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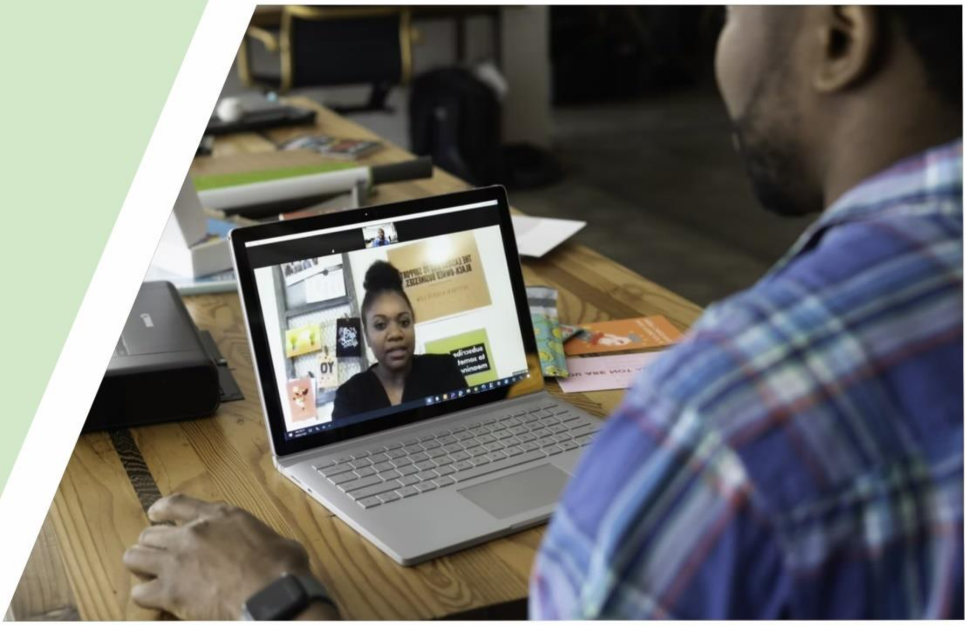

Global Economic Environment

Module 4

BUS 840 Global Economic Environment Module 4

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Module 4

Unit 1 Import Substitution Industrialisation Strategy

1.0 Introduction

Import Substitution Industrialisation (ISI) is a trade and economic policy that advocates replacing foreign imports with domestic production.

ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialised products. The term primarily refers to 20th-century development economics policies, although it has been advocated since the 18th century by economists such as Friedrich List.

ISI policies were enacted by countries within the Global South with the intention of producing development and self-sufficiency through the creation of an internal market.

ISI works by having the state lead economic development through nationalisation, subsidisation of vital industries (including agriculture, power generation, etc.), increased taxation, and highly protectionist trade policies.

Import substitution Industrialisation was gradually abandoned by developing countries in the 1980s and 1990s due to structural indebtedness from ISI related policies on the insistence of the IMF and World Bank through their structural adjustment programs of market-driven liberalisation aimed at the Global South.

In the context of Latin America development, the term Latin American structuralism refers to the era of import substitution industrialisation in many Latin American countries from the 1950s until the 1980s.

The theories behind Latin American structuralism and ISI were organised in the works of Raúl Prebisch, Hans Singer, Celso Furtado, and other structural economic thinkers, and gained prominence with the creation of the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC or CEPAL).

While the theorists behind ISI or Latin American structuralism were not homogeneous and did not belong to one particular school of economic thought, ISI and Latin American structuralism and the theorists who developed its economic framework shared a basic common belief in a state-directed, centrally planned form of economic development.

In promoting state-induced industrialisation through governmental spending through the infant industry argument, ISI and Latin American structuralist approaches to development are largely influenced by a wide range of Keynesian, communitarian and socialist economic thought.

ISI is often associated and linked with dependency theory, although the latter has traditionally adopted a much broader Marxist sociological framework in addressing what they perceive to be the cultural origins of underdevelopment through the historical effects of colonialism, Eurocentrism, and neoliberalism.

2.0 Objectives

At the end of this unit, you should be able to:

- define and state what Import Substitution Industrialisation is all about

3.0 Main Content

3.1 History of Import Substitution Industrialisation

Though ISI is a development theory, its political implementation and theoretical rationale are rooted in trade theory: it has been argued that all or virtually all nations that have industrialised have followed ISI.
Import substitution was heavily practiced during the mid-20th century as a form of developmental theory that advocated increased productivity and economic gains within a country. This was an inward-looking economic theory practiced by developing nations after World War II.
Many economists at the time considered the ISI approach as a remedy to mass poverty: bringing a third-world country to first-world status through national industrialisation. Mass poverty is defined thus: "the dominance of agricultural and mineral activities - in the low-income countries, and in their inability, because of their structure, to profit from international trade," (Bruton 905).

Mercantilist economic theory and practices of the 16th, 17th, and 18th centuries frequently advocated building up domestic manufacturing and import substitution. In the early U. S., the Hamiltonian economic program, specifically the third report and the *magnum opus* of Alexander Hamilton, the *Report on Manufactures*, advocated for the U.S. to become self-sufficient in manufactured goods.

This formed the basis of the American School, which was an influential force in the U. S. during its 19th-century industrialisation.

Werner Baer contends that all countries that have industrialised after the United Kingdom went through a stage of ISI, in which the large part of investment in industry was directed to replace imports (Baer, pp. 95–96).

Going farther, in his book *Kicking Away the Ladder*, Korean economist Ha-Joon Chang also argues, based on economic history, that all major developed countries, including the United Kingdom, used interventionist economic policies to promote industrialisation and protected national companies until they had reached a level of development in which they were able to compete in the global market, after which those countries adopted free market discourses directed at other countries to obtain two objectives: open their markets to local products and prevent them from adopting the same development strategies that led to the developed nations' industrialisation.

- Theoretical basis

As a set of development policies, ISI policies are theoretically grounded on the Singer-Prebisch thesis, on the infant industry argument, and on Keynesian economics. From these postulates, it derives a body of practices, which are commonly: an active industrial policy to subsidise and orchestrate production of strategic substitutes, protective barriers to trade (such as tariffs), an overvalued currency to help manufacturers import capital goods (heavy machinery), and discouragement of foreign direct investment.

Due to the exploitation indirectly performed by the *laissez-faire* market, third-world countries started to become self-reliant. To fight mass poverty in any given country, ISI was an implement for the infant-industry argument. To compete in the world market against first-world countries, third-world and/or developing countries would protect their "infant" new industries until sufficient amounts of knowledge, capital, and comparative advantage are accumulated.

Henry J. Burton in his paper 'A Reconsideration of Import Substitution' stated: "The very idea of import substitution implied this: keep out that which is now imported from the North and produce it at home," (Bruton 910). Consequently, the North's developed and industrialised markets will not be a factor or a source of resources for the undeveloped and developing South.

By placing high tariffs on imports and other protectionist, inward-looking trade policies, the citizens of any given country, using a simple supply-and-demand rationale, will substitute the less-expensive good for the more expensive. The primary industry of importance would gather its resources, such as labour from other industries in this situation; the industrial industry would use resources, capital, and labour from the agricultural sector.

In time, a third-world country would look and behave similar to a first-world country, and with a new accumulation of capital and comparative advantage and an increase of TFP (total factor productivity) the nation's industry will be capable of trading internationally and competing in the world market.

Bishwanath Goldar, in his paper 'Import Substitution, Industrial Concentration and Productivity Growth in Indian Manufacturing' wrote: "Earlier studies on productivity for the industrial sector of developing countries have indicated that increases in total factor productivity, (TFP) are an important source of industrial growth," (Goldar 143).

He continued: "a higher growth rate in output, other things remaining the same, would enable the industry to attain a higher rate of technological progress (since more investment would be made) and create a situation in which the constituent firms could take greater advantage of scale economies;" it is believed that ISI will allow this (Goldar 148).

In many cases, however, these assertions did not apply. On several occasions, the Brazilian ISI process, which occurred from 1930 until the end of the 1980s, involved currency devaluation as a means of boosting exports and discouraging imports (thus promoting the consumption of locally manufactured products), as well as the adoption of different exchange rates for importing capital goods and for importing consumer goods.

Moreover, government policies toward investment were not always opposed to foreign capital: the Brazilian industrialisation process was based on a tripod which involved governmental, private, and foreign capital, the first being directed to infrastructure and heavy industry, the second to manufacturing consumer goods, and the third, to the production of durable goods (such as automobiles). Volkswagen, Ford, GM, and Mercedes all established production facilities in Brazil in the 1950s and 1960s.

The principal concept underlying ISI can thus be described as an attempt to reduce foreign dependency of a country's economy through local production of industrialised products, whether through national or foreign investment, for domestic or foreign consumption. It should be noted, as well, that import substitution does not mean *import elimination*: as a country industrialises.

A nation implementing ISI begins to import new materials that become necessary for its industries, such as petroleum, chemicals, and other raw materials it may have formerly lacked. The real objective of import substitution is therefore not to eliminate trade but to lift a nation to higher stage, that of exporting *value-added* products not as susceptible to economic fluctuations as are raw materials, according to the Singer-Prebisch thesis.

Self-Assessment Exercise

Explain the meaning of Import substitution industrialisation in your own way.

Latin America

Import substitution policies were adopted by most nations in Latin America from the 1930s until the late 1980s. The initial date is largely attributed to the impact of the Great Depression of the 1930s, when Latin American countries, which exported primary products and imported almost all of the industrialized goods they consumed, were prevented from importing due to a sharp decline in their foreign sales. This served as an incentive for the domestic production of the goods they needed.

The first steps in import substitution were less theoretical and more pragmatic choices on how to face the limitations imposed by recession, even though the governments in Argentina (Juan Domingo Perón) and Brazil (Getúlio Vargas) had the precedent of Fascist Italy (and, to some extent, the Soviet Union) as inspirations of state-induced industrialisation. Positivist thinking, which sought a "strong government" to "modernize" society, played a major influence on Latin American military thinking in the 20th century. Among the officials, many of whom rose to power, like Perón and Vargas, industrialisation (especially steel production) was synonymous with "progress" and was naturally placed as a priority.

ISI gained a theoretical foundation only in the 1950s, when Argentine economist and UNECLAC head Raúl Prebisch was a visible proponent of the idea, as well as Brazilian economist Celso Furtado. Prebisch believed that developing countries needed to create local vertical linkages, and they could only succeed by creating industries that used the primary products already being produced domestically. The tariffs were designed to allow domestic infant industries to prosper.

ISI was most successful in countries with large populations and income levels which allowed for the consumption of locally produced products. Latin American countries such as Argentina, Brazil, Mexico, and (to a lesser extent) Chile, Uruguay and Venezuela, had the most success with ISI.

This is so because while the investment to produce cheap consumer products may pay off in a small consumer market, the same cannot be said for capital-intensive industries, such as automobiles and heavy machinery, which depend on larger consumer markets to survive.

Thus, smaller and poorer countries, such as Ecuador, Honduras, and the Dominican Republic, could implement ISI only to a limited extent. Peru implemented ISI in 1961, and the policy lasted through to the end of the decade in some form.

To overcome the difficulties of implementing ISI in small-scale economies, proponents of this economic policy, some within UNECLAC, suggested two alternatives to enlarge consumer markets: income redistribution within each country, through agrarian reform and other initiatives aimed at bringing Latin America's enormous marginalized population into the consumer market, and regional integration through initiatives such as the Latin American Free Trade Association (ALALC), which would allow for the products of one country to be sold in another.

In Latin American countries in which ISI was most successful, it was accompanied by structural changes to the government. Old neocolonial governments were replaced by more-or-less democratic governments. Banks and utilities and certain foreign-owned companies were nationalized or had their ownership transferred to local businesspeople.

Many economists contend that ISI failed in Latin America and was one of many factors leading to the so-called lost decade of Latin American economics, while others contend that ISI led to the "Mexican Miracle," the period from 1940 to 1975, in which annual economic growth stood at 6% or higher.

As noted by one historian, ISI was successful in fostering a great deal of social and economic development in Latin America:

"By the early 1960s, domestic industry supplied 95% of Mexico's and 98% of Brazil's consumer goods. Between 1950 and 1980, Latin America's industrial output went up six times, keeping well ahead of population growth. Infant mortality fell from 107 per 1,000 live births in 1960 to 69 per 1,000 in 1980, [and] life expectancy rose from 52 to 64 years. In the mid 1950s, Latin America's economies were growing faster than those of the industrialized West."

Advantages and Disadvantages

The major advantages claimed for ISI include:

- increases in domestic employment, i.e., reducing dependence on non-labour-intensive industries such as raw resource extraction and export
- resilience in the face of a global economic shocks, such as recessions and depressions
- less long-distance transportation of goods and less concomitant fuel consumption and greenhouse gas and other emissions.

Disadvantages claimed for ISI are that:

- the industries it creates are inefficient and obsolete, as they are not exposed to internationally competitive industries, which constitute their rivals, and
- the focus on industrial development impoverishes local commodity producers, who are primarily rural.

Rather than maintain an inward-looking economy, the idea of catching up can be much faster with strong competition rather than with domestic competition with people with similar levels of human capital.

Furthermore, with small external scale economies, the country's costs maintain high and knowledge accumulation will not steadily or slowly increase. Goldar takes note that in India "that policies of import substitution and domestic industrial licensing have led to considerable inefficiency in the industrial sector, and that policies for checking concentration (restrictions against large industrial houses, discrimination in favour of small scale units, etc.) have resulted in significant loss of scale economies,".

Additionally, import substitution was in place as a remedy for mass poverty, unemployment and economic growth however,

"The collections of Balassa and Little et al. made abundantly clear that import substitution policies had created major distortions and had thereby resulted in a misuse of resources.

So it was increasingly evident that something needed fixing. Two other sources of concern appeared in the early 1970s and suggested that there were other things that needed fixing as well. The first, already referred to, was that the demand for labour in the new activities was growing more slowly than the rates of growth of output and investment had led most observers to expect. As a consequence of the slow growth of employment (and other things), poverty was alleviated only modestly," (Bruton 917).

4.0 Conclusion

The history of Import substitution Industrialisation and Theoretical basis were discussed in this unit. More analysis of Import substitution Industrialisation shall be discussed in subsequent units.

5.0 Summary

The concept of Import Substitution Industrialisation is fully discussed hereby discussing the history of Import substitution Industrialisation and its theoretical basis and with reference to the Latin American that adopted the strategy of Import Substitution Industrialisation and finally its advantages and its disadvantages.

6.0 Self-Assessment exercise

Explain the different between explanation of Henry J. Burton and Bishwanath Goldar in details.

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Unit 2 Export Led Industrialisation Strategy

1.0 Introduction

This term export derives from the conceptual meaning as to ship the goods and services out of the port of a country. The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In International Trade, "exports" refers to selling goods and services produced in the home country to other markets.

Export of commercial quantities of goods normally requires involvement of the customs authorities in both the country of export and the country of import. The advents of small trades over the internet such as through Amazon and eBay have largely bypassed the involvement of Customs in many countries because of the low individual values of these trades.

Nonetheless, these small exports are still subject to legal restrictions applied by the country of export. An export's counterpart is an import.

2.0 Objectives

At the end of this unit, you should be able to:

- define and state what export is all about
- explain the historical background and process of export
- mention the export strategy and ways of exporting.

3.0 Main Content

3.1 Definitions

In national accounts, "exports" consist of transactions in goods and services (sales, barter, gifts or grants) from residents to non-residents. The exact definition of exports includes and excludes specific "borderline" cases. A general delimitation of exports in national accounts is given below:

An export of a good occurs when there is a change of ownership from a resident to a non-resident; this does not necessarily imply that the good in question physically crosses the frontier. However, in specific cases national accounts impute changes of ownership even though in legal terms no change of ownership takes place (e.g. *cross border financial leasing*, *cross border deliveries between affiliates of the same enterprise*, *goods crossing the border for significant processing to order or repair*). Also smuggled goods must be included in the export measurement.

Export of services consists of all services rendered by residents to non-residents. In national accounts any direct purchases by non-residents in the economic territory of a country are recorded as exports of services; therefore all expenditure by foreign tourists in the economic territory of a country is considered as part of the exports of services of that country. Also international flows of illegal services must be included.

National accountants often need to make adjustments to the basic trade data in order to comply with national accounts concepts; the concepts for basic trade statistics often differ in terms of definition and coverage from the requirements in the national accounts:

Data on international trade in goods are mostly obtained through declarations to custom services. If a country applies the general trade system, all goods entering or leaving the country are recorded. If the special trade system (e.g. extra-EU trade statistics) is applied goods which are received into customs warehouses are not recorded in external trade statistics unless they subsequently go into free circulation in the country of receipt.

A special case is the intra-EU trade statistics. Since goods move freely between the member states of the EU without customs controls, statistics on trade in goods between the member states must be obtained through surveys. To reduce the statistical burden on the respondents small scale traders are excluded from the reporting obligation.

Statistical recording of trade in services is based on declarations by banks to their central banks or by surveys of the main operators. In a globalized economy where services can be rendered via electronic means (*e.g. internet*) the related international flows of services are difficult to identify.

Basic statistics on international trade normally do not record smuggled goods or international flows of illegal services. A small fraction of the smuggled goods and illegal services may nevertheless be included in official trade statistics through dummy shipments or dummy declarations that serve to conceal the illegal nature of the activities.

History

The theory of international trade and commercial policy is one of the oldest branches of economic thought. Exporting is a major component of international trade, and the macroeconomic risks and benefits of exporting are regularly discussed and disputed by economists and others.

Two views concerning international trade present different perspectives. The first recognises the benefits of international trade. The second concerns itself with the possibly that certain domestic industries (or labourers, or culture) could be harmed by foreign competition.

Process

Methods of export include a product or good or information being mailed, hand-delivered, shipped by air, shipped by vessel, uploaded to an internet site, or downloaded from an internet site. Exports also include the distribution of information that can be sent in the form of an email, an email attachment, a fax or can be shared during a telephone conversation.
National regulations

- United States

The export of defense-related articles and services on the United States Munitions List (USML) is governed by the Department of State under the International Traffic in Arms Regulations (ITAR).

The Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Code of Federal Regulations Title 15 chapter VII, subchapter C, also known as *Export Administration Regulations* (EAR), in the United States.

The BIS regulates the export and re-export of most commercial items. Some commodities require a license in order to export. There are different requirements to export lawfully depending on the product or service being exported.

Depending on the category the 'item' falls under, the company may need to obtain a license prior to exporting. EAR restrictions can vary from country to country. The most restricted destinations are countries under economic embargoes or designated as supporting terrorist activities, including Cuba, North Korea, Sudan, Syria and Iran . Some products have received worldwide restrictions prohibiting exports.

An item is considered an export whether or not it is leaving the United States temporarily, if it is leaving the United State but is not for sale (a gift), or if it is going to a wholly owned U.S. subsidiary in a foreign country. A foreign-origin item exported from the United States, transmitted or transhipped through the United States, or being returned from the United States to its foreign country of origin is.

Barriers

Trade barriers are generally defined as government laws, regulations, policy, or practices that either protect domestic products from foreign competition or artificially stimulate exports of particular domestic products.

While restrictive business practices sometimes have a similar effect, they are not usually regarded as trade barriers. The most common foreign trade barriers are government-imposed measures and policies that restrict, prevent, or impede the international exchange of goods and services.

Strategic

International agreements limit trade in, and the transfer of, certain types of goods and information e.g. goods associated with weapons of mass destruction, advanced telecommunications, arms and torture, and also some art and archaeological artefacts. Examples include Nuclear Suppliers Group - limiting trade in nuclear weapons and associated goods (currently only 45 countries participate).

The Australia Group - limiting trade in chemical & biological weapons and associated goods (currently only 39 countries), Missile Technology Control Regime - limiting trade in the means of delivering weapons of mass destruction (currently only 34 countries) and The Wassenaar Arrangement - limiting trade in conventional arms and technological developments (currently only 40 countries).

Tariffs

A tariff is a tax placed on a specific good or set of goods exported from or imported to a country, creating an economic barrier to trade.

Usually the tactic is used when a country's domestic output of the good is falling and imports from foreign competitors are rising, particularly if there are strategic reasons for retaining a domestic production capability.

Some failing industries receive a protection with an effect similar to subsidies in that by placing the tariff on the industry, the industry is less enticed to produce goods in a quicker, cheaper, and more productive fashion. The third reason for a tariff involves addressing the issue of dumping.

Dumping involves a country producing highly excessive amounts of goods and *dumping* the goods on another foreign country, producing the effect of prices that are "too low". Too low can refer to either pricing the good from the foreign market at a price lower than charged in the domestic market of the country of origin.

The other reference to dumping relates or refers to the producer selling the product at a price in which there is no profit or a loss. The purpose (and expected outcome) of the tariff is to encourage spending on domestic goods and services.

Protective tariffs sometimes protect what are known as infant industries that are in the phase of expansive growth. A tariff is used temporarily to allow the industry to succeed in spite of strong competition.

Protective tariffs are considered valid if the resources are more productive in their new use than they would be if the industry had not been started. The infant industry eventually must incorporate itself into a market without the protection of government subsidies.

Tariffs can create tension between countries. Examples include the United States steel tariff of 2002 and when China placed a 14% tariff on imported auto parts. Such tariffs usually lead to filing a complaint with the World Trade Organization (WTO) and, if that fails, could eventually head toward the country placing a tariff against the other nation in spite, to impress pressure to remove the tariff.

Subsidies

To subsidise an industry or company refers to, in this instance, a government providing supplemental financial support to manipulate the price below market value. Subsidies are generally used for failing industries that need a boost in domestic spending. Subsidising encourages greater demand for a good or service because of the slashed price.

The effect of subsidies deters other countries that are able to produce a specific product or service at a faster, cheaper, and more productive rate. With the lowered price, these efficient producers cannot compete. The life of a subsidy is generally short-lived, but sometimes can be implemented on a more permanent basis.

The agricultural industry is commonly subsidised, both in the United States, and in other countries including Japan and nations located in the European Union (EU).

Critics argue such subsidies cost developing nations $24 billion annually in lost income according to a study by the International Food Policy Research Institute, a D.C. group funded partly by the World Bank.
However, other nations are not the only economic 'losers'. Subsidies in the U.S. heavily depend upon taxpayer dollars. In 2000, the U.S. spent an all-time record $32.3 billion for the agricultural industry. The EU spends about $50 billion annually, nearly half its annual budget on its common agricultural policy and rural development.

Exports and free trade

The theory of comparative advantage materialised during the first quarter of the 19th century in the writings of 'classical economists'.

While David Ricardo is most credited with the development of the theory, James Mill and Robert Torrens produced similar ideas. The theory states that all parties maximise benefit in an environment of unrestricted trade, even if absolute advantages in production exist between the parties.

In contrast to Mercantilism, the first systematic body of thought devoted to international trade emerged during the 17th and 18th centuries in Europe. While most views surfacing from this school of thought differed, a commonly argued key objective of trade was to promote a "*favorable*" *balance of trade*, referring to a time when the value of domestic goods exported exceeds the value of foreign goods imported. The "favorable" balance in turn created a *balance of trade surplus*.

Mercantilists advocated that government policy directly arrange the flow of commerce to conform to their beliefs. They sought a highly interventionist agenda, using taxes on trade to manipulate the balance of trade or commodity composition of trade in favor of the *home country*.

3.2 Export Strategy

Export strategy is to ship commodities to other places or countries for sale or exchange. In economics, an export is any good or commodity, transported from one country to another country in a legitimate fashion, typically for use in trade.

Advantages of exporting

Ownership advantages are the firm's specific assets, international experience, and the ability to develop either low-cost or differentiated products within the contacts of its value chain.

The locational advantages of a particular market are a combination of market potential and investment risk.

Internationalisation advantages are the benefits of retaining a core competence within the company and threading it though the value chain rather than obtain to license, outsource, or sell it. In relation to the Eclectic paradigm, companies that have low levels of ownership advantages either do not enter foreign markets.

If the company and its products are equipped with *ownership advantage* and *internalisation advantage*, they enter through low-risk modes such as exporting.

Exporting requires significantly lower level of investment than other modes of international expansion, such as FDI.

As you might expect, the lower risk of export typically results in a lower rate of return on sales than possible though other modes of international business.

In other words, the usual return on export sales may not be tremendous, but neither is the risk. Exporting allows managers to exercise operation control but does not provide them the option to exercise as much marketing control.

An exporter usually resides far from the end consumer and often enlists various intermediaries to manage marketing activities.

Disadvantages of exporting

For Small-and-Medium Enterprises (SME) with less than 250 employees, selling goods and services to foreign markets seems to be more difficult than serving the domestic market.

The lack of knowledge for trade regulations, cultural differences, different languages and foreign-exchange situations as well as the strain of resources and staff interact like a block for exporting.

Indeed there are some SME's which are exporting, but nearly two-third of them sells in only to one foreign market.

The following assumption shows the main disadvantages:

Financial management effort: To minimise the risk of exchange-rate fluctuation and transactions processes of export activity the financial management needs more capacity to cope the major effort.

Communication technologies improvement: The improvement of communication technologies in recent years enable the customer to interact with more suppliers while receiving more information and cheaper communications cost at the same time like 20 years ago. This leads to more transparency. The vendor is in duty to follow the real-time demand and to submit all transaction details.

Management mistakes: The management might tap in some of the organizational pitfalls, like poor selection of overseas agents or distributors or chaotic global organisation.

3.3 Ways of Exporting

Direct selling in export strategy

Direct selling involves sales representatives, distributors, or retailers who are located *outside* the exporter's home country.

Direct exports are goods and services that are sold to an independent party outside of the exporter's home country.

Mainly the companies are pushed by core competencies and improving their performance of value chain.

Direct selling through distributors

It is considered to be the most popular option to companies, to develop their own international marketing capability.

This is achieved by charging personnel from the company to give them greater control over their operations.

Direct selling also give the company greater control over the marketing function and the opportunity to earn more profits.

In other cases, that is, where network of sales representative is included, the company can transfer them exclusive rights to sell in a particular geographic region.

A distributor in a foreign country is a merchant who purchases the product from the manufacturer and sells them at profit.

Distributors usually carry stock inventory and service the product, and in most cases distribute deals with retailers rather than end users.

Evaluating Distributors

- The size and capabilities of its sales force.
- It's an analysis of its territory.
- Its current product mix.
- Its facilities and equipment.
- Its marketing polices.
- Its customer profit.
- Its promotional strategy.

Direct selling through foreign retailers and end users

Exporters can also sell directly to foreign retailers.

Usually, products are limited to consumer lines; it can also sell to direct end users.

A good way to generate such sales is by printing catalogs or attending trade shows.

Direct selling over the Internet

Electronic commerce is an important mean to small and big companies all over the world, to trade internationally.

We already can see how important E-commerce is for marketing growth among exporters companies in emerging economies, in order to overcome capital and infrastructure barriers.

E-commerce eased engagements, provided faster and cheaper delivery of information, generates quick feedback on new products, improves customer service, accesses a global audience, levels the field of companies, and support electronic data interchange with suppliers and customers.

Indirect selling

Indirect exports, is simply selling goods to or through an independent domestic intermediary in their own home county. Then intermediaries export the products to customers' foreign markets.

Making the export decision

Once a company determines it has exportable products, it must still consider other factors, such as the following:

- What does the company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will export place on the company's key resources - management and personnel, production capacity, and finance - and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

3.4 Export Promotion

The U.S. Department of Commerce provides U.S. companies the opportunity to promote their products and services free of charge. To do so, the Export Yellow Pages is published online and in print and is delivered to embassies, trade centers, consulates, and associations worldwide.

The California Centers for International Trade Development (CITD's) have 13 offices throughout California; each CITD is hosted by a local community college and provides a variety of free or low-cost programs & services to assist local companies in doing business abroad. These include one-on-one technical assistance and consulting, market research, training and educational programs, trade leads and special events.

3.5 Challenges

Exporting to foreign countries poses challenges not found in domestic sales. With domestic sales, manufacturers typically sell to wholesalers or direct to retailer or even direct to consumers. When exporting, manufacturers may have to sell to importers who then in turn sell to wholesalers. Extra layer(s) in the chain of distribution squeezes margins and manufacturers may need to offer lower prices to importers than to domestic wholesalers.

4.0 Conclusion

Export of commercial quantities of goods normally requires involvement of the customs authorities in both the country of export and the country of import. The advents of small trades over the internet such as through Amazon and eBay have largely bypassed the involvement of Customs in many countries because of the low individual values of these trades.

Methods of export include a product or good or information being mailed, hand-delivered, shipped by air, shipped by vessel, uploaded to an internet site, or downloaded from an internet site. Exports also include the distribution of information that can be sent in the form of an email, an email attachment, a fax or can be shared during a telephone conversation.

5.0 Summary

The term export derives from the conceptual meaning as to ship the goods and services out of the port of a country. The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In International Trade, "exports" refers to selling goods and services produced in the home country to other markets.

Export strategy is to ship commodities to other places or countries for sale or exchange. In economics, an export is any good or commodity, transported from one country to another country in a legitimate fashion, typically for use in trade.

6.0 Self-Assessment exercise

What are the advantages and disadvantages of exportation?

7.0 References/Further Reading

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