

A MARKETING APPROACH TO EXPORTING?

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The development efforts of developing areas have, with few exceptions, placed considerable emphasis on the contribution which export programs have to accomplish. Exports have been the primary source of financing not only of consumer imports but, more significantly, of capital goods acquisition. An improved payments position can be achieved through the proper application of import measures and through export expansion which should be at a rate faster than the rise in import requirements.

The contribution of export revenues to growth planning is nowhere better played up than in the Five-Year Integrated Socio-Economic Program for the Philippines. The Program sets a compound rate of growth in gross domestic product at 6% over the period, 1963 to 1967. As one of the necessary conditions for attaining such growth target, a total of \$3.7 billion or an average of \$740 million annually in export earnings must be realized. This means an average annual increase of approximately \$150 million over the current level during the period of the Program. At this stage, one can get to speculating as to whether such a target is feasible or not.

An assessment of export performance and prospects is necessary to give one a measure of the extent to which such planned target might be attained. This means, further, an evaluation of the impact of foreign market developments, identification of impediments to export trade, and appraisal of the domestic productive capacity and of the adequacy of our export machinery.

What is examined here is the need for a re-orientation in the conduct of our foreign trade within the framework of existing fiscal and monetary policies, and how such a re-orientation might contribute to export expansion efforts. Perhaps a question could be raised at this point as to a certain redundancy in the title used—as if exporting is not by itself a marketing activity. The idea of a marketing approach to exporting as would be attempted to be explained here refers more to a whole philosophy in the conduct of our foreign trade

—one which stresses adaptation to market requirements and changes, market and product development, and trade promotion while making the most of our productive advantages. Such an approach can be at a national as well as at company level. Both will be considered but to no exhaustive extent.

THE STATUS OF OUR TRADITIONAL EXPORTS

Perhaps nothing can be more illustrative of the national approach to exporting than the present circumstances surrounding our traditional exports. Dependence on these exports has been to the extent of 84% for the ten major exports (as of last year, plywood has dislodged chromite ore from the list) and 63% for just the first three (sugar, copra and logs and lumber). For the period of the Program, dependence on these ten to bring in the bulk of our export receipts will continue. But there are some doubts which will be entertained as to the capacity of these traditional items to bring in the substantial portion of the planned increase. An appraisal of their expansion prospects would tell why.

For the past years, increases and decreases in export volumes of these items have been largely of cyclical nature and attributable to short-run demand and supply factors—price fluctuations, quota changes, poor yields, use of buyers' stockpiles, etc. Secular growth, which should be a programming emphasis for all our exports, has not been satisfactory. Plywood and veneer are, however, outstanding exceptions. Historically, the pattern of export revenues of the ten major exports has been that of relative stability—a behavior consistent with those of the primary exports of most of the developing economies of Asia and Latin America. The U.N. Report¹ and that of the Contracting Parties to the General Agreement on Tariffs and Trade² pointed out the almost stagnant growth in exports of primary commodities to developed areas which are not buying in quantities proportionate with the rate of growth in their productivity and with the rate of expansion in their industrial exports to developing areas. The changing structure of industries in the developed areas (from light to heavy industries, *i.e.*, to chemicals and engineering) has been mentioned as one depressing factor since such structural shift will result to lower raw material requirements.

For Philippine exports of primary commodities, certain developments abroad are of particular significance to some of them. Coconut

¹ U.N., *Economic Survey of Asia and the Far East*, 1962, Chapter II.

² The Contracting Parties to the General Agreement on Tariffs and Trade, *International Trade*, 1961 and 1962.

products (copra, desiccated coconut and oil), while still doing well in the European and North American markets, face long-run competition which will come from coconut plantations in the African Associated States of the European Common Market and from the increasing substitution by seed oils (peanut, cotton, palm kernel, soybean, etc.), made possible by improved hydrogenation process which makes such heavier seed oils approximate coconut oil in quality, particularly for food processing purposes. Abaca faces synthetics and other hard fiber materials (sisal and henequin), export volumes of which have been increasing. Iron ore, while showing an uptrend, will have to contend with technology which is making possible improvement in scrap metal recovery process resulting to an enlarging revolving stock of reusable metals. While Japan still buys more than 90% of our ore, India's increased output of ore (though a huge portion is earmarked for domestic processing) and new mine discoveries in Liberia and other African states present some reasons for expecting poor prospects for increased iron ore exports from the Philippines. And of course, a more inevitable cause for future reduction in ore exports is the establishment of integrated steel mills envisioned under the Five-Year Program, which would effect increased consumption for domestic steel processing. Pineapples, while coasting along on consumer spending for food items in Europe and U.S., will face competitive pressure due to tariff preferences in favor of Commonwealth and E.E.C. Associated States and from other competitors which are similarly favored by tariff under the aegis of the GATT. One bright note though is the migration of Hawaiian pineapple industry, due to high cost pressures, to low cost areas such as the Philippines. Plywood seems to be the only major export item that is to experience a steady growth especially during the period 1963 to 1967. This is largely due to the continuing construction boom in Europe and the U.S. Increased shipments of plywood on the other hand is a supply factor affecting the exports of logs and lumber. Government policy favors domestic processing of raw materials which are locally abundant.

Indications, therefore, point to the fact that our current major exports are not likely to provide the growth elements necessary to attain the target increase.

EXPORT-MINDEDNESS IN OUR FOREIGN TRADE

Nurkse emphasized the point that industrialization for exports is then the logical avenue to follow where the major exports of primary commodities are likely to stagnate or not provide the desired rate

of export expansion.³ Diversification, however, is always a slow and painful process for most of the developing economies such as the Philippines. Inadequate capital financing and the difficulty of shifting resources away from the major export industries are the stumbling blocks. To some extent, European markets for manufactured exports are being limited by tariff structures which, while highly protectionist with respect to agricultural consumer items, are favoring raw material imports and discriminating against manufactured articles using raw materials which they themselves import. This they effect by imposing a nominally low duty on raw materials and a relatively high one on manufactured imports. Diversification along manufactured exports is likely to be only an escape from stagnation. But this should not detract from the fact that product diversification for both domestic consumption and exports is essential not only for broadening the industrial base but also for protection against damaging fluctuations in export volumes of our major export commodities.

For long-range planning, manufactured exports are to be heavily considered since they offer the best potential of bringing in the largest share of export increase. They are also the types which are most amenable to market diversification, since other developing areas open up themselves as potential buyers, and thus to be favorably considered for development. The Philippines is not wanting in lists of potentially exportable manufactures. At present, these range from those of the cottage industry items to light machinery and spare parts.

Taiwan provides a good case of success in manufacturing for exports. Without any competitive headstart over the Philippines, except maybe with respect to a bigger share of economic aid from the United States, Taiwan now competes with the Philippines and others in pineapple exports. She exports canned mushrooms to U.S. at the expense of U.S. mushroom processors, and in increasing her rubber shoe shipments abroad.⁴ Puerto Rico is another case in point. However, the success of her manufacturing for export hinged heavily on her being part of the U.S. customs area and on U.S. industrial financing support. India can point to mild successes in the area of manufacturing for exports, notably in machinery and transport equipment and accessories.⁵

One other notable observation on the policy of diversification along manufacturing for exports was made by Mr. Eric Wyndham White,

³ Ragnar Nurkse, *Patterns of Trade and Development*. New York: Oxford University Press, 1961, p. 36 ff.

⁴ H. K. Hedinger, "Greater Philippine Exports—A Fresh Approach," *Philippine Economy Review*, December 1962, pp. 24-26.

⁵ U.N., *op. cit.*, p. 35.

Executive Secretary for the General Agreement on Tariffs and Trade. He pointed out that attempts at manufacturing for exports have in many cases resulted to a concentration in light non-complex manufactures, the finished products of which are those which compete with similar industries in high-cost developed countries, on which items import restrictions and competition are severe.⁶ Textile is the outstanding example. But for developing economies, characteristically lacking in capital resources and skills, this seems to be a logical course of diversification for industrialization. However, selective diversification, especially if along manufacture for exports, must start with industries which make the most of our advantages in terms of abundant raw materials and cheap labor and which capitalize on favorable foreign market developments which have the tendency of contributing to long-run growth. Again, plywood presents a good example of utilization of abundant local raw materials and at the same time of reliance on favorable growth conditions in the foreign market. Diversification for exports should not be pursued, however, at the expense of increased manufacture for import substitution. This is significant from the balance of payments consideration.

Export-mindedness is not strictly in reference to emphasis on manufacturing for exports. The same outlook is to attach to the marketing of our present exports. Specifically, this means being aware of changes which take place in the market and to prepare for and take advantage of them. The historical preferential treatment given our major exports in the U.S. market has been contributory to a system of foreign marketing which is the like of order-filling characteristic of non-customer oriented domestic marketing methods. In other words, a condition of relative sellers' market exists for most of our major exports arising out of certain monopolistic advantages and preferential treatment. Increased competitive pressure, the implementation of full external tariff by the European Common Market in 1970, and the termination of the Laurel-Langley Agreement in 1974 are three developments which government trade planners and exporters must be prepared for during the next decade. Doings in the GATT are also being felt. Such developments necessitate use of economic and trade diplomacy. The trend towards bilateral trade agreements further emphasizes the need.

⁶ E. Wyndham White, "Commercial Policies for the Nineteen Sixties," An address delivered under the auspices of Centre Italien d' Etudes pour la Reconciliation Internationale, Rome, June 1961.

EXPORT POSSIBILITY STUDIES

In modern marketing management, a strategy for saving a product with a declining market or for improving the market position of one which stagnates is to find new uses for it. This is the program particularly for products facing long-run loss of market because of permanent shifts in buying preferences, and where maintaining the items is more advisable than withdrawing them from the market.

For most of our major exports for which total world consumption is relatively constant due to their high income inelasticity, and due to other factors already cited, new uses mean new uses as raw materials. And for most of them, there have not been much of new usage discoveries. Abaca, however, appears to have the very encouraging prospect of expanded market because of recent discoveries of new uses for it, and thus serving to be a way out from competitive pressure. Research has brought out the excellent qualities of abaca for tea bags, acoustical padding, paper manufactures, and with bright anticipation, "cottonized" Manila hemp clothing materials. The coconut fruit, all of its meat, shell and husk, is proving to be more valuable than just a basic source of the bread and butter copra-oil-desiccated coconut exports. Its versatile husk fibers (coir) and dusts have suited a variety of finished product uses — ropes and twines, carpets and rugs, (which could be converted to auto seat cushions or mattresses) hardboards, roofing and flooring tiles, etc.—all of which have high export possibilities. Coconut oil itself has been found feasible as a detergent base. Even the lowly banana, a fruit of considerable local supply, has suddenly grown in trade importance arising out of the Japanese investigation into possible banana importations from the Philippines even to the extent of partial shift of purchases from the major supplier, Taiwan. Techniques of fruit preservation (chemicals and refrigeration) have been improved such that the prospect of a sizeable fruit exportation particularly to Japan is bright. Another potential source of export revenues from banana is its by-products, and there are many. Few important ones are feeds, confectioneries, concentrates, flour and powder, chips and food seasoning. The U.S.A. is presently the largest buyer of concentrates which have become a rich source of dietary preparations for infant feeding and also of stuffings for bakery goods. The main source of this concentrate is Central and South America. But Japan can very well absorb fresh banana output that we have.

The above instances of abaca, coconut coir, and banana are enough to demonstrate the importance of product research and development resulting to new discoveries of exportable items. While research along

this line is currently being undertaken here, its makeshift basis could be formalized and strengthened through joint auspices of government agencies (such as the NACIDA and the Board of Industries), private firms and educational institutions.

Another dimension of research with a view to benefiting the export trade is that of continuing studies on export possibilities. This should be done either for existing products which are now on the export list or for those still devoted to domestic consumption but which have export potential due to foreign market developments and expected surplusage in domestic supply. Basically, this type of study would involve a survey of world markets to gauge existing potential foreign demand, and a survey of availability of local products that could fill up the need. Dynamic changes in foreign market conditions necessitate the conduct of such project on a continuing basis. There is no place here to present a detailed outline of such a study but primarily there is emphasis to be placed on both quantitative (*e.g.*, consumption figures and consumer spending) and qualitative (*e.g.*, governmental policy and nationalistic outlook) characteristics of foreign market factors. This search for export markets and export products should be a feature of our export programming.

TRADE PROMOTION AND EXPORT PROCEDURES

There is current earnest in the implementation of the trade promotion program as evidenced by training seminars being conducted for an enlarged body of consular personnel, by participation in almost every trade fair abroad, and by the number of trade missions we sent. These are encouraging moves, but promotional gaps still exist. It was revealed, for example, that there is an utter lack of literature on the Philippines within the Common Market countries.⁷ Instances have also been mentioned that products ordered through trade expositions have not been of the expected quality and standard revealed by sample exhibits. This is true for some handicrafts and other home industry items for which standardization is relatively difficult. But just the same, the situation illustrates the stress that should be placed on standardization and quality control. For our major export items for which release for shipment can only be had after certificates of inspection by government agencies concerned have been issued, the problem has been minimized.

⁷K. J. Stadtman, First Secretary, the Royal Netherlands Embassy, in a paper "The European Common Market as an Export Market for Philippine Products," read before the U.P. Executive Development Program Seminar, June 1, 1963.

One need not argue about the value of institutional type of trade promotion which banners some such theme as "Products of the Philippines." At this level of promotion, we are not sadly inadequate. Too often neglected is the emphasis on specific product promotion. The Philippines faces the loss of the label "Mahogany" for our hardwoods in the U.S. market where legislation is being pressed for the label application to other hardwoods regardless of country of origin. Philippine cigars (while presently taking advantage of the Cuban boycott) have not regained their prewar prestige in the U.S. market vis-a-vis Cuban labels. One can gather from these instances how a "brandname" type of promotion could have maintained or enhanced such initial advantages. For this type of activity, responsibility rests more on the exporter himself.

A long felt need for improvement is along requirements for export documentation which have been deterring factors to satisfactory compliance with export commitments to foreign buyers. Proposals have been made for the establishment of an Export Authority which would accomplish simplification of export procedures by eliminating the overduplication of documentary forms and by centralizing the processing of such papers. An equally commendable suggestion is the establishment of a Trade Information Center to act as a clearing house in the dissemination of trade information.

EFFICIENT EXPORT MANAGEMENT — FIRM LEVEL

While most of our export difficulties are on the plane of national policy, final responsibility for selling a product to a foreign buyer is still that of the exporter or exporting firm. His tasks are those of effecting an efficient export organization, of choosing qualified and aggressive middlemen (for they are still predominant in international marketing), of providing the necessary promotional backing, and of effective utilization of government assistance. For most of our small exporters, the organizational problem is absent as there is employment of export middlemen — brokers, commission agents, manufacturer's representatives and sales agents in addition to buyer-exporters. For large exporters with considerable number of export items sold to sizeable export markets, an export organization is inevitable — be it a small built-in type or a fully staffed corporate exporting arm. For large foreign sellers, the problem of reliance on domestic middlemen is eliminated. But for both small and large exporters, the use of foreign middlemen cannot be avoided. And this consequently gives rise to the difficulty of choosing from among the varied types of foreign middlemen — brokers, commission houses, import agents, in-

dentors, wholesale and retail houses. To stress the point regarding the value of the services of an efficient middleman, the Japanese electronics exports to the U.S. market provide a good lesson. The startling success of Japanese electronics in the U.S., which even had the competitive headstart, owes much to the efficiency and aggressiveness with which U.S. importer-distributors of Japanese items pushed their lines against domestic U.S. competitors. Availability of such type of middlemen in our American, European and Japanese markets is not a problem. Certainly, it will be for our potential Asian markets. Having the middlemen is one thing but getting them interested to handle and promote our products is another.

For our major exports, the problem of utilization of middleman services takes a different form. Large brokerage organizations which are cartelized in some instances, whether headquartered in London or elsewhere in Europe, handle the bulk of primary imports. In the case of the Philippine exports, such institutions operate for abaca and copra. Such organizations, because of their control over quantity, virtually dictate the price. It is for this reason that the agitation for the establishment of Commodity Agreements among primary exporters is getting much attention. While this means a formulation of definite government policy on such an arrangement, much of the initiative in this respect should be assumed by the exporters themselves.

It is obvious that there is no attempt here to be exhaustive with respect to the problems of our export trade. But it is hoped that what has been presented is sufficient to provide the perspective from which one can proceed to recognize the need for a re-orientation in the conduct of our foreign trade.