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Intereconomics

*Suggested Citation:* Kapferer, Clodwig (1975) : Forms of exports for LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 4, pp. 118-121, <https://doi.org/10.1007/BF02929602>

This Version is available at:

<https://hdl.handle.net/10419/139183>

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# Forms of Exports for LDCs

by Professor Dr Clodwig Kapferer, Hamburg \*

**Development aid of the industrialized nations has taken as its focal point the promotion of non-traditional exports by LDCs. An important part of this endeavour is the spreading of enlightenment among LDCs about the possibility of finding marketing outlets for their direct and indirect exports.**

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If it is intended to promote exports of non-traditional goods by LDCs, it will be necessary to appreciate a number of fundamental facts, including:

□ LDCs need increased exports, in order, firstly, to overcome their balance of payments deficits, secondly, to secure their own supplies of urgently needed goods which cannot be manufactured on their territories, and thirdly, to create new jobs for their growing populations by setting up production for foreign markets.

□ The home markets in big industrialized countries still offer significant chances for selling non-traditional export goods from LDCs.

□ Exports come about by using the competitive superiority of certain goods and by profiting from consumer preferences. It is necessary to discover them and derive from them individual producers' and intermediate traders' sales successes.

□ Exports enrich both knowledge and experiences of people active in this sector and contribute to the improvement of product and process qualities. They increase business men's dynamism and the economic achievements of LDCs.

□ Producers in LDCs, from exports, experience the challenge to improve their entrepreneurial efficiency. However, the majority of small and medium-sized producers will face requirements quite outside their scope if it is expected that they should not only overcome their immediate production problems, but also master the highly complex requirements dictated by the experiences of foreign trade. Because their manufacturing programmes and their equipment with capital and staff are limited, medium-sized and small producers can rarely afford to finance from their own funds the higher costs of preparing for, carrying out, and completing direct export business together with the credit, currency and political risks involved.

□ Depending on the forms in which they are carried out, it is usual to distinguish between direct

and indirect exports: manufacturers may organise their exports themselves or they may cede this task to middlemen – the export traders in the narrower sense.

□ LDCs, however, do not pay sufficient attention to the avenues taken by companies in big industrialized communities for conquering the world's markets – both by direct and indirect exports.

Any given business is able to export if and when, in addition to its home market trade, it is able to carry out foreign purchase orders at a level of quality consistent with market requirements within promised delivery times and to deliver subsequently required spare parts promptly. However, it is risky to take up export activities merely to bridge temporary recessions in the home markets because, should manufacturers, after a recovery of inland markets, reject foreign supply orders because their capacities are fully utilized, this will mean a permanent loss of foreign customers. Foreign buyers do not like to be treated as stopgaps for syphoning off temporary over-production, and chances for building up a permanent foreign market will thus be thrown away. Sales chances are frequently also destroyed through lack of qualification, will, persistence, or empathy with the foreign customers' specific desires.

Small-scale and medium-sized businesses in LDCs are often afraid of opening up business relations with far-away countries, even when they are able to supply goods at an advantage (raw materials, low production costs) and will be given support by a great number of government export promotion measures. A similar behaviour was shown in the past by enterprises in the industrialized countries which now hold a dominant position in international trade. Thus, in many branches of industry, quite a few LDCs have now reached a stage of development similar to that of small European industries in their early days. Is it not suggestive to explore the route along which the industrialized nations, now so successful as exporters, have marched in the past? The majority of their producers, during the first decades of their existence, did not entertain direct business links

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with foreign countries but sold their export surpluses through export traders in their own home countries.

In this field of indirect exports, manufacturers operate through close business ties with the export traders. These, in their turn, negotiate with potential foreign customers, effectuate deliveries to them, and pay the manufacturers in local currency. Export traders deal with the formalities of export, select the cheapest and fastest routes of transport, insure the goods, and in many cases also take over storage and assembly abroad. For manufacturers, such kind of orders are different from their deliveries to local clients only by that they hand to the export trader the complete documentation of their offers and their specifications, advise him on technological and other special problems, and receive orders not directly from their foreign customers, but from the export trader, whereupon they manufacture the goods ordered true to specification and dispatch them packed so that they meet the requirements of ocean transport. Everything else upon which an export trade is conditional — market research, foreign-language correspondence, the selection of sales agents abroad and their salaries, advertising and merchandizing, calculation of export prices, export credits, encashment of payments, etc. — has been taken over by the export merchant. In European industrialized countries, indirect exporting via export traders has an old tradition. Even today, a large part of their total exports (in the Federal Republic of Germany about 25 p.c.) is channelled through trading houses. Even very big industrial concerns let their exports to certain markets or those consisting of certain types of goods go through the hands of export traders.

Industrialized countries with a shorter industrial history, strangely enough, have their reservations against indirect exportation. Some of them even attempt to hamstring it through bureaucratic regulations and thus to force direct exports. They believe to be able to economize through cutting out the "unjustified" profit margins of export middlemen and thus to obtain higher export prices. However, the requirements of the foreign importers for a single type of goods are often small in volume. Export houses, through collecting multiple orders from their foreign business partners, cut costs per unit sold since shipping charges are lower than for the individual small deliveries of a multitude of manufacturers. Charges accruing after the goods have arrived at their destination are only little higher for larger collective consignments than they would be for each of the individual freight items.

Moreover, it must be noted that indirect exports take off the shoulders of manufacturers signifi-

cant extra costs and capital requirements. Export traders generally pay for export goods already upon delivery in the port of shipment. When exporting indirectly, manufacturers' financial risks thus diminish.

In view of the important merits earned by trading houses in export promotion, governments of LDCs ought to grant them at least the same favours as to manufacturers who export directly (including tax privileges and export premiums).

Manufacturers will decide on direct export if and when they see chances for selling which, in spite of higher marketing costs and/or higher risks, promise increased profit margins. In this case, they have to do market research, to look for contacts with foreign business partners, to negotiate and exchange letters with them, to bear the costs of foreign-language correspondence, to ensure packing of their goods and their transport suitable for export, to supply their foreign partners directly, to determine the export prices and terms of payment, and to supervise the actual arrival of payments. There are many individual methods for carrying out direct exports.

One form of direct export is shipping goods to foreign *importing companies*. Provided they are experienced dealers who have a good reputation in the foreign market selected, they will be able to reduce considerably the costs for introducing a new product to the market. In all big trading centres of the world, there are many independent importing companies operating on their own account. Depending on the size of the market, they often assemble in one hand the tasks of importer, sales representative, wholesaler, retailer etc.

Direct export may also go the way via *large foreign retailers* abroad. In industrialized countries, highly centralized retail concerns and cooperative associations of retailers are tending to widen their direct import activities. Some department stores, consumer markets, voluntary built up chain store systems, mail order houses, buyers' and consumers' cooperatives maintain their own purchasing centres in supplier countries or employ local buying agents there. In relation to the manufacturers, they assume similar tasks of carrying through individual business deals, transport and payment as do local export traders.

An important part is being played by *specialized wholesalers* and local producers. Specialized wholesalers who deal with certain groups of goods often include in their supplies also foreign manufactures and are frequently of a strictly different class from import trading companies. They cooperate with specialized regional wholesalers and specialized retailers, who afford them guaranteed sales outlets.

In technological trades, local manufacturers operate frequently as direct purchasers, in order to sell foreign goods as complements of their own products, or because they need such foreign goods as spare parts, accessories or sub-assemblies for their own manufactures.

If there is a big latent sales potential, importers will be interested in obtaining exclusive sales rights. Exclusive sellers finance imports and their storage, in some cases also their advertising through the press, the radio and TV, they display at trade fairs and exhibitions. The fact that exclusive dealers pay for the goods imported through their banks, that they bear insurance costs and customs duties and, often enough, transport charges, is decisive for the choice of such a form of selling for any manufacturer who needs to unburden himself of some of his costs.

In export business, it is also customary to use sales agents as middlemen, who are residents in the country selected as a future market. Efficient sales representatives are, in many cases, more important for opening up a market and operating in it than all the remaining measures available for export promotion.

Sales representatives act as the direct stand-ins of a manufacturer, in whose name and for whose account they act, no matter whether they are employed on a fixed retailer or on a commission basis. The advantage of this type of selling, for the manufacturer, is the relatively modest need for investing capital of his own, whilst the disadvantage is the lack of control over selling operations. Another advantage of having direct representatives acting abroad is the immediate contact with clients.

In order to utilize the potentialities of a given market optimally and to reduce risks, very great care must be devoted to the selection of agents, to the organisation of his marketing activities, and to cooperation of manufacturing plants with the sales representatives. Punctual and clearly-worded communications reduce the sacrifice of time to be spent by sales agents, increase their work efficiency, and raise their personal interest in agency work. This includes the speedy answering of their letters and cables, the prompt dispatch of documentation for which they may ask, the fulfilment of requests of clients and dealing effectively with possible complaints. The energy of any commission agent will be paralysed by the manufacturing concern replying to requests and remarks only in a dilatory fashion, by standard letter forms, or by empty phraseology.

For making contacts it is essential to collect addresses of potential foreign buyers and commercial agents. This task has to be handled with great assiduity, and must never be treated as a

secondary one. The more care is taken in obtaining any individual address, the greater will be its value. Enquiries received must be scrutinized with the greatest of care, and through checking enquiries a proper feedback must be established from official, semi-official and private sources accessible in the countries in question, in order to ascertain whether a company offering its services is worthy of trust. This is especially necessary in the case of firms which intend to act as sales agents or exclusive sellers. It is useful to make one's enquiries from a widely scattered choice of informants: banks, existing business contacts, foreign trade banks, international forwarding firms, shipping agencies, commercial information offices, and from business friends. This is absolutely essential for selecting foreign commercial agents. Information vouchsafed by banks, by itself, is not sufficient for coming to a fair judgement about future agents. It may give an impression about their credit standing but it will not disclose much about their other facilities — e.g. their initiative, which, for an agent, is more important than his creditworthiness.

For manufacturers who are prepared to take part in trade fairs or exhibitions it is important to know whether they would not merely participate in purely representational shows geared to impress a broad public. As there is a multitude of such jamborees, it is indispensable to find out beforehand in which way precisely they may be useful for the would-be exhibitor. What sponsors say about them in their propaganda brochures concerning their organisation, exhibitors, visitors, and their geographical irradiation will, frequently, be neither strictly objective nor exhausting. Catalogues of preceding fairs are more informative. Therefore, before deciding on participation, it will be useful to study these catalogues or even to visit the venue of the fair to inform oneself. Taking part in foreign fairs, moreover, is of value only on condition that the prospective exhibitor is willing to continue his participation for, at least, three times in sequence. This requires a fundamental decision, because only repeatedly being seen will fully repay the financial and organisational efforts.

Staff for manning the firm's stand at a fair has to be competent, both commercially and technologically, in order to be able to answer visitors' questions satisfactorily. Whoever mans a stand must also know the local language(s) sufficiently well, and he must remain present at the stand throughout the whole fair. The establishing of a card index of visitors will enable exhibitors efficiently to do "after-care case work".

What would be a practical act of help by industrialized nations for facilitating exports by LDCs?

Based on their own successful build-up of exports and the techniques used for promoting foreign sales and the form of operating in oversea markets, they could transmit practical and market-oriented "export techniques" from individual business to individual business.

One of the main tasks in this field is to find out which are products suitable for exporting — mainly non-traditional goods — and to advise their manufacturers individually. Such export consultancy must pay heed to the individual structure of given enterprises and to the specific conditions under which diverse products may find sales outlets in the markets of big industrial nations. Such advisory activities would have to take care especially of the following problems:

☐ the form in which to organise exports (direct or indirect exports);

☐ how to set up export departments within given companies;

☐ how to draw up individual export programmes for individual firms;

☐ how to select the path along which products are to be sold in the potential export market;

☐ how to calculate export prices, and

☐ how to collect required information.

In so far as it might be necessary, it will have to be found out how to cooperate in completing the manufacturing process with companies resident in industrialized countries. It will also have to be found out whether joint-ventures with export trading companies resident in industrialized countries might be the best way of utilizing the export knowhow vested in such companies.

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## The US Trade Reform Act of 1974

by Professor Karel Holbik, Boston \*

**The 1974 Trade Act gives the US President extensive authority to engage in multilateral trade negotiations in the framework of GATT. The following article offers a survey of the provisions of the Act and discusses its possible impact on international trade relations.**

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**T**he new American trade law, signed by President Ford on January 5, 1975, is a revision of the 1962 Trade Expansion Act and takes into account both the changes, which have occurred in the meantime in the international economic position of the United States, and the new realities in the contemporary world economy. The 1974 Act was slow in coming as it took twenty months to rewrite the previous Act and to overcome some important differences in the views of the US House of Representatives and the US Senate (the House passed the trade bill on December 11, 1973, the Senate 12 months later, on December 13, 1974). But upon passage of the Trade Reform Act, the United States has the necessary basis for this year's trade negotiations sponsored by GATT. It is also conceivable that this piece of American legislation will prevent other nations from embarking on protectionist trade policies.

While the new Act unquestionably commits America to free trade, it also increases the number of protectionist measures which may be taken to safeguard American domestic economic interests on the one hand and to promote equitable world-

wide trading on the other hand. Through the many authorizations given the US President and the executive branch of the Government for the next five years, the Act — and the US Congress — expect them to grant trade concessions to other countries only when they are fully reciprocated by foreign concessions of equivalent value to US trade. It is beyond doubt, though, that in their consideration of US trade problems both the legislative and executive branches of the US Government look toward international cooperation and its channels as the framework within which the principles of fair trading can be re-established.

The new law recognizes that during the decade of the 1960s US international accounts underwent dramatic changes symbolized by deficits in both the nation's balance of payments and balance of trade. Many factors were responsible for this unwelcome situation, such as large government expenditures abroad (including foreign aid), inflation, and discriminatory trading practices of other countries, especially the members of the EEC. While world exports quadrupled between 1960

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