAID's Investment

Export and investment promotion programs can offer attractive rates of return to USAID investment. Economic rates of return (ERRs) for four promotional institutions examined in this assessment ranged from 12 to 26 percent.⁴⁰ These rate of return estimates were based on direct

⁴⁰Rate of return analysis was conducted on the PACT program in India, the PROEXAG program in Guatemala, the CINDE/PIE program in Costa Rica, and the IPC program in the Dominican Republic.

benefits from increased exports and employment. The rate of return calculations generally used conservative methodologies. In no case did the estimates include benefits from future investment or spinoff investments from the initial ventures or benefits derived from the impact of the promotional activities on policies. The country-level work provided significant evidence of the existence of such positive externalities (e.g., new starts by former employees).

Nevertheless, this level of return can by no means be assumed for other USAID export and investment promotion programs. Many USAID programs had such inadequate information systems for tracking project impact that calculating rates of return ex post was difficult, if not impossible. In fact, 9 of 12 promotional institutions examined in the Latin America region did not have sufficient information about assisted firms to undertake a rate of return analysis. Some institutions were unable or unwilling to track assisted firms since they disseminated standardized information to a large number of firms whose performance would be very costly to track over time. Others had weak project designs that resulted in ill-defined measures of performance. The three institutions in the Latin America and Caribbean region that tracked data on assisted firms had rates of return of around 25 percent and were well-designed, highly targeted programs.

In Asia, however, the survey revealed that two of three projects studied provided no measurable benefits to the assisted

firms, in effect a negative return on donor's investment. The promotion institutions in Thailand and Indonesia (BOI and BKPM) did not make effective use of contracted assistance to achieve specific results in firms. Services provided (e.g., investment profiles, investment missions, and consulting services) were not adequately targeted to achieve anticipated indicators of performance. In contrast, the program in India (based on comparing the benefits of 1 of 40 subprojects with the cost of the entire effort, as described) had an ERR of 12 percent. In India, a well-managed intermediary, ICICI, implemented the PACT program effectively and was able to provide services (e.g., research and development support) that were directly related to future export performance.

This experience highlights several findings about rate of return analysis for export promotion programs. First, it is difficult to undertake rate of return analysis on promotion programs providing standardized services (e.g., information dissemination), since firm performance cannot be easily linked to donor intervention. Second, the return on investment will be low if an export promotion program is not well designed and managed, particularly if it does not carefully link inputs to anticipated economic performance of firms.

Comparative Performance Of Assisted and Unassisted Firms

A second approach to estimating project impact was a comparison of the

performance of USAID-assisted firms with unassisted firms. This approach reinforced the findings on rates of return analysis discussed above.

Comparisons of assisted versus unassisted firms have limitations. Differences in outcomes between them can be attributed unequivocally only when the two groups are otherwise similar. Selection bias—nonrandom differences in expected performance between assisted firms and unassisted firms that are unrelated to the assistance—may have operated in some countries. Consequently, the performance comparison between assisted and unassisted firms must be informed by the data collected on service use, impact, and attribution.

USAID-assisted firms outperformed unassisted firms in the Caribbean Basin, whereas the opposite was true in Asia. Firms receiving services from USAID-assisted intermediaries in the Caribbean Basin had higher export and employment growth than randomly selected unassisted firms.

At the country level, assisted firms outperformed unassisted firms in export growth by a wide margin in Costa Rica, the Dominican Republic, and India. Unassisted firms did far better in Thailand, and both groups performed equally in Guatemala. Nevertheless, both groups performed well in most countries. The only groups not averaging more than 20 percent per year export growth were unassisted firms in Costa Rica and India and assisted firms in Thailand. The country-

level results are summarized in tables 7.1 and 7.2.

Except for in Guatemala, the performance of assisted and unassisted firms conforms to the assessment teams' expectations based on the country fieldwork. USAID projects in the Caribbean Basin and India were considered highly successful, whereas those in Thailand and Indonesia were considered failures.

Several factors need to be stressed when comparing the impact of USAID's efforts in the Caribbean Basin with the impact in Asia. First, USAID provided substantial funds for promotion institutions in relatively small economies in the Caribbean Basin region and very little support in relatively large economies in Asia. Second, USAID assistance to promotion institutions in the Caribbean region tended to be strongly linked to firms' export performance. In contrast, in Asia, USAID assistance was more exploratory, more indirect, and less linked to affecting the economic performance of specific beneficiaries. Third, promotional institutions in the Caribbean targeted highly valued services (e.g., buyer contacts, foreign market information, and production-related technical assistance).⁴¹ However, projects in Asia, with the exception of PACT in India, targeted services not highly valued (e.g., investment missions, consulting services, and feasibility studies).

⁴¹Firms surveyed, particularly exporters of nontraditional agricultural crops, reported that technical assistance for production from ASIs and others had a significant impact on their export operation.

In India, services provided by an ASI had an important impact. The PACT project demonstrated to Indian firms the rewards of linkages with foreign firms (e.g., improved technology, improved methods, and products competitive on world markets). Moreover, in the context of incipient policy improvements in technology and investment, the project signaled directions for further policy change in indigenous research and development and venture capital.

In Indonesia and Thailand the level of services provided by ASIs was very modest. Significant impact on firm performance was therefore unlikely, as confirmed by the fact that firms gave little credit to ASIs. In addition, selection bias appears to have favored firms with poor export prospects rather than those with good potential. The most extreme form of this practice apparently took place in Indonesia, where—because of lower hourly billing rates for advising firms under the USAID project—the ASI tended to use the USAID project to help unpromising clients. Promising clients were charged the consulting firm's standard rates. In Thailand USAID clients tended to be established import-substituting firms. These firms were unlikely to exhibit the dynamic growth of newer and more export-oriented firms.

In the Caribbean Basin countries and India, highly promising firms were assisted. These firms valued the services they received and gave significant credit for their success to ASIs. Projects had high rates of return. Targeted firms in Indonesia and

Table 7.1. Employment Levels of Assisted and Unassisted Firms in Asia and Latin America and the Caribbean

	All Firms			Assisted Firms			Unassisted Firms					
	1986	1991	% Change	No. of Firms	1986	1991	% Change	No. of Firms	1986	1991	% Change	No. of Firms
Asia												
India	12,644	21,539	70	23	2,381	7,501	215	5	10,263	14,038	37	18
Thailand	15,314	31,611	106	31	9,805	15,190	55	5	5,509	16,421	198	26
Indonesia	5,535	13,694	147	16	5,238	13,103	150	13	297	591	99	3
All Asia	33,493	66,844	100	70	17,424	35,794	105	23	16,069	31,050	93	47

	All Firms			Assisted Firms			Unassisted Firms					
	1987	1990	% Change	No. of Firms	1987	1990	% Change	No. of Firms	1987	1990	% Change	No. of Firms
Latin America and the Caribbean												
Costa Rica	7,114	11,004	55	51	4,490	8,075	80	35	2,624	2,929	12	16
Guatemala	6,330	11,638	84	47	4,163	9,184	121	35	2,167	2,454	13	12
Dominican Republic	7,261	11,982	93	46	4,823	8,740	81	30	2,438	5,242	115	16
All Latin America and the Caribbean	20,705	36,624	77	144	13,476	25,999	93	100	7,229	10,625	47	44

Source: Survey data.

Table 7.2. Export Levels of Assisted and Unassisted Firms in Asia and Latin America and the Caribbean (millions of dollars)

	All Firms				Assisted Firms				Unassisted Firms			
	1986	1991	% Change	No. of Firms	1986	1991	% Change	No. of Firms	1986	1991	% Change	No. of Firms
Asia												
India	128	296	131	27	11	44	305	7	117	252	115	20
Thailand	135	388	187	39	40	85	112	6	95	303	220	33
Indonesia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
All Asia	263	684	160	66	51	129	135	13	212	554	162	53

	All Firms				Assisted Firms				Unassisted Firms			
	1987	1990	% Change	No. of Firms	1987	1990	% Change	No. of Firms	1987	1990	% Change	No. of Firms
Latin America and the Caribbean												
Costa Rica	29	54	89	47	16	35	119	32	13	19	50	15
Guatemala	29	98	234	47	22	73	234	33	8	25	234	14
Dominican Republic	18	92	413	39	5	65	1210	25	13	27	107	14
All Latin America and the Caribbean	76	244	222	133	43	173	305	90	33	71	115	43

Source: Survey data.

Thailand were less promising, received only limited assistance, and gave little credit for success to ASIs. Little evidence of benefits to the firms from USAID assistance was evident.

Finally, the assessment examined the relationship between export success and use of government services. The results show no clear pattern. On average, successful firms (i.e., those exporting 8 percent or more annually) used government services slightly more, although the results vary across countries. Successful firms appear to have chosen government services more carefully than unsuccessful firms, using such services more intensively in countries in which the government agency provides more useful information. In sum, governments differ substantially in the effectiveness of their programs. Their most useful services are buyer contacts, trade shows, and market information. Even in these areas, however, they have an impact on only a minority of exporting firms.

Monitoring Project Performance

A report by Bremer and Bell (1993) provides considerable discussion of measurement issues and concludes that benefit-cost analysis is seldom an effective tool for evaluating actual project implementation. First, the difficulty and expense of determining attribution is a major obstacle. Second, methodological issues regarding benefit calculations, particularly

treatment of employment and foreign exchange effects, allow a wide range of interpretations of particular outcomes. Third, data collection is difficult for one major benefit – the profits to assisted firms. Firms are understandably reluctant to provide such data. These considerations make formal cost-benefit analysis useful only in exceptional cases. The World Bank and other donors make no attempt to undertake formal cost-benefit analysis of such activities.

Given the practical constraints of undertaking detailed cost-benefit analysis, CDIE has developed a back-of-the-envelope approach to help managers calculate a rough estimate of the return to promotion projects. This simplified approach to setting and monitoring performance targets is based on analysis of the economic return from job creation alone. The approach has two positive attributes: (1) it relies on basic data, which an effective management information system should be tracking in the first place, and (2) it provides a conservative rate of return. A negative feature of the approach is its oversimplification of the cost-benefit procedure.

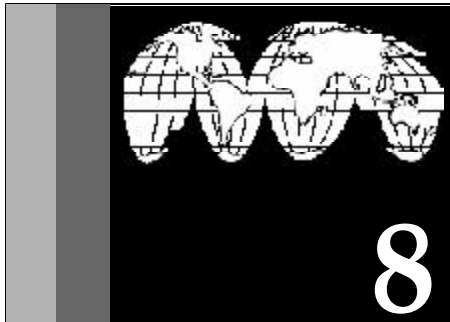
For most projects, however, the attention should be on monitoring and tracking performance. Numbers of beneficiaries and costs per beneficiary need to be continually tracked and related to expected benefits. If projects are not delivering, they need to be redesigned or ended.

⁴²Bremer and Bell (1993) give a detailed description of this approach.

Such monitoring needs to be linked to the types of services provided. For highly standardized services, such as printed information, there is little potential for tracking benefits. Moreover, heavy attention to measurable indicators can tilt projects toward quantifiable outputs at the expense of potentially more valuable but less quantifiable services.

Finally, economic analysis of promotion projects needs to go beyond a focus on benefits in additional exports and employment alone. If promotional projects

are based on an “infant industry” rationale, economic analysis should include analysis of the growth and development of the infant industry, in this case the market for support services, and provide for a “sunset” (i.e., a time period after which all subsidies to the promotion activity will be withdrawn). Key measures of success are the growth of a private sector provider market and the growth of nontraditional exports. A related issue is whether the USAID intervention is supporting a dynamic private support services market or hampering it by creating monopolies.



Conclusions and Recommendations

Conclusions

Economic Policy, Export Success, and Effective Use Of Subsidized Promotion Services

MOST ECONOMISTS ARE CONVINCED that the economic policy environment is a fundamental determinant of export success. A review of the export performance and the policy environment in the sample countries revealed that export performance was poor in constrained policy environments. Egypt and India, the two countries with unquestionably poor policy environments, were notable failures in export growth, notwithstanding efforts to provide special export incentives. The export success of the other countries was closely related to their ranking based on their overall economic policy. A broad measure of economic policy, encompassing macroeconomic stability, foreign exchange management, trade policy, and the business environment, provided a good proxy measure for export success. In addition, partial trade reform, such as duty

drawback and EPZ-type regimes, appears to have created enough of a favorable policy regime for strong export performance. Countries that achieved rapid export growth had insulated the export sector from the effects of antiexport policies. "Exporters were exempted from whatever restrictions prevailed in the import regime" (Krueger 1990, 108). South Korea, Thailand, Indonesia, Morocco, Guatemala, Costa Rica, and the Dominican Republic all have experienced rapid export growth using this device. In short, policy does matter.

Sound macroeconomic policies and partial trade reform are preconditions for export success and, in turn, for effective use of subsidized export or investment promotion services. Without adequate policies in place, there is little to promote. In India's closed policy environment, unfavorable to export-oriented growth, most firms had little incentive to export. Not surprisingly, subsidized export support services, such as trade fairs and foreign market information, had little impact. Similarly, in Egypt with its hostile policy environment for trade and investment, subsidized investment promotion services generated no investment.

However, when partial trade liberalization measures provide a policy opening to exporters and investors, support services can contribute to export success. In India, for example, the liberalization of the trade regime affecting high technology exports, supplemented by USAID support for better links between foreign investors and high-tech firms, led to the dynamic growth of that small subsector, even though overall export growth was limited. In more favorable policy environments support services for export firms appear to be integral to export success.

Rationale for Project Intervention

If policies and partial trade reform contribute to export success, why should donors and governments bother with promotional programs at all? Some export and investment service programs have generated a high ERR representing a justifiable use of donor resources. Nevertheless, if the returns to export services are high, why does the market not provide them? The principal rationale for a positive economic impact of intervention in these markets is market failure. This assessment suggests that there are significant positive externalities associated with promotional programs, making such programs useful for development.

Information gaps can be problematic for firms new to exporting, especially at the earliest stages of an export-oriented trade strategy. New exporters lack knowledge of foreign

markets and contacts with buyers abroad, and in poor policy environments this insularity can deny the private sector access to new ideas, such as duty drawback, that have led to rapid export growth elsewhere. Survey and other evidence suggests that information is an important factor in export success. ASIs filled information gaps facing new investors and new exporters in the Caribbean Basin, where governments had recently adopted outward-oriented trade strategies. In Thailand a government TPO was able to fill similar gaps facing new exporters, again only when the government became seriously committed to an export-oriented strategy. In India a USAID project brought new ideas and technology to incipient exporters benefiting from recently adopted government policies favoring high-tech exports. Addressing information gaps may be most warranted for incipient exporters in countries that have recently adopted significant outward-oriented policy and regulatory reforms but that have not yet generated a noticeable supply response from exporters.

Promotion can have a bandwagon effect. Promotion activities resulting in investment in a sector with strong export potential can lead to follow-on investment and rapid export growth. The country and subsequent investors benefit from externalities from this initial investment. The evidence suggests that firms get into exporting by observing competitors or talking with colleagues, that new firms are often set up by former employees of successful exporters, and that stimulating investment

in one industry can lead to substantial follow-on investment and rapid export growth in that same industry.

Nevertheless, USAID should not assume market failure. In countries where the private sector is dynamic and expanding into new export sectors in a sustained way, market failure is not a compelling rationale for donor intervention to provide support services. In South Korea, USAID assumed market failure where in fact there was none, and assistance to public-sector promotion agencies added little to South Korea's export growth.

Project interventions have helped push the policy process forward. In the Caribbean Basin, ASIs worked with governments in the region to develop policies and regulatory regimes supportive of export-led growth. In India a USAID project stimulated close collaboration between foreign and domestic firms, which gave exporters and policymakers a glimpse of the potential benefits of better policies. In countries isolated from the world economy and highly restrictive of competition, a picture may be worth a thousand words.

Effective Export Service Strategies and Providers

Credit for export success and support services. What services make a difference to exporters? Firms gave the most credit for their export success to sources from outside their own firm. External sources provided services most highly valued by all

firms: production-related technical assistance; buyer contacts; sector, country, and foreign market information; and training.

Not surprisingly, different firms value different types of services. *Domestic exporters* valued most support services that provided access to buyers. Information (foreign market, sector, and country) and buyer contacts give exporters links to buyers. Firms give priority to services that help them cope with supply-based constraints (e.g., production-related technical assistance, sample preparation, and training). *Exporters of nontraditional agricultural crops* gave high priority to technology-intensive and highly crop- and product-specific assistance. *Foreign firms* needed help to cope with local regulations (e.g., customs, legal, and government approvals). Joint ventures, however, valued production-related technical assistance to improve the capability of their local partner.

Who provides highly valued support services to exporters? A key question concerning service use is whether governments and donors are filling a gap left by the private sector in providing highly valued services to exporters. This study confirms that export services provided by the international private sector (buyers, foreign partners, suppliers, and business contacts) contribute significantly to export performance. Firms gave their buyers and suppliers substantial credit for their export success and obtained most highly valued services from private, nonsubsidized sources. However, firms new to exporting or new to investing looked to government

and donor-assisted institutions for highly valued services. Export and investment promotion services were provided as follows:

- *Export promotion.* Did the foreign-market information and buyer contact services provided by government TPOs fill a significant gap facing exporters? They did so only in exceptional cases, notably in Chile and Thailand. In Caribbean Basin countries shifting to export-oriented policies, USAID-assisted exporter associations and private TPOs were also effective in providing foreign market information and buyer contact services. However, in policy environments unfavorable to exporters, such as India's, firms did not value any subsidized export services, particularly those provided by government TPOs. Firms valued firm-specific technical assistance only from highly targeted programs, such as the PROEXAG project. Neither governments nor exporter associations were valued as sources of customized services.
- *Investment promotion.* USAID-assisted private investment promotion institutions played an important role in meeting foreign investors' information needs in the Caribbean Basin by providing country or sector information. However, government investment promotion institutions in Indonesia and Thailand, also assisted by

USAID, were not providing any highly valued services to potential investors.

Effective Export Promotion Providers

Export promotion interventions have been most effective in countries where the government is fully committed and policies support outward-oriented growth. Service strategies are most responsive to exporters' needs when the institutional structure of the provider fits the type of service extended. For example, government TPOs and membership organizations have been most suited to providing standardized services. On the other hand, private TPOs and time-bound targeted programs have been better suited to providing firm-specific, customized services. However, without a strong private sector commitment and results orientation, providers of export promotion services have not been effective. Typically, service providers have had the capacity to filter out those firms not yet ready to export, to draw on a highly qualified staff, well aware of private sector requirements, and to provide services that increase exporters capacity to export or to access buyers or foreign investors. Moreover, the private sector has a significant stake in the outcome of services provision in the most effective programs, via exporters participation on export councils or boards of directors, cost sharing, and other contributions of counterpart funds.

Effective Investment Promotion Strategies

Like export promotion, the policy environment and the economic climate are central to the effectiveness of investment promotion activities. Without sufficient incentive to invest, investment promotion yields little. If the environment is right, investment promotion institutions also have to be autonomous from the government to tailor services strategies to investors in that country context. Autonomous investment promotion institutions have been more effective providers of promotion services than government-dominated ones. Government agencies have typically been more concerned with screening investment than with service delivery, and USAID's efforts to strengthen such institutions have been ineffective. The more successful investment promotion providers have been structured for overseas marketing, able to attract highly qualified staff and to pay competitive salaries, and able to provide services that are directly relevant to investors' decision-making needs.

Rate of Return On USAID's Investment

Export and investment promotion programs have the potential to offer attractive rates of return to USAID investment. Rates of return on USAID's investment calculated for four promotional institutions ranged from

12 to 26 percent. Still, this high rate of return is not typical of all USAID-assisted export and investment promotion efforts. Moreover, the complications in conducting rate of return analysis suggest that it should not be taken as the sole measure of economic impact. Several conclusions are warranted:

- *Services from some ASIs have contributed to export success.* Firms receiving services from ASIs in the Caribbean Basin had a significantly higher rate of export and employment growth than randomly selected firms. Exporters achieving rapid export growth in the Caribbean region gave private sector ASIs substantially more credit for their export success than those growing slower. However, in Asia exporters achieving rapid export growth attributed their success more to themselves and gave insignificant credit to ASIs.
- *It is difficult to track results.* Some export and investment promotion institutions have such inadequate information systems for tracking project impact that calculating rates of return ex post was nearly impossible. Moreover, for institutions providing standardized information to a large number of firms, tracking economic benefits is typically not feasible.
- *Programs designed to generate results had a high rate of return.* Promotional institutions that generated high rates

of return had a strong results orientation and focused on overcoming constraints. In each case, management could provide a firm-by-firm list of investments or exports that had taken place and could be linked to the intervention. In the other cases, the program was either small and exploratory or it provided services that could not be linked to specific economic benefits.

- *Attribution is not easy to determine.* Promotion does not generate economic benefits directly; rather, it supports the expansion of other enterprises that generate the benefits – increased exports and better jobs. If the benefits are indirectly generated, how do we know promotion contributes to these benefits? Survey questions can increase the reliability of the attribution rate. Nonetheless, the fact that project benefits are highly sensitive to the attribution rate makes heavy reliance on cost-benefit analysis questionable.
- Economic analyses should be *streamlined*. Problems with detailed cost-benefit analysis have led to a reassessment of the type of economic analysis that is appropriate. One approach is to analyze economic return of promotion based on specific targets linked to government objectives (e.g., job creation). It relies on basic data that an effective information system should be tracking in the first place, and it provides a conservative

rate of return. However, it oversimplifies cost-benefit analysis. Other approaches include periodic surveys of assisted and random firms and the use of intermediate measures to capture impacts early on.

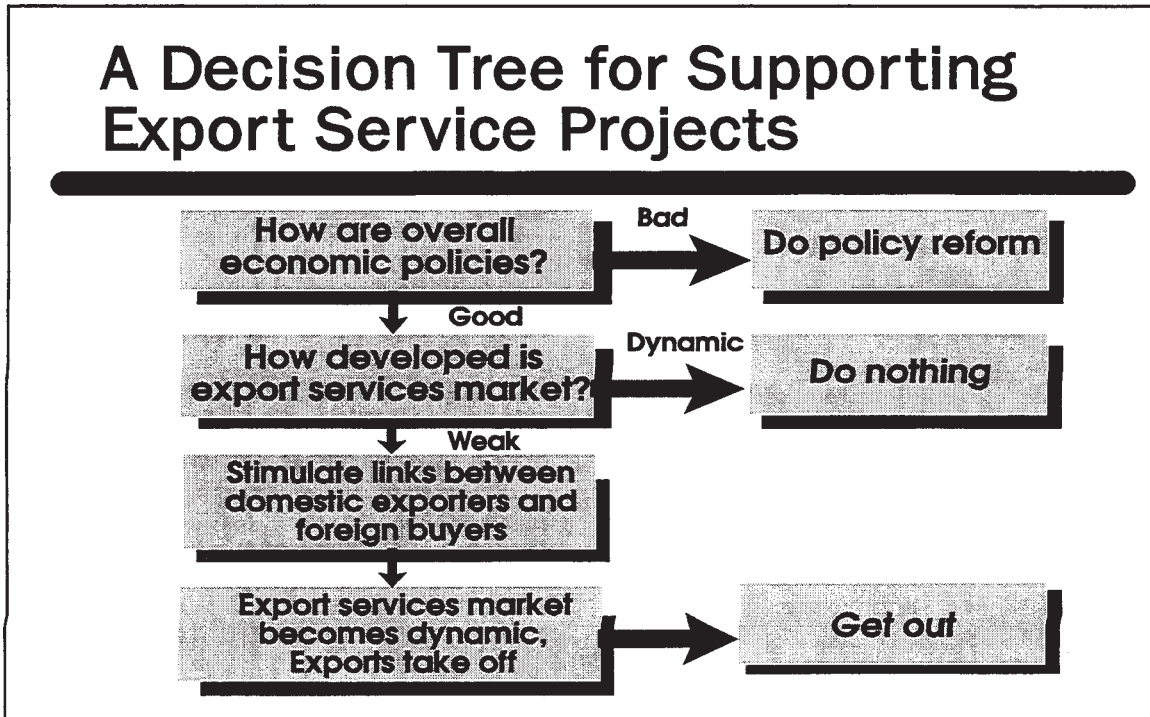
Recommendations

Rationale for Intervention

In developing an economic rationale for the intervention, focus first on the policy and regulatory environment. These are the critical questions to address: Are the basics, macroeconomic stability and a realistic exchange rate, in place? Is the export sector sufficiently insulated from restrictions in the import regime (e.g., duty-drawback schemes) to support export growth? Does the investment climate offer sufficient incentive to invest? If not, it may be more appropriate to focus on specific policies or regulatory reform that would permit significant export growth and not to proceed to subsidize the provision of firm-level services.

Alternatively, if partial trade reforms have created enough of a favorable policy regime for some exporters, then focus on the export support services market. Are buyers, foreign partners, domestic private associations, and firms willing and able to respond to the demand for services? If the market is too underdeveloped to respond, focus on identifying the nature of the gap and the economic justification for the subsidy (e.g., support services at less than full

Figure 8.1. Decision Tree



costs) to fill that gap temporarily. However, support services should stimulate, not undermine, the development of competing private service providers. Once a well-functioning market for export support services exists, there is no longer a rationale for intervention (see figure 8.1).

Implications for USAID programming relate to different country contexts as follows:

- In outward-oriented economies that have achieved sustained nontraditional export growth over more than a decade, there is little justification for intervention. At this stage, subsidized support services are usually redun-

dant and are likely to be competitive with a vibrant private sector support services industry.

- In countries with macroeconomic instability and an overvalued exchange rate the objective should be to bring the macroeconomic and exchange rate regimes under control. The next priority is some form of trade policy reform that would at least insulate the export sector sufficiently from restrictions in the import regime (e.g., duty-drawback schemes) to support export growth. Another area for reform is international investment restrictions (e.g., reform of repatriation restrictions). Before such mechanisms

linking firms to the international economy are in place, there is little to promote.

- In countries that have achieved macroeconomic stability and credible foreign exchange regimes, partial trade reform, and a lifting of investment restrictions, there is a strong rationale for support services to exporters. The most propitious time for project intervention may be when countries are undergoing a shift from an import substitution to a more open trade policy regime.
- In countries where partial trade and investment reforms only modestly increase potential export expansion, pilot interventions targeting specific sectors may be justified. These interventions must be able to demonstrate specific benefits (positive externalities) that would have a significant effect on firms' access to foreign partners or on specific policies. Again, donors must document that such interventions, undertaken for only a limited time, would not undermine the private export service industry.

Effective Strategies And Providers

The following discussion concerns management implications for developing effective strategies and service providers for export support services.

First, develop service strategies that fill specific gaps facing particular firms:

- *Domestic manufacturing firms.* Consider services, such as foreign-market information and buyer contacts, that lead to long-term linkages between developing country firms new to exporting and commercial service providers from abroad (e.g., buyers). In seeking to help firms overcome supply constraints, serve as a "broker" linking exporting firms with commercial providers, which can supply relevant firm-specific services such as technical assistance.
- *Foreign manufacturing firms.* Consider those services that attract different types of foreign firms (e.g., wholly owned subsidiaries and joint ventures) to a specific economy. Assess whether these firms face a significant information gap before assuming market failure.
- *Exporters of nontraditional agricultural crops.* Consider services that give firms access to long-term relationships with a variety of private service providers in developed-country markets. Recognize that their service needs are technology intensive and highly crop- and product-specific.

Second, do not limit assistance to one service provider but promote firm access to a variety of service providers. Consider

either assisting more than one private for-profit or not-for-profit provider or supporting cost-sharing mechanisms, allowing firms to select their own service provider. Remove policy and regulatory constraints to the development of a competitive service provider market.

A third management implication is to avoid government service providers for either export or investment promotion. Ensure that the institutional structure of the promotional organization fits the type of service provided. Do not encourage a government or a membership institution to provide firm-level technical assistance. Encourage private service providers (or quasi-government providers in the case of investment promotion) to provide suitable staff incentives and allow them sufficient flexibility and resources to respond to service gaps.

- *Export promotion.* Ensure that the provider has the institutional autonomy, the confidence and commitment of the export sector, and the well-qualified staff with private sector skills to facilitate links to buyers and other highly valued providers.
- *Investment promotion.* Ensure that the provider has operational independence from government, a structure for overseas marketing, and well-qualified staff with adequate incentives and strong private sector skills.

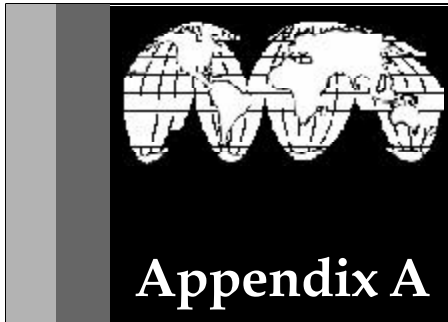
Finally, support cost sharing and other mechanisms to increase the commitment of the private sector and sustainability of export promotion programs. But do not make complete financial self-sufficiency a goal for export promotion programs. Instead create time-bound results-focused projects based on a defensible economic rationale.

Rate of Return Analysis

This assessment also revealed management implications for better measurement of the economic returns of promotion services:

First, focus on bottom-line impact: achievement of nontraditional export growth and improvements in the support services market. Link impact indicators directly to project activities. Support baseline data collection and tracking systems for performance indicators that are integral to the operation of the service provider. However, do not make measurability of impact the sole criterion for selecting appropriate service strategies.

Second, use simplified approaches to assessing the costs and benefits for most promotion projects and undertake detailed cost benefit analysis ex post selectively (e.g., only on major investments of USAID resources). Incorporate into the economic analysis the growth and development of the market for support services to the extent that promotional projects are based on infant industry and learning-by-doing considerations.



Methodology

THIS ASSESSMENT GREW from demands from senior USAID managers for knowledge of “what works,” specifically whether the subsidies for promotional institutions in developing countries are warranted. The study aims to answer four key questions for senior USAID management:

1. Is donor support for export service development warranted?
2. What export and investment promotion service strategies seem most effective?
3. What are the characteristics of effective service providers?
4. Has USAID’s assistance in this area paid off?

For the purpose of this assessment, CDIE defined the universe of export and investment promotion activities to include only provision of firm-level services and technical assistance that directly support export growth. This includes information

(e.g., foreign market information); contact making (e.g., buyers contacts); start-up support (e.g., feasibility studies); technical assistance (e.g., production); and government facilitation (e.g., one stop shop). This definition excludes a number of related USAID activities such as export finance projects and policy reform programs.

First, USAID managers were most concerned about continued subsidies to promotional institutions that provide firm-level services; neither policy reform nor credit projects aroused such concern. Second, while policy reform is crucial to export growth, evaluating indirect approaches is different both in scope and methodology. Third, export finance projects were considered to be better assessed as financial markets activities. Finally, while limiting the universe narrowed the scope, there were other challenges. For example, many USAID programs combined export and investment promotion activities in the same institution. Given the multiple functions of one

intermediary, CDIE decided to analyze both investment and export promotion activities as a means to examine different approaches to achieving export growth. To develop an approach to address these questions, CDIE undertook a review of the literature on trade policy, export promotion, and investment promotion, as well as a brief examination of USAID export and investment promotion projects worldwide. A desk review of 15 projects in the LAC region provided a preliminary typology of USAID trade and investment project approaches in different policy environments.¹ The team decided to proceed with an assessment on a phased basis, initially focusing on export and investment promotion services in the LAC region, then in the Asia region, followed by the Near East region. A principal reason was the substantial regional variation of USAID's trade and investment programs. CDIE decided not to undertake assessment work in Africa, since USAID export and investment promotion projects were just getting underway in that region.

Interviews with exporting firms in the Caribbean and Asia regions were the primary means for assessing service use and the impact of service providers. CDIE developed and conducted a minisurvey of 283 export firms in six field sites: Guatemala, Costa Rica, the Dominican Republic, India, Indonesia, and Thailand. The purpose was to explore export firms' use

¹See Development Economics Group 1990. It used available project evaluations to examine seven categories of project and country conditions with project success.

of support services, the importance of services to their export operations, and the source of these services. The questionnaire addressed their needs for 33 services in five broad categories: information, private contact making, start-up assistance, technical assistance, and government facilitation. Another critical information source was interviews with over 90 service providers in the countries cited above, as well as Chile and Korea. These included government trade and investment promotion institutions, exporter associations, private promotion institutions and free-standing donor-funded programs, trading companies, importers, manufacturers, buyers, consulting firms, and banks. The intent, particularly in Asia, was to assess the development of the service provider market and whether market failure was a rationale for donor intervention.

Phase 1: LAC Region

The study followed a multiple case study approach, focusing initially on 10 export and investment promotion institutions in four countries in the LAC region. Since the study aimed to find approaches that "work," it targeted export and investment promotion institutions with "relatively successful" programs working in favorable policy environments. This criterion was based on studies strongly suggesting that a favorable policy regime is critical to manufactured export success. The desk review found that the "successful" projects identified were implemented in relatively favorable policy environ-

ments. The institutions examined also had to have a sufficiently long track record to make the search for impact meaningful. Examining successful institutions might provide insight into “what works.” Finally, the cases selected reflected a diversity of service approaches and institutional structures.

CDIE undertook site visits in Costa Rica, the Dominican Republic, and Guatemala to examine promotional institutions that had received substantial USAID assistance, and conducted very limited fieldwork in Chile. Chile was included as a “control” country since USAID does not have a trade and investment program, but the country had a favorable policy environment, and had achieved significant success in nontraditional exports.

In each country, CDIE assessed the contribution of these institutions principally by interviewing exporters about their use of export and investment-related services. The purpose of this survey conducted in three countries was to identify services heavily used by exporters, services that made a significant impact on firms’ export growth, the key providers of these high-impact services, and data on the firms’ economic performance over time. In addition, CDIE conducted interviews with representatives of promotional institutions, USAID personnel, and other in-country experts, and reviewed available project documents. The field work in the LAC region resulted in the CDIE report “Export and Investment Promotion: Sustainability and Effective Service De-

livery” (Nathan Associates, Inc., and Louis Berger International, Inc. 1992).

Phase 2: Asia Region

The second phase, which examined export and investment promotion in Asia, built on the approach developed in the LAC region. It followed a multiple case study approach examining nine promotional institutions in four countries in the Asia region. The study used the same questionnaire to interview exporters in three countries. However, several new factors had to be taken into account in the design of phase 11 of this assessment.

Given the uneven performance of USAID projects in Asia, the criteria were broadened to include both “successful” and “unsuccessful” promotion institutions. Second, given the diversity of policy regimes and increased interest in “what works, *under what conditions*,” the criteria were broadened to include promotional institutions in economies with different trade orientations (Greenway 1987; Hazard and Sharp 1990). Third, CDIE examined a variety of export and investment promotion institutions, both USAID- and non-USAID-assisted. One reason was to explore the issue of market failure in export services markets.

Going by these criteria, CDIE conducted field site visits in India, Indonesia, and Thailand. Once in the field, the team soon recognized constraints on data collection. The study teams had consider-

able problems in both Thailand and Indonesia in identifying beneficiary firms.² This had implications both for conducting rate of return analysis and for the survey of export firms. Only one promotional institution, ICICI in India, could provide sufficient data to undertake rate of return analysis. Moreover, the sample of firms surveyed in Asia was heavily weighted to random firms, whereas the Latin American sample was heavily weighted with USAID-assisted firms.

In South Korea, CDIE conducted a desk study with limited fieldwork. USAID's

²It was difficult to define the population for the assisted firms in Asia. In India, the team interviewed all of the firms that had received a grant from the PACT program and were export oriented. In Thailand, the team interviewed as many firms that participated in the BOI-sponsored missions as could be located, although it proved impossible to assemble a complete list of participating firms due to record-keeping problems. A reasonable assumption would be that at least half of the firms were interviewed. In Indonesia the level of assistance provided varied widely. In many cases assistance was limited to a one-hour consultation with a consulting company or to attendance at a short course in the United States by one staff member. About 175 firms received some type of assistance, but most of these were firms that participated in the Pragma short-course program. Firms that had received a trivial level of assistance were not included in the sampling universe for assisted firms. An additional problem was posed by the inability and unwillingness of contracted consulting firms to provide a list of assisted firms. The team attempted to interview all assisted firms identified, and succeeded in locating and interviewing about half. Well over 100 firms participated in one of the Pragma-organized training programs. Very few of these firms were exporters, however. Ultimately, about half the assisted firms were drawn from the Pragma program and half from the BAI/RMI program. Other exporters were sampled from the best lists of exporting firms available. These were generally directories including several hundred firms each. A definitive list of exporters was not available in any of the countries studied.

assistance to South Korea dates back to the 1960s, so interviewing exporters about past service use was not thought meaningful. The desk study could draw on the substantial academic literature on South Korea's export experience. CDIE produced the following series of technical reports on Asia: country reports on India, Indonesia, Thailand, and South Korea, a discussion paper on cost-benefit analysis, and a report analyzing cross-country data base on service use and impact.

The third phase of this assessment involved undertaking a selective desk review of USAID projects in the Near East region, with case studies examining USAID programs in Egypt and Morocco. These case studies drew on existing project evaluations and project documents to cover the issues identified.

Data Sources and Analysis

Senior USAID managers are an important audience for this assessment. CDIE defined the key study questions in part through interviews with USAID of rice directors, managers of trade and investment programs, economists, and others throughout USAID. For phase 1, CDIE set up a steering committee of USAID managers and economists to oversee implementation of the evaluation; the phase 1 field work was jointly funded by the LAC bureau and CDIE. Following completion of this first phase, the assessment manager conducted additional interviews with senior managers. CDIE reconfigured the steering committee to incorporate USAID

managers and economists with primary responsibility for Asia, and CDIE decided to become the sole financial sponsor of the assessment. CDIE interviewed experts from various donor institutions (e.g., World Bank and IFC), academia, business schools, and consultants.

Country's Export Growth And Policy

In view of the critical importance of the policy and regulatory regime to export growth, this assessment has drawn heavily on several sources. They include the theoretical literature on outward-oriented growth; empirically based studies of country export performance; and data on trade and investment (i.e., OECD and IMF). This assessment used these sources to review country export performance and the role that macroeconomic policies, other trade-related policies, and the regulatory regime have played in contributing to this performance. Each country-specific technical report examined export performance, the policy environment, and the basis for export growth, and constraints to outward-oriented growth. For the synthesis report, chapter 2 analyzes these data across the study countries to discuss export dynamism.

USAID Project Document And Budget Review

CDIE developed an inventory of all USAID trade and investment projects. An initial search of the CDIE Development In-

formation Service (DIS) helped to identify trade and investment projects, evaluations, and relevant studies. The "List of USAID Trade and Investment Promotion Projects-Worldwide (1974-1989)" provided data on years of activity, funding, services offered, and available project documents (e.g., audits and evaluations). One limitation of this list is that regional bureaus and USAID missions define "trade and investment promotion" differently and vary in assigning budget codes to these activities. Moreover, some projects on this list only had small components devoted to trade and investment.

CDIE analyzed project summaries and existing reviews of USAID's experience with trade and investment promotion, and consulted with regional bureau staff to further define the sample of activities to be studied. CDIE also conducted analysis of USAID's obligations in trade and investment promotion based on lists available from USAID's activity code/special code (AC/SC) data base. The purpose was to identify funding trends in the area of trade and investment.

Survey of Export Firms

Questionnaire

Interviews with exporting firms were the principal data source for this assessment. Before conducting field visits to the LAC region, the team pretested the survey instrument in Costa Rica. The formal questionnaire covered four key areas:

Basic background information: the firm's line of business, the year it started exporting, and source of ownership.

Services received and their impact: the use, level of impact and importance of 32 different services in five categories (information, private sector contacts, start-up assistance, technical assistance, and government relations).

Exports and employment data: the growth of exports, growth of employment, and estimated net foreign exchange earnings of export sales to assist in analyzing the growth performance of surveyed firms. Three estimates were collected for these variables (the level 5 years ago, the current level, and the level expected in 5 years).

Institutional impact: the impact of both USAID-assisted and other service providers (private and public sector) on a firm's decision to invest, export, or increase exports.

CDIE used essentially the same questionnaire for the field work conducted in Asia, but modified it slightly to address new concerns and to reflect differences between cases in Latin America and those in South Asia. For example, the questionnaire elicited information on externality benefits, such as firms' innovativeness and the degree to which they learn from other firms' experience, to provide information for assessing spillover effects on the larger economy from assistance provided to a particular exporter or investor. The ques-

tionnaire also built on the survey experience in Latin America, which indicated the need to list buyers and foreign partners separately as service providers and to include trade missions as a service.

The Asia survey dropped questions on willingness to pay for free services or payment for services, which were asked in Latin America. This had not provided useful comparable data. Firms typically replied that they would need to know more about the cost, length, and quality of the service on offer before being able to answer this question. Moreover, firms were hesitant to show willingness to pay for services they had been receiving for free.

In all cases where firms were asked to rate the importance or impact of a service or set of services received, the survey used a four-point scale: 1 (useless), 2 (useful), 3 (very useful), and 4 (critical). The difference between a 2 and a 3 was defined by whether a service (or group of services) had an impact on the firm's operation (time or money saved, for example). Only ratings of 3 and 4 were classified by the team as indicating impact. In other words, a 2 was a polite "yes," but was considered a "no" for analytic purposes. The difference between a 3 and a 4 was defined by whether the service was necessary for the firm to have gone forward successfully.

For each service used, the interviewer asked the respondent to name the primary service provider. Some 20 institutions or providers were included in the question-

naire, with responses later grouped into four or five categories: (1) internal sources (e. g., the firm prepared a feasibility study using its own staff); (2) government sources (including the USAID-assisted agencies in the case of Thailand and Indonesia); (3) private sector for pay (for-profit professional service firms such as lawyers, accountants, and consultants); (4) private sector not for pay (e. g., personal and business contacts and trade associations); and (5) buyers and foreign partners. CDIE separated out this last category based on the finding in the LAC study that assistance from this group plays a major role in the investment and export processes.

A copy of the Indonesia questionnaire is included in Appendix B. On average, interviews took approximately 60 minutes to complete. Answers from the survey were coded and entered into a database for statistical analysis.

Sampling Methodology

The sample of firms selected for each survey is considered representative of export firms in that country, although time and resource limitations made it impractical to construct a fully random sample. The target sample group for each country was 50 firms. The study universe included all assisted firms identified by the promotional organizations and random firms taken from lists compiled by export associations, government agencies, or other lists of export firms. It was not possible to obtain a comprehensive list of all exporters in the countries. The universe

was limited to agribusiness and light manufacturing (e.g., electronics and garments). The distribution between manufacturing and agribusiness firms reflected the value-added distribution by sector. The procedure in each case was modified to reflect the realities of the lists available for sampling. In most countries the team contacted (or sought to contact) every firm that could be identified as an exporter and the recipient of nontrivial assistance under one of the USAID-assisted programs.

Three-quarters of the sample were to be drawn from USAID-assisted exporters, with the division by sector within each sample designed to reflect the contribution of each sector to export growth. In Latin America, it was possible to weight the sample to ensure that 75 percent of the sample were beneficiaries of USAID-supported promotion institutions and 25 percent were other firms. However, in Asia the sample was weighted 75 percent to random firms. The reason was the difficulty of identifying a larger group of firms that could be classified as both assisted and exporters, particularly in Indonesia and Thailand. In Asia many of the firms in both parts of the sample received assistance from other governmental or nongovernmental programs to promote exports or investment, and therefore should not be regarded as firms that went ahead in the absence of any government assistance.

The procedure for sampling “other” firms involved the random selection of firms from lists of exporters culled from

exporter associations, government agencies, and other sources. The distribution of the country's manufactured and agribusiness exports by product group was the basis for the sample design, which reflected a mix of firms accounting for the largest share of recent export growth. Sectors included were garments, fabrics, furniture, handicrafts, shoes, electronics, pharmaceuticals, shrimp, and other food processing. Since information on the share of exports attributable to joint ventures was not available in any country, the team tried to get a mix of joint ventures and locally owned firms, based on the expectation that the two differed in services used and other factors of interest in the study. The team sought to screen out firms if they (1) had begun exporting before 1985 (to eliminate recall problems or dated data); (2) had exported less than \$100,000 in the most recent year (to focus on actual exporters); and (3) had at least one year of experience as exporters.

The final sample of usable questionnaires from in-country interviews totaled 152 for the three countries combined in Latin America and 131 in Asia. Interviews were conducted in person, generally by a team of two interviewers, in an effort to obtain as complete a set of answers as possible from each firm contacted. Despite the care taken, several sources of potential bias must be noted. First, it was not possible to verify the information provided from sources external to the questionnaire. Firms had little incentive to provide false information in most areas of the question-

naire, but underestimation or overestimation of exports, employment, and sales may have occurred. There is no reason to expect that the degree of bias varied across firm categories, however. Relative rankings would not be affected by this type of systematic overreporting or underreporting.

Second, the interview was generally conducted with only one representative from each firm, a senior executive expected to have a broad knowledge of the firm's export or investment operations. Nonetheless, the results may be skewed by the knowledge and perspective of the individuals interviewed. For example, for joint ventures, either the foreign partner or the local partner was interviewed, but not both. In some cases, the individual interviewed may not have had full knowledge of all services received, or their importance to the firm. Both of these biases would tend to reduce the level and importance of service use reported.

Data Analysis

The survey generated a very large and rich data set on service use and impact. Analyzing this data set and presenting findings clearly without oversimplification is difficult. Each question must be answered in terms of each of the 33 services, the six major recipient groups (USAID-assisted vs other, agribusiness vs. manufacturing, and local vs. international firms), the four levels of impact (none, minimal, some, and critical), and the three service

sources (government agencies, buyers and partners, and other private sector sources). On each issue in Asia alone, there are thus more than 2,300 data points.

The principal approach to data analysis involved preparation of basic cross tabulations to summarize the data and help in identifying points of similarity and variation. In pooling the data within and across countries, weights were not used, because the sample was stratified (except in India) and because information on sub-population size was extremely limited. More sophisticated analytical methods (e.g., regression analysis) were not used due to resource limitations. In phase 1, regression analysis failed to yield useful results. Several points regarding the data and their analysis should be highlighted to aid in interpretation by the reader.

Quantifiability. The phenomenon explored in this study – services used by firms – is not strictly subject to quantification. For example, for a small firm a “feasibility study” may be a quick, back-of-the-envelope calculation; whereas, for a large firm the same term may refer to a study prepared by a team of people working for several months. In the context of face-to-face interviews conducted within a limited time frame, it is not possible to define each service used in sufficient detail to capture this variation for analysis.

Additivity. Just as different feasibility studies use varying levels of inputs and

affect the recipients differently, the total level of service use is imperfectly captured by adding up the number of services received by a given firm or group of firms. A firm that received eight of the services defined by the authors did not necessarily receive twice as much assistance as a firm receiving four services. On average, we would expect that the firm receiving eight services received more total support than the firm receiving four services, however. In other words, comparisons of the number of services used should be regarded as ordinal measures, not cardinal measures.

Statistical significance. Most of the variables studied are binomial (a service was or was not received, did or did not have an impact, etc.). Conservative estimates of the 95 percent confidence intervals for each of the main categories used in analysis areas is shown in table A.1.

In other words, if the observed proportion of local firms using a given service is 50 percent, the actual proportion can be stated to lie between 40 percent (.5 - .1) and 60 percent (.5 + .1), with 95 percent certainty. Similarly, two observed proportions across pairs of categories (e.g., the percentage of local vs. international firms using a given service) can be assumed to be statistically different at the 95 percent level (conservatively) if they differ by at least 20 percentage points (e.g., 40 percent compared with 20 percent or 60 percent). Within the same category, proportions are statistically different at the 95 percent con-

Table A.1. Confidence Intervals for Asia Survey Data

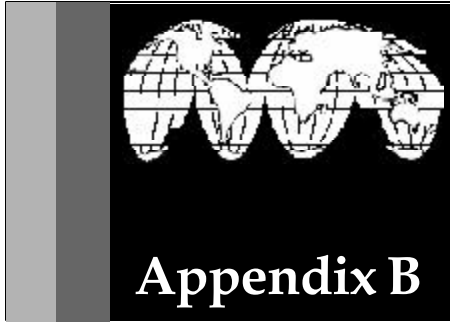
Category	N	Confidence Interval
USAID-assisted	31	.18
Other	100	.10
Local	96	.10
International	35	.17
Manufacturing	104	.10
Agribusiness	27	.19
Total Sample	131	.09

Source: Survey data and team calculations.

confidence level if they differ by 25 percentage points in the case of the small-sample categories (n= 2735), and by 14 percent-

age points for the large-sample categories (n = 96–131). To keep from getting bogged down in statistics, we have not accompanied the findings reported with confidence intervals or other measures of statistical validity.

In the analysis of service impact for the final synthesis report, we calculated confidence intervals. The authors excluded all services that were not statistically different from the 0 to 90 percent confidence levels. Also, the analysis of sample averages (e.g., sales and export levels) included only firms that provided data; no missing values were imputed.



Questionnaire for Exporting Firms

Questionnaire for Exporting firms

Date:

Interviewer: _____

Country 1 India 2 Thailand 3 Indonesia

Company Name: _____

Telephone: _____

Address: _____

Name of person interviewed: _____

Position in the company: _____

Contact at joint venture partner:

Joint Venture Firm: _____

Name of Contact: _____

Position: _____

Address: _____

Phone/fax: _____

A. Introduction

Thank you for participating in our study. We are interviewing exporters to determine their needs for assistance and whether current services are meeting those needs. All results will be kept strictly confidential.

B. Basic Data on Firm/Firm History

Let's begin with a brief description of your firm, your line of business, and your export operations.

B1. Sector (specify)

B2. Year began operations in (country). 19__

B3. Year began exporting. 19__

Locally owned ___ Subsidiary ___ Joint Venture ___
Nationality _____

For foreign-owned firms and joint ventures: Were you with the firm during the decision period?
(Yes ___ No ___)

For all firms: Were you with the firm when it began to export? (Yes ___ No ___)

C. Externalities

Instructions to interviewer: ask the following as open-ended questions, then code the response.

C1. When you got into the _____ business, about how many other firms were already operating in the same line of business?

- We were the first
- Fewer than five
- Several (more than five)

If not among the first five firms:

C2. Were the firms already in the business similar to yours, or was your firm different from the others (e.g., first Indonesian firm, first joint venture, first in this region)?

- Other firms were similar
- We were different (specify how _____)

C3. Were the technologies you were using similar to theirs or did you introduce new manufacturing technologies?

- About the same
- Ours were different (specify how _____)

C4. Were the products you planned to produce similar to theirs or did you introduce new products?

- About the same
- Ours were different (specify how _____)

C5. When you were considering getting into the _____ line and when you were just starting up, did you try to find out what other firms in the business were doing, what had succeeded or failed, what technologies they were using, and so on?

- Yes, viewed this as important
- Yes to some degree, but not of major importance
- No, did not seek this information

C6. How useful was this information to you, in fact?

- Critical (couldn't have gone ahead without)
- Very useful (saved time/money, avoided errors)
- Useful, but really didn't matter that much
- Not useful (or couldn't get the information)

D. **Services Received:** I would like to ask you a few questions regarding the assistance that you received when you were beginning your export operation here in Indonesia. I am going to read a list of services, organized into five categories: information contacts with private firms, pre-investment or pre-export support, technical assistance, and government facilitation. For each service, I would like to know whether you received it, who provided it, and how important this service was to enabling you to go forward successfully. We are defining importance on a four-point scale, in which 1 is useless; 2 means the service was helpful but had no real impact; 3 means it was very useful and had an impact, such as saving you time or money, helping avoid errors, etc.; and 4 means the service was critical, you could not have gone ahead without this help. Is that clear?

Instructions to interviewer: ask each of the following as a separate sentence with examples from the explanatory sheet as needed to get a full response.

	Source	Importance (see codes below)
1		
<u>Information</u>		
1.1 Prepared info. on country	_____	_____
1.2 Prepared specific to sector	_____	_____
1.3 In-country Q&A	_____	_____
1.4 Overseas representation	_____	_____
1.5 Market information (foreign)	_____	_____
1.6 Other _____	_____	_____
2		
<u>Private contact-making</u>		
2.1 Directories	_____	_____
2.2 Deal-making	_____	_____
2.3 Trade shows	_____	_____
2.4 Trade missions	_____	_____
2.5 Buyer contacts	_____	_____
2.6 Sample preparation	_____	_____
2.7 Other _____	_____	_____
3		
<u>Pre-investment or pre-export support</u>		
3.1 Firm specific research/mkt res.	_____	_____
3.2 Support for site visits	_____	_____
3.3 Financing for R&D	_____	_____
3.4 Legal assistance	_____	_____
3.5 Accounting assistance	_____	_____
3.6 Credit facilitation	_____	_____
3.7 Proposal development	_____	_____
3.8 Feasibility studies	_____	_____
3.9 Other _____	_____	_____
4		
<u>Technical assistance</u>		
4.1 Production/processing	_____	_____
4.2 Marketing	_____	_____
4.3 Management	_____	_____
4.4 Training	_____	_____
4.5 Other _____	_____	_____

	Source	Importance (see codes below)
5	<u>Government facilitation</u>	
5.1	One-Stop shop	_____
5.2	Approvals/paperwork help	_____
5.3	Government contacts	_____
5.4	Customs assistance	_____
5.5	Lobbying/policy reform	_____
5.6	Other _____	_____

6.1 What was the biggest problem you faced with first trying to export/invest?

6.2 How did you solve the problem (i.e. Who assisted you?)

Sources (interviewer: see explanatory notes):

AC	Accountant firm	FP	Foreign partner (w/equity)
AE	Embassy here (e.g., U.S.)	IE	IESC
AI	International Agency (ADB)	IS	Internal Sources to firm
BA	BAI/RMI	LA	Lawyer or law firm
BK	BKPM	LG	Local government agency
BY	Buyer	PR	Pragma
CC	Chamber of Commerce, etc.	PS	Private sector for pay
CP	Private Sector, no payment	SP	Supplier/Vendor
EO	Embassy outside of country	UN	University
FG	Foreign government agency		

Importance: 1 = Useless 2 = Useful (but no impact)
3 = Useful (impact on firm) 4 = Critical

E. Growth of exports and employment

E1. Export orientation: What percentage of your sales are exports?

5 years ago	Now	In 5 years
_____ %	_____ %	_____ %
Firm not in business five years ago. _____		

E2. Average workforce (full-time equivalents)

<u>5 years ago</u>	<u>This Year</u>	<u>Five Years From Now</u>
Total Unskilled	Total Unskilled	Total Unskilled
_____	_____	_____

Instructions to interviewer: unskilled workers are those making the minimum wage, or close to it.

E3. Total sales and exports

5 years ago Sales/Exports	This Year Sales/Exports	Five Years From Now Sales/Exports
Dollars: _____	_____	_____
OR		
Rupiah: _____	_____	_____

E4. Top Three Export Markets:

	5 Years Ago Country/Area: %	This Year Country/Area: %	Five Years From Now Country/Area: %
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____

*****ASSISTED FIRMS ONLY*****

E5. Cost Structure

We are trying to get more information on how much the programs financed by the Government of Indonesia and the United States aid program have actually contributed to the economy of Indonesia. To help us in this analysis, I would like to ask you a few questions about your firm's expenditures on wages, plant and equipment, purchased inputs, and utilities. In all cases, we are interested only in expenditures that relate to the (name product) line. Let me assure you again that your answers will be kept completely confidential.

Answers expressed (check one): U.S. dollars ____ rupiah ____

- a. Approximately how much is your company's annual wagebill for your _____ lines? _____
- b. Approximately how much do you spend annually on imported inputs for these lines? _____
- c. Approximately how much do you spend annually on Indonesian raw materials and other inputs for these lines? _____
- d. Approximately how much do you spend on electricity, fuel, and other utilities for these lines? _____
- e. Did you have to invest in new plant or equipment to start exporting or expand your exports of these products? Yes ____ No ____
- f. If so, about how much was invested? _____
- g. In what year was most of this investment made? 19 ____

*****END OF ASSISTED FIRMS ONLY*****

F. Institutional Impact

Instructions to interviewer: ask ONE of the following, as appropriate. Write down the answer and then fill in the appropriate code.

F1a. (Foreign firms): How did you first come to consider investing in (country)?

F1b. (Joint ventures): How did you find your local partner?

F1c. (Local exporters): How did you locate your first important foreign buyer or contract?

No assistance received (firm's own resources)

Assistance received (check the most important one or two):

Private contacts (friends, colleagues, etc.)

Paid assistance (consulting firm, bank, law firm, etc.)

Trade show contact

Embassy (U.S., Indonesian, other)

Other _____

F2. So, summarizing what you have told me, it would seem that the most important sources of assistance for your firm in setting up an operation here and/or beginning to export were _____ (specify based on answers to section D and F1). Based on a total of 100 points, how would you divide up the credit for making your investment or export operation go forward among these various institutions that provided assistance, including your own firm? For example, if you did it all yourself, and no one's help really had an impact, give your firm 100 points. If your foreign buyer provided most of the assistance, but a government agency and your law firm helped in important ways, you might give the buyer 40 points, and your lawyer and the government 20 points each, and give the other 20 to your firm. The points you assign should add up to 100.

AC	Accountant firm	FP	Foreign partner (w/equity)
AE	Embassy here (e.g., U.S.)	IE	IESC
AI	International agency (ADB)	IS	Internal Sources to firm
BA	BAI/RMI	LA	Lawyer or law firm
BK	BKPM	LG	Local government agency
BY	Buyer	PR	Pragma
CC	Chamber of Commerce,	PS	Private sector for pay
CP	Private Sector, no payment	SP	Supplier/Vendor
EO	Embassy outside of country	UN	University
FG	Foreign government agency		

F2. What role did the following institutions play in your decision to invest, to begin exporting, or to expand your export operation?

	<u>None</u>	<u>Useful</u>	<u>Very useful</u>	<u>Critical</u>
Min. of Trade	_____	_____	_____	_____
BKPM	_____	_____	_____	_____
NAFED	_____	_____	_____	_____
BAI/RMI	_____	_____	_____	_____
PRAGMA/IPMI	_____	_____	_____	_____
Other _____	_____	_____	_____	_____

F4. What is your general opinion of these organizations?

(0 = no opinion 1 = poor 2 = so-so 3 = good 4 = excellent)

Min. of Trade	_____	_____	_____	_____
BKPM	_____	_____	_____	_____
NAFED	_____	_____	_____	_____
BAI/RMI	_____	_____	_____	_____
PRAGMA/IPMI	_____	_____	_____	_____
Other _____	_____	_____	_____	_____

G Research and Development

G1 Have you received any assistance in R&D?

___ No ___ Yes

G2 What are your expenditures on R&D? (in rupiah)

5 Yrs. Ago Now 5 Yrs. From Now

G3 What percentage of your total expenditures firmwide go to R&D?

5 Yrs. Ago Now 5 Yrs. From Now

G4 What percentage of your R&D expenditures are export-oriented?

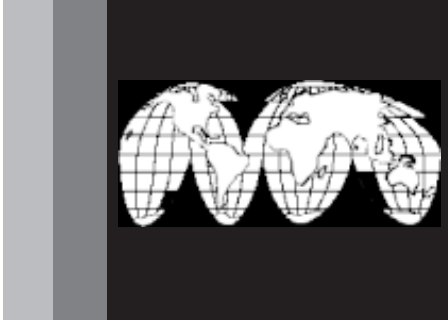
5 Yrs. Ago Now 5 Yrs. From Now

G5 How many new products (or major innovations) have you introduced in the past five years?

G6 What percentage of total sales reflect products where in-house R&D was an important factor?

5 Yrs. Ago Now 5 Yrs. From Now

Thank you very much for your help. Let me assure you again that all your answers will be kept confidential. Do you have any final comments you would like to make on investment in Indonesia or government support to it?



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