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Barriers to Exports faced by Manufacturing SME's in South Africa

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**A research project submitted to the Gordon Institute of Business Science,
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of Master of Business Administration.**

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Abstract

This paper is intended as an investigation into what prevents South African manufacturing SME's from contributing more to South Africa's export performance.

To this end a literature review was conducted to, among others, identify barriers to exports faced by manufacturing SME's contained in existing literature. A number of core groupings were identified.

Empirical research was then conducted by telephonically interviewing 499 manufacturing SME's to gain insight into prevalence of exporters, interested non-exporters and not interested non-exporters. Exporting respondents were asked what their biggest export facilitating factor was, and what the one thing was they felt each of the government and third party facilitators could do to assist in the export process. Non-exporting respondents were further asked for reasons for not exporting (if they wanted to export) as well as reasons for not wanting to export, as the case may be.

Strong demographic differences emerged between exporters, interested non-exporters and not interested non-exporters.

A number of factors emerged as to barriers and facilitators to exports and how the government and third party facilitators might assist in the export process.

These insights could be used to tailor export promotion initiatives.



Declaration

I declare that this research study is my own work. It is submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Jaco van der Walt

Date



Dedication

I would like to dedicate this research project to my wonderfully supportive and understanding wife, Magriet, and my adorable little son, Erik Jordaan.

You have had to give up so much of me over the two years leading up to this day. Without your support and understanding this paper would never have seen the light of day

Thank you both so much!

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1 Introduction

1.1 Introduction

The export of manufactured goods is one of the leading contributors to growth in the gross domestic product (GDP) of any country, and South Africa is behind the world trend when it comes to exports.

According to figures from the World Trade Organisation (WTO) South Africa's manufactures export contributed only 65% to total merchandise export during 2004. At the same time, the world average was 74.8%, with South Africa placed 28th of 55 countries for which the data was available.

Admittedly, other factors can also contribute positively to growth, such as fiscal spending, foreign direct investments, etc. This does not make exports less important. As a matter of fact, the more diverse the sources exploited for growth, the more sustainable such growth.

Exports can take the form of goods or services, though service exports are for most part the domain of countries fully integrated in a knowledge economy. With some exceptions, developing economies are predisposed to exports of commodities and manufactured goods. Even in developing countries like India with strong service sectors, exports of services are still lagging exports of merchandise.

In the case of India, which enjoyed 6% annual GDP growth on average between 1995 and 2005 (South Africa had 3% growth over the same period), services exports made up only about a third of total exports during 2005. Manufactured exports made up 75% of India's total merchandise exports during 2004.

The real revenue from commodity trade has declined over the past decades and has been cyclical. It is therefore crucial for sustained growth that manufactured exports make up a significant portion of the country's exports.

In the case of South Africa, where the Top 40 listed shares are dominated by resources – just two of many resource companies make up 30% of the index - , followed by services, the burden of increasing manufactured exports will fall on the small and medium sized enterprises (SME's). However, the SME sector has to date shown a very lack-luster performance in general and a great initiative will be necessary if it has to act as catalyst to growing manufactured exports.

As well as being in a unique position to increase manufactured exports, SME's are also job creators, as evidenced from around the world. In its role of increasing exports of manufactured products, the additional production required should soak up a fair amount of South Africa's large pool of unemployed.

The aim of this research project is to identify reasons for the South African manufacturing SME sector's export performance. It will do so primarily by investigating the barriers to exports faced by manufacturing SME's. Understanding these issues will assist in tailoring existing and new public and private initiatives aimed at growing the SME sector. For the sake of growth and employment, it is crucial that these initiatives bear fruit sooner rather than later.

South Africa will be able to reach its stated goals of GDP growth and poverty alleviation through job-creation only if it is successful in increasing both its exports of manufactured goods as well as the contribution to these increased exports by the SME sector.

GDP growth through exports and the development of the SME sector number amongst targets identified in the South African government's Accelerated and Shared Growth Initiative for South Africa (ASGISA).

1.2 ASGISA

In his State of the Nation address for 2006, the President of South Africa, Thabo Mbeki, announced ASGISA as an initiative whose major objectives are to halve unemployment and poverty by 2014.

ASGISA aims to do this by targeting GDP growth of 4.5% *per annum* for 2006 to 2009, and 6% *per annum* from 2010 to 2014. Although the country has seen sustained growth over the last decade, it was arguably not wide-spread. ASGISA aims to reduce the inequity between rich and poor. In order to achieve these aims, ASGISA has an objective to improve the environment and opportunities for more labour-absorbing activities – thus the reference to *shared* growth.

ASGISA identifies the challenge faced by non-commodity exporters in South Africa. It also highlights the “mediocre” contribution thus far made by SME's towards employment and GDP. (ASGISA refers to “SMME's”, but this has the same meaning as the term “SME's” used in this paper).

In seeking to remedy these identified shortcomings, ASGISA acknowledges a set of challenges – called “binding constraints” - that will need to be overcome, namely the following:

- Volatility and level of the currency
- The cost, efficiency and capacity of the national logistics system
- Shortage of suitably skilled labour amplified by the impact of apartheid special patterns on the cost of labour
- Barriers to entry, limits to competition and limited new investment opportunities

- Regulatory environment and the burden on small and medium businesses
- Deficiency in state organization, capacity and leadership

As will be seen in Chapter 2, most of these constraints have been identified in the body of literature covering export barriers.

ASGISA also captures three main concepts of this paper, namely exports, SME's and the contribution of both to growth.

To appreciate the targets set in ASGISA, one needs to look at ASGISA against historical and current performance of the export sector and the SME sector in general.

1.3 Export Figures – South Africa

South Africa's economy in the years prior to the 1990's was marked by isolation due to sanctions. These sanctions were imposed in an effort to bring about the end of Apartheid, which excluded the Black majority of South Africans from the economy.

One of the first steps in the ending of Apartheid was the release from prison of Nelson Mandela in 1990. The demise of Apartheid culminated in the first all-inclusive elections during 1994. This was also the end of economic sanctions.

For obvious reasons, the export performance of South Africa under the period of economic sanctions is of little use for the purpose of this paper. This paper will therefore concern itself for the period starting from the early 1990's to date.

South Africa's total exports for 1994 were R 90.2 million. This figure has increased to R 396.5 million by 2006. This is more than a three-fold increase, or about 26.1% on average per year for the period.

Relative to GDP, exports increased from 18.7% of GDP in 1994 to 23% of GDP in 2006.

When exploring manufactured exports, trends are similar but the growth rates steeper. Manufactured exports in 1994 were R 39 million which increased to R 252.6 million in 2006, or 42% on average per year.

In 1994, manufactured exports were 8.1% of GDP, almost doubling to 14.6% of GDP by 2006.

Finally, one needs to investigate what portion of exports is made up of manufactured exports. Here too the trend is positive. Manufactured exports made

up 43.2% of total exports in 1994, but increased quite significantly to 63.7% in 2006.

When comparing South Africa's manufactured exports as a portion of total exports, one should bear in mind that South Africa is blessed with being resource-rich. It remains important, though, to become less reliant on resources by increasing manufactured exports, for fear of realising the so-called "resource curse"

Nonetheless, South Africa's rates of increase in total and manufactured exports are admittedly impressive, but when export figures are compared to those for the rest of the world, it becomes obvious that South Africa is lagging.

1.4 Export Figures – International

South Africa has seen significant increases in export figures, but when compared to international trends, the country is not growing exports fast enough.

To place South Africa's export figures into a growth context, it could be compared to some GDP growth successes around the world.

China has enjoyed successive years of strong growth. The WTO shows that China's GDP has grown on average 9% *per annum* between 1995 and 2005 compared to South Africa's 3% *per annum* over the same period. Merchandise exports to GDP for 2005 was 34% and manufactures made up 92% of total merchandise exports.

Malaysia, which grew at an average of 5% *per annum* between 1995 and 2005 had merchandise exports of 108% with manufactures contributing 74%.

It is clear that South Africa has much catching up to do with regards to increasing the growth rate of exports, but what role should the SME sector play in advancing exports?

1.5 The role of SME's

SME's are expected to play a dual role in the South African economy – contribute to growth and in the process create jobs. Gumede (2004) showed that SME's employed half of the working population and contributed 50% to GDP. These figures fall short of the potential contribution from SME's.

In India, SME's increased exports by 21% between 2001-02 and 2002-03 (Beer, 2005). The expectations from the South African manufacturing SME's will need to be in line or higher than the India Example.

Gumede also showed that at least 90% of the manufacturing sector was made up of SME's. Motor vehicles exports constituted around 10% of manufactured export during 2007 to July (DTI, 2007), indicating the contribution of vehicle manufacturing to total manufacturing in South Africa. SME's must then constitute much more than 90% of non-vehicle manufacturing in South Africa. This in itself is reason enough to focus attention on the SME sector if the growth rate in manufactured exports is to increase.

Apart from asking what the South African SME sector can do for increased exports, one need to ask what increased exports can do for the South African SME sector.

Studies have shown that exporting enterprises perform better than their non-exporting counterparties. This could partly be due to the larger market accessed when selling abroad, but studies have also shown that firms make efficiency gains when exporting.

Also, through market diversification, exporting provide an opportunity for firms to become less dependent on the domestic market, and to explore economies of scale and become more efficient, amongst other benefits (Lages and Montgomery, 2004).

Regarding efficiency gains, Rankin (2002) found that South African firms exporting to destinations outside the SADC gain efficiency advantages that firms exporting within the SADC do not.

1.6 Conclusion

From the discussion above it is clear that any country aiming for growth needs to be an active exporter and exports should consist to a large degree of manufactured goods.

Furthermore, SME's are a crucial part of any sustainably growing economy, providing jobs and growth. SME's in South Africa are also the most viable option for increasing exports of manufactured goods.

The figures on exports from South Africa, in general, are substantially below world standards.

The aim of this paper is to review the reasons for South African SME's export performance. It will investigate the existent literature on barriers to exports in general and for SME's specifically. These will be related to the South African environment where applicable. The literature review will include a brief discussion on export motivators.

A survey of South African manufacturing SME's will be conducted to investigate, among other factors, why non-exporters don't export, which barriers exporters find most significant, and what roles they require government and third party facilitators to play.

While the South African government has a number of initiatives targeted at the export sector as well as initiatives to grow the SME sector, the export figures quoted above do not indicate success.

It is hoped that the issues highlighted can contribute to meaningful enhancements to existing initiatives, and the establishment of new initiatives, to get SME's to increase growth rates of manufactured exports and, in doing so, increase growth rates of the economy as a whole and create jobs.

2 Literature Review

2.1 Introduction

In chapter 1 this paper made a convincing case that South Africa exports far less than the global standard. Furthermore, the percentage of exports made up of manufactured goods is similarly far short of the worldwide trend as well as falling short of the level required for sustainable growth.

Chapter 1 also showed beyond doubt that South Africa's manufacturing SME sector has much to contribute to exports.

During this literature review this paper will review why exports are important and why it should consist to a large degree of manufactured products.

The writer will then review current literature of barriers to exports, including specific mention of its effects on SME's. The influence of the development phase of the country will also be investigated.

In order to place this review of literature in context, it is necessary to start by defining some concepts.

2.2 Definitions

2.2.1 Small and Medium Enterprises (SME's)

None of the articles reviewed, bar one, included a definition of SME's. Furthermore, since the articles cover research done across the world, it is reasonable to assume that no one definition will fit the concept of SME in all countries.

The one article that did include a definition was by Gumede (2004) in a paper on South African SME's, who used the definition as contained in the National Small Business Act of 1996 for South Africa. The definition is as follows:

"small business" means a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and which can be classified as a micro-, a very small, a

small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule;'

The Schedule, as amended by the National Small Business Amendment Bill, 2003, classifies sectors and sub-sectors in accordance with the Standard Industrial Classification, and sets criteria for each. Since this paper concentrates only on manufacturing, only this sector is shown in Table 1 - Extract from the Schedule to the National Small Business Act, 1996, as amended.

Table 1 - Extract from the Schedule to the National Small Business Act, 1996, as amended

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees <i>Less than:</i>	Total annual turnover <i>Less than:</i>	Total gross asset value (fixed property excluded) <i>Less than:</i>
Manufacturing	Medium	200	R51.00 m	R19.00 m
	Small	50	R13.00 m	R 5.00 m
	Very small	20	R 5.00 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m

This definition places the concept of an SME in perspective when contrasted against large corporate entities in any economy. It will form the basis of the population targeted in the empirical research which forms part of this paper. It will not, however, serve as a general definition applicable to the body of existing literature, specifically due to size differences among economies.

2.2.2 Manufacturing

Similar to the case with defining SME's, none of the reviewed literature contained an explicit definition of "manufacturing".

However, as defined by the International Standard Classification of all Economic Activities, Revision 3:

"Manufacturing comprises units engaged in the physical or chemical transformation of materials, substances, or components into new products. The materials, substances, or components transformed are raw materials that are products of agriculture, forestry, fishing, mining or quarrying as well as products of other manufacturing activities".

Being an international classification published, amongst others, on the United Nations Statistic Division's Website, this would seem an appropriate definition.

2.2.3 Barriers to Export

Tesfom and Lutz (2006, p. 262) stated that the studies into barriers were done from a firm perspective, and refers to these barriers as “the forces inhibiting the firms to initiate, develop or sustain export operations”.

According to Leonidou (2006, p. 281), barriers to exporting “refer to all those constraints that hinder the firm’s ability to initiate, to develop, or to sustain business operations in overseas markets”.

Where Tesfom and Lutz referred specifically to exports, Leonidou referred to a broader concept of business operations. The latter could include, amongst others, setting up a factory in another country.

Since the aim of this paper is to investigate the barriers to exports faced by manufacturing SME’s, it implies that manufacturing takes place in the local market and produce from these activities are then sold in the overseas markets. For purposes of this paper, the definition of Tesfom and Lutz is preferable.

Having defined the basic concepts, the writer will explore the theoretical basis.

2.3 Theory of Exports

Before embarking on barriers to exports, one first needs to ascertain that increased exports have a positive impact on growth. Can theory support the assertion that exports causes growth?

A definition of theory is appropriate to start the discussion. “A theory is a set of general propositions, used as principles of explanation of the apparent relationships of certain observed phenomena” (Zikmund 2003, p. 41)

Theory development starts with the identification of concepts. Propositions are then constructed about the relationship between these concepts. The final network of propositions ultimately constitutes the theory (Zikmund).

In this paper, major concepts are “growth” and “exports”. Growth is linked to another concept – “income”. Income is related to “sales” in the sense that a producer sells product and generates income. Income is also related to “wages” in the sense that those involved in the production process earn wages in return for their contribution. As additional personnel are required for exports, these also earn wages. Finally, the state earns income by taxing the previous forms of income.

One basic proposition is that exports cause more sales, as the international market is logically bigger than the local market.

Another proposition is that more sales lead to higher income. Higher income should also be read as lower losses – the net effect is still positive. This proposition has three parts.

Firstly, the producer's income increases due to increased sales. Secondly, the increased sales require more people to be involved in the production process, and since these sales come from abroad, more people involved in the export process – all of whom earn wages. Finally, the income to the state increases in the form of taxes, among others those levied on the producer's income and on the wage-earner's income. Bar a number of caveats, higher income is tantamount to growth.

The theory, then, is that an increase in exports causes growth.

Some caveats for this theory to hold need to be highlighted. Increased exports may lead to increased income, but the growth may be lost due to erosion of purchasing power brought about by inflation.

To avoid inflation negating the effects of higher income, it is necessary for a country to also import. Being a net exporter results in more income being spent on a limited supply of locally produced goods, leading to rising prices when capacity reaches its limit before demand is satisfied.

Before one can accept the theory of exports leading to growth, one needs empirical verification.

Table 2 - Top 10 Export and GDP Growth Countries, shows two lists. First of countries with the ten highest total goods export growth rates, then with the ten highest average GDP growth rates, both over the years 2001 to 2006.

No less than six countries appear on both lists, giving credence to the theory that exports promote growth.

However, a number of the countries that have grown exports and GDP over the same time have benefited from the recent boom in commodity prices, but the figures cover only a five-year period from 2001 to 2006. A slightly different, though important, picture emerges from a paper by Lall (2003), presented at the Fourth Annual Conference of the Global Development Network.

Lall showed that world exports grew by 8.17% between 1985 and 2000. However, manufactured exports grew by 9.09% compared to the 3.75% growth experience in primary product exports.

Furthermore, manufactured products constituted 73.5% of total exports in 1985 compared to 83.5% in 2000.

Table 2 - Top 10 Export and GDP Growth Countries

<u>Top 10 Exports Growth Countries</u>		<u>Top 10 GDP Growth Countries</u>	
Country	Total Export Growth 2001-2005	Country	Average GDP Growth 2001-2005
Chad	1600%	Equatorial Guinea	26.38%
Equatorial Guinea	333%	Chad	15.02%
Dominican Republic	277%	Sierra Leone	13.94%
Angola	271%	Azerbaijan	13.24%
Azerbaijan	268%	Armenia	12.16%
Congo	247%	Kazakhstan	10.32%
Kazakhstan	243%	Tajikistan	9.60%
Paraguay	230%	China	9.48%
Armenia	197%	Angola	9.36%
China	186%	Myanmar	9.32%

Source: Common Database, UNSTATS

The figures from Lall cause an amendment to the original theory that exports results in growth, to now reading that manufactured exports result in stronger growth.

All indications are that we can accept this theory, and having accepted it, we can now investigate the obstacles in the way of exports.

2.4 Available Literature

Literature on the subject of barriers to exports faced by SME's abound. According to Leonidou (2004), dozens of studies had been conducted in recent decades. Leonidou's own 2004 paper was in fact a systematic review of 32 empirical studies on the subject of export barriers. Studies had to focus on SME's and had to be published based on primary research in order to have been included in Leonidou's review.

In a later paper, Tesfom and Lutz (2006) reviewed 40 articles published between 1980 and 2004. Inevitably this paper has an overlap in references with the

Leonidou (2004) paper – 12 in all – and also quotes Leonidou’s 2004 paper. Tesfom and Lutz focused specifically on export problems faced by SME’s in developing countries.

It is not within the ambit of this paper to redo the work already done by the above authors. The writer will review some literature already included in these papers, but this paper relies to a large extent on these two studies, being wide-ranging in their review of existing work and including a large part of the current body of literature.

A small number of papers not covered by the authors in the above papers were found and will be included.

Many shortcomings of current literature have been identified by Leonidou (2004) and Tesfom and Lutz (2006).

Leonidou listed three deficiencies: Firstly, research was too isolated, fragmented and scattered, leading to confusion of what the real barriers to export were. Secondly, only a partial examination of these barriers was provided, ignoring a large amount of other important barriers to export development. Finally it did not offer a detailed understanding of the specific nature and relevant impact of each barrier. Leonidou, in his review, aimed to rectify these deficiencies by classifying and describing each of the barriers he’d identified in detail – and succeeding to a large extent.

Though not listed as a deficiency, Leonidou noted that most research took place in North America and Europe, with research in developing countries almost non-existent.

Tesfom and Lutz found that most of the early research on export problems had focused on developed countries, with developing countries only reaching the research agenda in the 1980’s. There had been a decline in research focusing export problems for manufacturing firms from developing countries since 1985-1989. The authors could find no articles focusing on developed countries specific to these countries’ SME sector.

In the writer’s own experience, very little literature could be found on barriers to exports faced by South African SME’s.

Irrespective of the amount of literature on the subject of barriers to exports, the literature does contain some useful classification schemes of these barriers. The classification of barriers are important, as is the review of them, as it shows the nature, influence and origin of these barriers and therefore make it easier to design methods to overcome them.

This paper now turns its focus to the classification of barriers to exports.

2.5 Classification of Export Barriers

A number of attempts have been made to classify barriers to exports. The results were useful, but no classification proved definitive.

Leonidou (2004) has arguably managed the most comprehensive classification based on the nature of export barriers.

Leonidou firstly distinguished between internal and external barriers. The former were associated with organizational resources or capabilities and the company's approach to exporting. The latter stemmed from the home and host environments in which the firm operates.

Under the next level of distinction, internal barriers were further broken down into functional, informational and marketing barriers. Marketing barriers were further broken down between those related to product, price, distribution, logistics and promotion.

External barriers in turn were broken down into procedural, governmental, task and environmental barriers. Environmental barriers were then sub-classified between economic, political-legal and sociocultural.

Leonidou was able to group each of the 39 barriers he identified as relevant, meaningful and common under one of these granular classes.

The writer found Leonidou's classification to be very appropriate, though it would have been possible to classify some barriers under different classes, i.e. excessive cost of transport and insurance, classified under "Logistics", could also be classified under "Price".

Morgan (1997) used a four-cell matrix to classify barriers to exports along two dimensions. One dimension classified barriers by whether they were linked to the firm's internal or external environment. The second dimension classifies the same barriers by whether they originated from the domestic environment or from the foreign environment.

Apart from investigating barriers to export, Morgan also investigated export stimuli, which he defined as motivational factors that energise individual behaviour and direct and sustain that behaviour – the behaviour being the act of exporting in this context. He went on to classify export stimuli. Though the title and intention of this paper is to investigate barriers to exports, it cannot ignore the fact that there are factors that actually cause exports to happen.

Morgan classified export stimuli by combining two typologies. The first typified stimuli as either internal or external. Internal stimuli were associated with

influences in the corporate environment and external stimuli were associated with the firm's domestic or foreign external environment.

The second typology looked at the nature of the stimuli and distinguished between proactive and reactive stimuli. Proactive stimuli were pull-factors, exploiting the firm's unique internal competences. Reactive stimuli were push-factors, originating from environmental pressures.

The resulting classification was between the following four classes of stimuli: Internal-proactive, internal-reactive, external-proactive and external reactive.

Viviers and Calof (1999) isolated much fewer barriers than Leonidou (2004), but followed a useful classification method of barriers to exports. These authors followed the stages-theory of internationalisation.

Viviers and Calof attributed the initial development of the stages-theory to Johanson and Vahlne (1977). Viviers and Calof conducted a review of various stages models and extracted the basic theory under which all operated.

According to Viviers and Calof, each stage involved an increased commitment to international activities which increased as the owners or managers learned more and as a result became less uncertain about foreign markets. Commitment generally increased in response to experiential knowledge in a particular foreign market. The authors asserted that the experience changed the owners'/managers' perception of the costs and benefits of involvement in that market accordingly.

Viviers and Calof distinguished between three stages of exports. Firstly there was the initiation stage where firms started exporting. The second stage was development, where firms started actively looking for their own export opportunities. Finally there was the eliminator stage, where firms were committed or aggressive exporters.

Leonidou and Morgan acknowledged the fact that different obstacles affected SME's differently depending on the stage of export development these companies found themselves in. However, Viviers and Calof went into much more depth in distinguishing the different effects of barriers on companies in different stages of export development.

This paper does not have the scope to note all classification schemes contained in the existing literature, but mention should be made to the classification model proposed by Tesfom and Lutz (2006), as these authors' paper is quoted extensively in the remainder of this literature review. These authors looked at the origin of forces which determined a firm's marketing strategy.

Similar to Leonidou, Tesfom and Lutz proposed a differentiation between internal and external forces, though they based their model on that by Cavusgil and Zou (1994, quoted by Tesfom and Lutz), but made some adjustments.

The internal forces were subdivided into company barriers and product barriers.

Company barriers were further subdivided into market knowledge and information, financial resource and human resource. Product barriers were broken down into product quality and technical adaptability.

The external forces were subdivided between industry barriers, market barriers and macro environment barriers.

Industry barriers were in turn subdivided into industry structure and competition. Market barriers were broken down into customer barriers and procedural barriers. Finally, macro environment barriers were broken into direct export barriers and indirect export barriers.

Tesfom and Lutz listed 60 different barriers, but with some duplication, such as mentioning “foreign exchange rate policy”, “unrealistic exchange rates” and “exchange ... rate uncertainties” as three different barriers. Though the nuance is different in each case, a single overarching “exchange rates” may have proved more useful.

At the other extreme, they showed “exchange and interest rate uncertainties” as one barrier which should arguably have been divided into two separate barriers.

There is a large overlap between the classification models of Tesfom and Lutz and that of Leonidou, though the former’s model resulted in 11 end-classifications while the latter’s model resulted in 13. The writer found both comprehensive and useful, though neither could be called definitive.

However, the fact that the same barriers could have been classified differently with the results remaining mostly valid, useful and logical in each case shows the difficulty in finding a primary classification model.

These classification models are necessary in understanding barriers to exports, their origin, nature and impact. The next section will look at individual barriers and classify each with reference to these models.

2.6 General Export Barriers

This paper has already pointed out the difficulties in classifying different barriers, either by the nature of the barriers or by the export development stage it impacts.

The duplication of barriers because of slight differences in nuances has also been highlighted.

In light of these challenges, the writer admits to not aiming to create an exhaustive list of barriers. This section will attempt to highlight as many relevant barriers faced by exporters as is possible without becoming too granular.

Inevitably this section will relate to a very large extent those barriers identified by Leonidou and also those identified by Tesfom and Lutz. This is inevitable in light of the fact that both these referenced papers had the stated objective of reviewing previous literature, and both achieved their objective comprehensively.

Because these papers were literature reviews, it would be a cumbersome read if the reviewed literature is referenced here. Both papers contain reference lists which should be reviewed for primary literature.

Leonidou identified 49 different barriers, but found only 39 of these to be relevant, meaningful and common. As mentioned before, Tesfom and Lutz identified 60 different barriers.

Due to the large overlap within and between the two papers, and since they each used a different classification model, this section will not use any classification model. To avoid some of the pitfalls already discussed, the writer will simply group different barriers identified in the existing literature under main headings showing the core theme of each group.

Since the importance of classification models has already been highlighted in this paper, the classifications of each Leonidou as well as Tesfom and Lutz are added as appendices - Appendix 1 – Classification of Export Barriers from Leonidou (2004) and Appendix 2 – Classification of Export Barriers from Tesfom and Lutz (2006).

The following are the main barriers identified by the writer.

2.6.1 Information on Opportunities

Lack of information regarding foreign markets constitutes a significant barrier to exports and is highlighted in a large portion of the literature. Leonidou (2004) classifies this barrier as having a very high impact.

Leonidou (2004) referred to a broader category he called “Information Barriers” and included four barriers in this category: locating/analysing foreign markets, finding international market data, identifying foreign business opportunities and contacting overseas customers.

Since the writer uses a narrower category referring specifically to information on opportunities, it is necessary to exclude the last barrier as this seems to be more likely a communication barrier.

Tesfom and Lutz (2006) found that lack of knowledge to locate foreign market opportunities and promising markets was perceived to be a major barrier. Tesfom and Lutz also have a broader “Marketing knowledge and information” category under which the above is classified, but other barriers that they’ve placed under this category do not fit the narrower category used here.

In summary, a lack of knowledge to identify opportunities is an important barrier.

South Africa has suffered a long period of international isolation. It is not unreasonable to argue that this has caused many established international contacts to vanish due to disuse. The same may have happened to the ability to research international opportunities, if it ever existed, for the same reason.

The South African government is aware of this barrier, as shown in the Department of Trade and Industry’s (DTI) Annual Report for 2005/2006. Here the DTI acknowledged the problem and claims to have published 12 trade bulletins containing over 577 verified business opportunities.

2.6.2 Managerial Resources

The lack of management ability has also received a lot of coverage in the existing literature. This lack could be either due to time constraints (Leonidou, 2004) or qualification (Tesfom and Lutz, 2006).

Another manifestation of management as barrier was in the role of management as initiator of exports. The lack of management commitment to initiating export-marketing activities as well as a negative managerial attitude has been identified as barriers to exports (Tesfom and Lutz).

Time constraints could conceivably be negated as a constraint by employing a dedicated resource, but unless management has a vision of exporting and commits to this vision, management will remain a barrier.

As before, years of isolation could conceivably explain South Africa’s management’s negative attitude but other aspects of this barrier should be global.

2.6.3 Non-managerial Personnel Resources

Leonidou (2004) highlighted inadequate or untrained exporting personnel as a barrier to exports. Adequacy and training relates to the ability to perform tasks

required to do exports, that are not required when producing only for the local market: special document handling, more elaborate logistical arrangements, communication with foreign customers (often in different languages) etc.

Lack of training and experience has also been identified by Tesfom and Lutz (2006). They found this factor to blame for export marketing knowledge problems and for the quality of manufactured products remaining at low levels.

Lack of experience, adequacy (e.g. language ability) and training among export personnel is thus a barrier in the way of exports.

The shortage of skills is a global phenomenon, but developing countries seem to be net losers of skilled individuals. According to the South African Minister of Finance, developing countries – including South Africa – were unable to compete with the earnings benefits offered by developed countries.

The result was that developing countries funded education and training for its citizens only to lose these trained citizens to greener pastures. This in turn caused a vicious cycle, as skills were needed to grow the economies of developed countries and make them more attractive to other skilled persons (Manuel, 2007).

2.6.4 Financial Resources

Finance is a constraint in most, if not all, companies. However, the exporting activity brings a host of new costs. It is arguably more expensive to source information on foreign markets, distances and thus transport cost are increased, documentation is increased, bringing about new cost, promotion cost increases etc. It is therefore not surprising that the literature contains many references to lack of financial resources as a barrier to exports.

Leonidou (2004) identified the shortage of working capital as a constraint. Lack of financing also limited the ability to grant credit facilities (Leonidou).

Tesfom and Lutz (2006) identified a number of barriers related to financial resources. It inhibited the ability to conduct market research in overseas markets, it resulted in an inadequate export marketing budget and they echoed Leonidou's finding that lack of financial resources to finance exports was a barrier.

Lack of financial resources thus presents many barriers to exporting – more so than when producing only for the local market.

2.6.5 Product Related Barriers

Many barriers to exports revolve around attributes of the product itself.

Leonidou (2004) referred to different customer preferences across countries and the need to develop entirely new products for the different needs and wants. The inability to develop these new products acted as a barrier.

In line with this was the requirement to adjust the products design or style for different conditions of use, differences in purchasing power etc. Again, not being able to make these changes barred potential exporters from these markets (Leonidou).

Lack of product diversification was also identified as a barrier by Tesfom and Lutz.

Both the papers of Leonidou (2004) and Tesfom and Lutz (2006) raised a number of quality issues as barriers. The latter's paper identified quality as one of the most important conditions for entering and remaining in foreign markets.

It was possible that consumers in foreign markets wanted products of a higher quality than those offered by potential exporters in their local market. Some quality standards were legislated by foreign governments.

In line with quality standards were product design and specifications (Tefom and Lutz), which also differed across countries and may also have been legislated.

The lack of resources required to fulfill these standards, especially where exports make up only a small part of production, just not justifying the higher unit cost, also presented a barrier. So too did the lack of knowledge regarding what these standards required. Poor quality control techniques were also blamed for low quality products and acted as a barrier to exports.

Tesfom and Lutz also identified poor quality raw materials as a cause for sub-standard quality of the end product. If there is only the low quality materials available in the local market, the importing of higher quality materials will simply add cost and could make the final price uncompetitive.

Packaging and labeling requirements of products for foreign markets could be too time consuming and expensive (Leonidou). Apart from special packaging for safe transport, packaging requirements also included instructions being in the particular language, incorporating information required by the host country, and symbols, pictures etc. meeting foreign tastes and preferences.

The need for new or altered products of required quality and design standards and packed and labeled in accordance with foreign requirements, combine to present a formidable barrier to exports.

2.6.6 Technological Barriers

The use of technology can enhance a company's ability to adapt products to different tastes and can reduce unit costs of production. The lack of technology can therefore exclude a company from international markets.

Tesfom and Lutz (2006) identified the lack of technology, the lack of new technology and choosing the wrong technology as barriers to exports. The authors found that development of new technology as well as improvement of new technology was not given sufficient impetus.

The impact of technology was found to be more severe when exporting to developed countries, as other factors played a more significant role when exporting to developing countries.

The fact that other factors were more important should not detract from the importance of technology and the competitive advantage it can add, irrespective of export destination.

The lack of competitive advantage gained by technology, either because of efficiency gains or the ability to adapt products and increase quality, presents a most significant barrier to exports.

Tellingly, according to a report by the United Nations Conference on Trade and Development (2003), South Africa's R&D spend by productive enterprise as a percentage of GDP was less than 0.5%, compared with the highest spend of over 2.5% by Sweden.

2.6.7 Competition Barriers

Competition in foreign markets has kept many companies focused only on their internal markets. This may have been because they maintained a strong position in the local market, due to lack of local competition or because they enjoyed regulated protection.

Leonidou (2004) referred to keen competition in overseas markets, where companies encountered more complicated and intense competitive situations. Competition in overseas markets could originate from many sources. Competitors could operate on a different base (low cost, product differentiation, government protection).

Some firms were unable to compete on price, due to a variety of reasons, such as different cost structures, unfavourable exchange rates etc. (Leonidou). In line with this, Tesfom and Lutz (2006) identified the inability to meet foreign competitors' prices as a barrier to most exporters.

It should be noted that many of the barriers mentioned in this paper have an impact on price and therefore price competition.

Competition in foreign markets is fiercer than in domestic markets, and it may be impossible for companies to compete internationally on price alone. This constitutes a significant barrier.

2.6.8 Distribution Barriers

In this section, “distribution” refers to the means of getting the product from the manufacturer to the foreign customer. It includes transport, warehousing, and distribution channels (i.e. the use of agents).

The cost of transport and insurance has been identified by Leonidou (2004) and Tesfom and Lutz (2006) as a barrier to exports. Apart from the delay caused by the distance to overseas markets, the distance inevitably also increases cost of transportation.

Transport costs were increased where there were large inter-border distances, poor infrastructural facilities and limited transportation means (Leonidou). Infrastructure also played a role in delivering products safely, punctually and reliably (Tesfom and Lutz).

Leonidou identified the complexity of export distribution channels as a barrier to exports. Accompanying this was the difficulty of accessing these export channels, obtaining reliable representation and maintaining control over middlemen. Tesfom and Lutz added weight by highlighting inadequate representation in the foreign market and the inability to locate a reliable agent or distributor as an export barrier.

These barriers applied as much to supplying after-sales parts as it does to supplying the original product.

Milner, Oliver and Rudaheeranwa (2000) referred to cost associated with poor infrastructure, such as increased transport and storage cost, as an implicit tax on exporters.

In summary, the cost and reliability of transport and lack of access to a reliable distribution channel act as an export barrier.

South Africa faces many challenges with regards to poor infrastructure, notably poor rail transport and harbour backlogs. These challenges had been identified by government. In the Minister of Finance’s latest medium term budget policy statement, an additional R 65 billion has been allocated to government’s

infrastructural expansion programme, bringing the total spend to R 482 billion (\$ 73.6 billion) by 2011 (Bisseker, 2007).

2.6.9 Procedures and Paperwork

When exporting, a company faces a ream of documentation that needs to be complied with. Leonidou (2004) identified estimates that the average international transaction involved 40 documents and 27 parties, resulting in documentation making up 7 percent of export cost.

It is therefore no surprise to find both the complexity and the volume as posing a barrier to exports. In fact, Tesfom and Lutz (2006) contended that time and paperwork required to comply with foreign and domestic market regulations was one of the most cited obstacles with regard to exporting.

The complexity involved in administrative procedures required the acquisition of knowledge and skill, with the cost that accompanies such resources (Tesfom and Lutz). Incomplete documentation, on the other hand, caused delays in payment – including refunds of duty payments and sales taxes. This had a knock-on effect manifested in cash flow problems.

In essence, complying with paperwork and procedures that are complex and volumous is a staggering obstacle and a costly one to address.

2.6.10 Payment Barriers

Selling in the local market often entails “cash and carry”, where the purchase price is received as the goods are handed over. When credit is extended to a local buyer it is generally easy to access credit references or confirm the buyer’s address. This is not the case in international trade.

The distance and resulting shipping time mean that for extended periods neither the seller nor buyer is in possession of the product. This results in risk for either the buyer (if payment takes place with shipment) or the seller (should delivery be required before payment takes place).

From the exporter’s point of view the risk is that he does not receive payment, but has already shipped the product. Tesfom and Lutz (2006) and Leonidou (2004) identified the risk of bad debt as a barrier to exports. Both papers also identified a delay in receiving of sales proceeds as a barrier, though less severe than bad debt.

Tesfom and Lutz further identified methods of payment being a barrier to exports. International payment procedures, combined with required documentation to bring about payment, are certainly more complex than is the case in a local transaction.

Delays in payment or even non-payment together with complexity in payment procedures serve as a significant barrier to exports.

However, concerning the banking sector in South Africa and payments, a recent article on Forbes.com (Olsen, 2007) said: "Probably the best financial systems of any emerging market are in South Africa," ... "Their banks are as good as ours, and their capital markets are as developed as anywhere else in the West, or Japan."

2.6.11 Exchange Rate Barriers

When taking part in international trade where the market consists of many sellers, sellers are generally price takers. The exchange rates between currencies determine the equivalent local currency profit for a given sale. It follows that some issues around exchange rates serve as barriers to exports.

Leonidou (2004) found three areas where exchange rates cause problems for exporters. Firstly, unstable exchange rates lead to fluctuating export prices. Secondly, revaluation of the exporter's currency leads to less favourable prices to the end user. Finally, unconvertible foreign currencies make repatriation of sales from abroad difficult.

Tesfom and Lutz (2006) identified exchange rate uncertainties, exchange rate policies causing difficulties in financing exports, and unrealistic exchange rates to be the major barriers caused by exchange rates.

During a period of rapid currency appreciation in South Africa during 2003, a number of exporters raised concerns regarding their ability to continue exporting (Botha, 2003). Some of the reasons quoted were the lack of price competitiveness and the fact that long term contracts were concluded prior to the appreciation, whereby foreign currency prices to buyers were fixed.

Botha quoted one interviewee stating that the volatility of the currency made future planning impossible. In a recent article, volatility was raised again. Steyn (2007) stated, about the South African currency, : "Perhaps the most important point about the rand isn't whether it's strong or weak – it's whether it's stable."

Though it is not within the scope of this paper to discuss, there are many factors influencing the level of exchange rates. These include a country's real interest rate, its inflation rate, its balance of trade, its accumulation of foreign reserves, etc. Given these various influences, it is understandably not feasible to link one's decision to export to a fixed level of exchange rate.

The writer agrees with the literature regarding exchange rate volatility. If an exporter is unable to contractually fix future prices, such exporter may not find a

market for his product. Similarly, being unable to fix the cost of imported inputs make long term planning impossible.

A volatile currency has the ability to act as a barrier to exports.

2.6.12 Regulatory Barriers

Governments of both the host and the local countries could have regulations in place that act as barriers to exports. Apart from the complexity and volumes of paperwork involved, these include tariff and non-tariff barriers.

Leonidou (2004) identified examples of home government controls such as restricting exports to certain hostile countries and restrictions on products with national security or foreign policy significance. Depending on how this is implemented, it could hardly be seen as barriers, but more likely as good corporate governance.

One very important impact of local government regulations not mentioned in the referenced literature is an increase in the cost of inputs due to tariff and non-tariff barriers imposed on imports.

Leonidou also identified a number of host country regulations that can inhibit exports to that country. These include entry restrictions, price controls, special tax rates and exchange controls. High tariffs result in increased cost of the product. Non-tariff barriers include administrative subtleties (arbitrary tariff classification), quantitative restrictions and customs administration (uplifting invoice value).

Thanh (2005) wrote a whole paper on the effect of trade liberalisation on the Vietnamese economy. It included the beneficial effects both of the local government reduction in regulations as well as it's export incentive program. It also showed the benefits to Vietnamese exporters of trade agreements, which impacted foreign government regulations. Though not without it's problems, the process in Vietnam highlighted the significant effects of regulations on exports.

Regulations and their administration, including transparency, have the ability to act as a barrier to exports, though WTO negotiations are serving to lessen the effect.

2.6.13 Governmental Barriers

Closely connected to the regulatory barrier, are governmental barriers, which refer to lack of government export assistance and export incentive programs.

One could argue that the lack of incentives and assistance by government should not be classified as a barrier, but the presence of these programs should rather be

classified as a stimulus. This issue does, however, appear as a barrier in much of the existing literature on barriers to exports.

Leonidou (2004) identified a number of areas where government could become involved. These included guaranteeing loans, organising trade fairs, sponsoring trade missions, being a party to interstate trade agreements and publishing basic market data. When assistance was provided, companies often do not know how to avail of it.

Tesfom and Lutz (2006) identified the inadequate promotion by government of export sales as a serious bottleneck for firms, as many potential exporters did not have the necessary export market knowledge and marketing skills.

In their paper investigating how to create an export society in South Africa, Viviers and Calof (1999) identified a number of barriers to exporters. Having identified these barriers, they proceeded to find a government action to overcome each of these, such as providing motivational inducements to non-exporters.

The writer is of the view that this could be seen as a barrier where it places local exporters at a disadvantage when governments in competitors' countries do provide this service. On the whole, it would be better classified as an export stimulus. Export stimuli will be discussed in a later section.

It could be argued that government's role is not to get involved in business or, more specifically, exports. The role of government is arguably to create an environment that makes doing business easier. While this would include establishment of infrastructure, it does not include sourcing information on behalf of exporters.

However, as seen in chapter 1, the South African government does provide assistance, though the efficiency of its efforts may be lacking.

There are a host of institutions to which exporters could outsource activities for which they do not have the necessary skills or information, but these services are priced commodities.

2.6.14 Cultural Barriers

Trading across borders bring exporters into contact with diverse cultures. This causes difficulties not encountered in the local market.

Leonidou (2004) stated that these cultural differences lead, among others to different product preferences and usage, distribution systems and communication

methods. Changing the companies' strategies to overcome these problems lead to cost and delays in exporting.

Leonidou also identified the problems encountered due to unfamiliar business practices in other countries. These practices could differ from formal to informal business relationships being preferred as well as levels of risk aversion.

Religious differences could lead to different values, manners and customs. This has an impact on consumer behavior and requires an unfamiliar marketing approach.

Finally there were verbal and non-verbal language differences across different countries. These differences could hamper normal business communication and also affected various components of marketing, such as branding, packaging and advertising (Leonidou).

Cultural differences, including differences in language and religion, have the potential to present a serious barrier to exports.

To put cultural differences in perspective for manufactures export, Table 3 shows the cumulative export destinations for 84% of the manufactured products from South Africa.

South Africa is a country influenced by African culture, with business practices based on the Western business model. A fair amount of cultural clashes are to be expected given these export destinations, and with China showing 87% growth in volumes, the cultural differences will become amplified.

This paper has limited space to review the existing literature. The above barriers do not include all barriers found in the literature, but do include the writer's assessment of what is most significant.

Mention had been made to the role of export stimuli. Having reviewed the barriers to exports, the following section will briefly discuss export stimuli. It is not enough to determine why companies do not export – one needs to review the factors that pull or push them into the international arena. Export stimuli have been described as the most critical factor in determining export behavior (Ford and Leonidou, 1991, quoted by Morgan, 1997).

2.7 Export Stimuli

Export stimuli have already been defined above as those factors that motivate companies to initiate and sustain exports. It is not the absence of barriers to exports, but factors actually promoting exports as a course of action.



Table 3 - Export Destinations for 84% Cumulative Manufacturing Exports – 2006/7

MANUFACTURING						
COUNTRY NAME	EXPORT (R'000)			Proportion 2007		Annual Growth
	Jul-07	2007	2006	%Total	Cum.	2007-2006
UNITED STATES	3,407,003	21,172,975	31,917,628	11.80%	11.80%	22.30%
JAPAN	2,761,528	18,866,377	24,567,561	10.50%	22.30%	42.10%
GERMANY	2,195,250	14,388,366	18,574,235	8.00%	30.30%	53.10%
UNITED KINGDOM	1,319,149	10,325,615	15,728,353	5.70%	36.00%	27.50%
NETHERLANDS	872,300	6,642,926	8,590,083	3.70%	39.70%	31.00%
CHINA	816,070	6,262,816	6,365,727	3.50%	43.20%	87.40%
AUSTRALIA	1,233,602	5,431,262	8,842,407	3.00%	46.20%	8.70%
SPAIN	619,262	5,132,598	6,353,670	2.90%	49.10%	63.10%
BELGIUM	667,764	4,756,649	6,532,180	2.70%	51.70%	47.70%
ZAMBIA	884,867	4,683,716	7,646,273	2.60%	54.30%	11.60%
ZIMBABWE	742,201	4,549,647	6,780,781	2.50%	56.80%	31.30%
FRANCE	607,656	4,390,062	6,415,976	2.40%	59.30%	42.70%
ITALY	613,713	4,372,303	6,554,140	2.40%	61.70%	36.00%
MOZAMBIQUE	744,542	3,892,402	5,573,533	2.20%	63.90%	29.90%
KOREA REP SOUTH	423,990	3,533,865	5,100,793	2.00%	65.80%	52.30%
SWITZERLAND	193,106	3,250,895	3,498,288	1.80%	67.70%	85.70%
TAIWAN	355,470	3,108,136	6,286,401	1.70%	69.40%	15.80%
INDIA	518,382	2,851,030	4,471,679	1.60%	71.00%	27.30%
ANGOLA	398,189	2,735,129	4,548,512	1.50%	72.50%	33.10%
UNITED ARAB EMIRATES	367,600	2,637,663	3,240,962	1.50%	74.00%	79.50%
NIGERIA	278,071	2,600,555	3,975,025	1.50%	75.40%	27.20%
KENYA	476,029	2,346,406	3,107,529	1.30%	76.70%	30.60%
DEM REP of CONGO	449,608	2,286,414	2,472,073	1.30%	78.00%	82.60%
CANADA	386,775	1,908,645	1,865,912	1.10%	79.10%	103.70%
THAILAND	124,493	1,761,228	1,737,157	1.00%	80.00%	108.20%
HONG KONG, China	405,604	1,753,245	2,069,078	1.00%	81.00%	52.80%
BRAZIL	280,977	1,644,623	2,224,742	0.90%	81.90%	37.40%
TANZANIA	281,096	1,559,094	2,687,000	0.90%	82.80%	-0.20%
SWEDEN	230,480	1,532,538	2,858,615	0.90%	83.60%	36.10%
ISRAEL	163,521	1,447,031	1,843,874	0.80%	84.40%	41.90%

Source: DTI

Viviers and Calof (1999) identified three primary reasons why firms export. The first was due to industry size, where exports bring about economies of scale when the local market is too small for even one firm. Secondly, management's personal preference could be motivation enough. Finally, unsolicited export orders could serve to initiate international trade.

A more detailed discussion of export stimuli was provided by Morgan (1997). Though Morgan distinguished between factors initiating exports – stimuli – and factors sustaining ongoing exports – motivators – he limited his discussion to the former. Given the need to get more South African SME's to enter the export market, this is very appropriate for this paper.

Among the factors identified by Morgan was management's attitude. A desire to export could motivate managers to undertake international trade in the face of the barriers already mentioned. This attitude would necessarily include less of a risk aversion, but would provide the drive to overcome obstacles.

In line with Viviers and Calof, Morgan also identified economies of scale as necessitating exports. The decrease in unit cost that results from such economies could force a firm to place less significance on possible barriers.

If a firm produced products that are seasonal, such as jerseys, it could enter international markets to allow it to produce all year round. The obstacles posed by international sales should become much less significant when compared to possible gains.

When a firm was faced with unused production capacity or accumulation of inventory, exporting could be the only economically viable option to expand sales (Morgan).

There were instances where outside parties could motivate firms to start exporting. These parties included banks, industry associations, chambers of commerce and government agencies (Morgan).

Unsolicited export orders had been mentioned before, and Morgan also identified this as a common cause for initiating exports. When more and more unsolicited orders were received, firms could take a strategic decision to establish an exporting department.

When domestic competitors initiated exports, a firm may have no choice but to follow suit (Morgan), as the competitor may gain scale and efficiency advantages.

A beneficial change in the level of exchange rates could make exporting financially more rewarding (Morgan). The sustainability of this motivational factor is debatable, as various forces contribute to force parity in exchange rates –

mentioned earlier. However, once exports have been initiated, the firm may continue even when exchange rates become less favourable, since many other barriers would have been overcome in this first export experience.

When discussing barriers to exports, the role of the regulatory environment, both at home and abroad, was highlighted as an obstacle to exporting. Morgan identified the reduction of regulations as an export stimulus. This reduction could in essence be seen as a removal of a barrier and not as a stimulus, but the resultant financial benefits of, say, lower import taxes in the foreign market, could act as a motivator.

The role played by government in exports decisions has again come to the fore and the writer holds the same position as in the previous section – that government's role is solely to create an enabling business environment. However, it cannot be ignored that government's goals include growth, that exports create growth, and that government can fast-track export development, and therefore growth, by its actions.

As with the discussion on barriers, this discussion on stimuli does not propose to be exhaustive. It is hoped that it will serve to contrast those factors acting against exports with those acting to promote exports.

Not all barriers or all stimuli have the same impact in all markets. Certain factors are bound to be more relevant in developing countries than in developed countries, and *vice versa*. The next section will review these differences.

2.8 Export Barriers in Developing Countries

Developing countries are, by definition (see below) countries with relatively little income. This income disparity between it and developed countries has knock-on effects in other areas of the economy. For example, funds are needed to finance infrastructure.

Developing countries also face priorities in terms of social spending. Since a large proportion of the populations in developing countries live in poverty, governments need to develop policies to uplift this section and export development may not top the agenda. Conversely, export development should arguably be prioritized as exports have been shown to lead to growth, enabling governments to attain social goals.

According to the United Nations Statistics Division, there is no established convention for the designation of “developed” and “developing” countries or areas in the United Nations system. However, in a news release on the World Bank's website (1998), developing countries were defined as countries having 1996 per capita incomes of less than \$9, 636. South Africa's GNP per capita in 1996 was \$

3520 (International Institute for Sustainable Development), thus the country can be classified as developing.

As mentioned earlier, previous research on barriers to exports overwhelmingly focused on developed countries.

When comparing the research of Leonidou (2004), which focused on export barriers irrespective of the development stage of the exporting country, with that of Tesfom and Lutz (2006), which specifically focused on barriers in developing countries, it is easy to conclude that there was no difference in barriers due to economic development stage. Such a conclusion results from the extremely large overlap in the barriers identified by both papers.

This result was strengthened when Tesfom and Lutz also confirmed the high similarity. It was only the degree of difficulty and the importance of export problems that the authors found to vary.

In line with the findings above that the importance of barriers were the distinguishing factor between developed and developing countries, was the implied conclusion by Neupert *et al.* (2006). These authors did not try to identify all barriers facing exporters, but only those seen as most important by exporters from the USA (developed) and Vietnam (developing).

Neupert *et al.* identified product quality to be the biggest barrier to Vietnamese exporters, followed by logistics and shipping, with no other barrier rated most important by any respondent. Conversely product quality hardly featured in the US, with the largest barrier identified being country differences.

It can thus be concluded that the developing stage of a country does not determine the barriers faced by its exporters, though it does determine the severity of the impact of various barriers. This fact should be considered when prioritizing strategies to promote export development.

Having reviewed the differences in barriers between developed and developing countries, the next section will review the differences in barriers between SME's and larger enterprises.

2.9 Export Barriers for SME's

In identifying the barriers to exports contained in the existing literature, this paper relies almost exclusively on the works of Leonidou (2004) and Tesfom and Lutz (2006). Both these papers concentrated their research on barriers faced by SME's.

By definition the only difference between large corporations and SME's is size. However, this distinguishing factor influences the whole dynamic around barriers to exports.

Large corporations and SME's face many of the same barriers, such as regulations, country differences etc. The difference is in the resources available to overcome these barriers.

A stronger financial position allows large corporations to spend money on market research, marketing abroad, acquiring the latest technology, acquiring export skills etc. – i.e. the ability to spend its way through barriers to exports.

According to this argument, the size of SME's places them at a disadvantage to larger competitors when considering exporting. However, there are many references in the literature to SME's having advantage due to lack of bulk.

Viviers and Calof (1999) identified adaptability, flexibility, low cost structures, the ability to use diseconomies of scale and the ability to use niche strategies successfully as size based advantages. Other advantages enjoyed by small enterprises over larger ones included better labour relations and being able to add a personal touch (Islam 1998).

Though there are certain strengths to being small, one cannot discount the resource constraints specific to SME's. This constraint is especially relevant in light of the barriers to exports identified – most of which require financial and knowledge based resources if they are to be surmounted.

2.10 Conclusion

This section has aimed to identify barriers to exports faced by manufacturing SME's that is contained within existing literature and to relate this to a developing economy. It has also identified certain export stimuli to contrast with these barriers.

What has become clear is the sheer number of obstacles that need to be negotiated when a firm considers entering the international market. For a small enterprise with limited knowledge and experience, these obstacles can seem insurmountable, blocking any attempt to sell products abroad.

Common to most of the barriers to export are the financial resources required to negate them. Financial resources are also in short supply when it comes to SME's.

The presence of motivational factors – export stimuli – can serve to diminish the importance of barriers, as it provides benefits that can be set-off against the cost and effort of negotiating constraints.

Whether one agrees or not that government has a role to play over and above creating an enabling environment, the fact remains that government is in a unique position to remove a large number of barriers, as well as to put in place a large number of stimuli.

SME's are stronger at creating jobs than are large corporations. Exports cater to a larger market than only domestic sales and therefore have the ability to generate faster growth than an internally focused (local consumer driven) economy.

If SME's are able to enter the export market and sustain an export strategy, growth together with job-creation would seem to be a real possibility.

The aim of the empirical research, which constitutes the remainder of this paper, is to identify barriers to exports faced, and facilitating factors enjoyed, by manufacturing SME's in South Africa, as well as determining the role government is expected to fulfill according to these SME's.

3 Research Questions

South Africa needs to increase its exports in general, but even more so its exports of manufactured goods. The manufacturing sector in South Africa consists around 90% of SME's. The factors preventing the manufacturing SME's from exporting need to be determined if a solution is to be found for increasing manufactured exports.

In the previous section this paper identified a large number of barriers to export faced by SME's, as well as certain export stimuli contained in existing literature. There was also a role identified for government, though it remains debatable where this role starts and ends.

In light of the literature review and the aims of this paper, the following research questions need to be answered to add to the understanding of South African manufacturing SME's in the context of exports:

3.1 What percentage of South African manufacturing SME's export

The information on the proportion of South African SME's exporting is dated. It is not envisaged that the research being undertaken here will give a definitive answer on what the latest proportion is. However, some idea could be formed from the sample.

3.2 What are the demographic differences between the South African manufacturing SME's that export and those that do not

The answer to this question could shed some light on whether demographic variables influence why some South African SME's export and why others do not. It could also highlight results from exporting – i.e. demographic differences might be the result of exporting as well as the cause.

3.3 What percentage of non-exporting South African manufacturing SME's wish to export

It has already been highlighted that not enough of South African SME's currently export. This question aims to identify the percentage of SME's with the desire to export.

The answer to this question should provide information on whether the barriers identified play a significant role in the lack of exporting SME's. If the percentage is high, one could argue the significance of barriers to export. If the percentage is low, it could indicate the problem relates to attitudes of decision makers (in itself a barrier, though de-prioritising other barriers).

A low percentage of non-exporters interested in exporting would require a change-strategy to shift attitudes and create a predisposition to exporting. If the percentage of interested non-exporters is high, then the strategy should focus more on facilitating their efforts to export.

3.4 What are the reasons for non-exporting South African manufacturing SME's who do not wish to export

If more manufacturers are expected to enter the export markets, it is important that those who do not currently wish to do so, are brought into the fold. This can only be achieved if their reasons for not wanting to export are understood.

3.5 What are the demographic differences between non-exporting South African manufacturing SME's who wish to export and non-exporting South African manufacturing SME's with no wish to export

The answer to this question could shed some light on whether demographic variables influence the wish to export.

3.6 How long have exporting South African manufacturing SME's been exporting

The answer to this question will indicate the experience of the respondent companies. It will also highlight the rate at which SME's enter the export market.

3.7 What are the most important facilitating factors enjoyed by South African manufacturing SME's that do export

Some export stimuli have been identified in existing literature. Export stimuli refer to factors which motivates a firm to start exporting. The list of stimuli is limited, and many of the stimuli take the form of government assistance.

Government assistance is covered by a later research question, and therefore this research question is concerned not with initiating exports, but with maintaining an export strategy. The answer to this question would indicate the strengths needed to do this.

3.8 Which actions do exporting South African manufacturing SME's expect from government in order to facilitate the export process

Though the role of government is debatable, government is in a unique position to significantly ease the way for exports. Government also has a vested interest in export growth.

The answer to this question will indicate what SME's perceive government can do to promote exports.

3.9 Which actions do exporting South African manufacturing SME's expect of third party facilitators in order to facilitate the export process

This question is related to the previous question regarding government actions. The emphasis now shifts away from government and to the private sector.

3.10 What are the biggest barriers preventing non-exporting South African manufacturing SME's from exporting

The answer to this question connects more closely with the literature review and the barriers already identified.

It is suggested that the answers to this question will be found among the barriers identified in the existing literature. The significance of the answers will, however, show the experienced severity of the various barriers.

These questions informed the research methodology. The research methodology is discussed next.

4 Research Methodology

The research methodology was devised in light of the research questions identified in the previous section. The remainder of this section describes the research methodology used.

It should be noted that this research has been sponsored. Though this had little influence on the methodology used, the research instrument includes questions solely for the benefit of the sponsor and these questions will be omitted for purposes of this study.

The research aimed to target a relatively large sample (see below), and irrespective of the sponsorship, the cost involved limited the number of questions that could be asked.

4.1 Qualitative vs. Quantitative

According to Perl and Noldon (2002) there are distinct differences in the applicability of qualitative and quantitative research, although it is accepted that both methods are compatible.

Quantitative studies look at aggregate data and eliminate outliers. Qualitative research “values individual voices and is often used to illuminate voices that have previously been marginalized” (Perl and Noldon, 2002, p. 38).

The main aim of the research undertaken for this paper is to identify those issues that are the most frequently cited by SME’s responding to the research instrument. Another aim is to get the most frequently perceived action that government and others can take to enable manufacturing SME’s to enter the export market.

It therefore follows that the research needs to be quantitative in nature, since a large number of responses will need to be aggregated to find a small number of barriers, government actions, etc. that pose the biggest obstacles or will contribute most to SME’s ability to export.

Much of the existing literature on export barriers used quantitative research to highlight those factors that most impede exports.

Neupert *et al.* (2006) claimed to have used a qualitative methodology by interviewing 29 export managers. Though interviews ranged from 45 to 90 minutes, which is akin to in-depth case studies one would classify as qualitative, they proceed to aggregate responses into major categories of barriers.

Leonidou (2004) reviewed existing literature on barriers to exports and used aggregation to decide amongst others, the most common barriers. Leonidou also uses a quantitative method to find the aggregate rank of each barrier.

A quantitative research methodology seems most appropriate in light of the aforementioned and this study will follow the same method.

4.2 Population

The population should include all manufacturing SME's in South Africa.

However, there is a bias towards more formal companies with higher turnover that tend to make greater use of information technology than the average. This is because information technology is often used to collate the database from which the sample is drawn.

The sample participants were randomly selected from a SME database of more than 60,000 companies. This limits the extent of the population.

"SME's" include small, medium and micro enterprises consisting of 1 to 200 staff members.

The definition of SME's used is based on the National Small Business Act of 1996, as amended in 2004. The definition varies according to industry. The definition for the manufacturing industry can be found in Chapter 2 of this paper.

4.3 Unit of Analysis

The unit of analysis is the decision-maker in the firm, since that is the individual responsible also for the decision on whether or not to take part in international trade.

A selected company is contacted by telephone to determine who the appropriate decision maker is.

4.4 Sample Size and Sampling Method

The sample size consists of 500 participants. This number includes only those SME's who have agreed to take part in the survey.

The sample participants were randomly selected from a SME database of more than 60,000 companies. The sampling method was devised to ensure full geographic representation based on the contribution of geographic areas to Gross Domestic Product.

Intuitively, a sample size of 500 should enable one to make some valid conclusions based on the findings of the research.

Though a much larger sample would have increased reliability, the cost involved prohibited a larger sample being used, and is arguably not justified for a research paper at this academic level.

4.5 Research Instrument

The research instrument used was a questionnaire conducted by telephone. The questionnaire was drawn up by the writer and piloted by the survey company to test responses and decide on whether refinements were necessary.

The questionnaire was drawn up following the determination of the research questions, and most questions contained in the questionnaire in fact come directly from research questions.

The questionnaire consisted of two sections. The first section determined the demographics of the respondent as to number of employees, average annual turnover, age of the firm and whether it exported at the time or not.

The second section contained the research questions. This section questioned whether the firm would have liked to export at the time of the survey and if not, why not. If the firm would have like to export, but did not do so, it was also questioned as to the reason it didn't.

Some questions have only a limited number of possible answers, such as "yes" or "no". Open ended questions were mostly avoided, though for a thorough understanding of answers, some open-ended questions needed to be included – such as "why" or "why not".

The research instrument contained guidelines for the interviewers' benefit. It guided the interviewer on the flow of questions, when to end the survey given a certain answer and when to proceed to another question. The guidelines also contained possible answers to some questions without limiting the possible answers.

A copy of the research instrument can be viewed in Appendix 3 – Research Instrument. It omits the questions that were asked for the sponsor's benefit.

4.6 Data Collection

The data was collected by telephone. Interviews were conducted by trained call centre staff.

Before an interview was conducted, an SME selected for the sample was contacted to determine who the decision-maker was. The willingness of the decision-maker to participate in the survey was established and those SME's that did not match the research definition was filtered out.

Only SME's that were willing to participate and that matched the definition were then interviewed.

4.7 Data Analysis

Data was analysed by constructing relative frequency distributions – also called percentage distributions – on the sample and sub-samples. The frequencies of demographic variables as well as responses to other question were calculated on these samples and sub-samples.

Frequency tables and graphs were constructed of these frequency distributions.

No tests for significance were performed on the differences between samples. Any reference to relative size differences is based on observation.

4.8 Limitations of the Research

The research suffers from a number of limitations.

The sample size was not large enough to enable definitive generalizations, especially in terms of sub-groups.

There was some bias in the sample towards formal companies, with higher turnover, that tend to use information technology more than average.

The subject field is extremely broad and deep, but due to the limit on the number of questions the research instrument could contain, not all information one would wish for were obtainable. One example of information not obtainable is the awareness regarding government programmes promoting exports.



Since the questionnaire did not allow the interviewee to respond with lists of possibilities, only the most important factor for each SME will be captured. If one factor dominates all SME's, the opportunity to find other important barriers, etc. will have been missed.

5 Results

5.1 Introduction

The objective of this chapter is to present the relevant findings from the empirical research. Interpretation of the results will form the subject of the following chapter.

A total of 499 responses were received, as were expected due to the method of research used – each firm randomly selected was asked if it would be willing to participate in the survey and only these formed part of the sample.

Of the total responses received, 34 had to be discarded due to errors such as being miss-classified in the manufacturing sector, neither selecting the option of exporter nor non-exporter, selecting a period of exports longer than it has existed, etc. This resulted in 465 usable responses.

The size of the sample had been reduced for certain questions as answers to these questions were omitted or respondents did not know or refused to answer. The sample size will be stated for each parameter presented.

Information is presented in both tabular and graphic formats for ease of reading.

5.2 Exporters vs. Non-Exporters

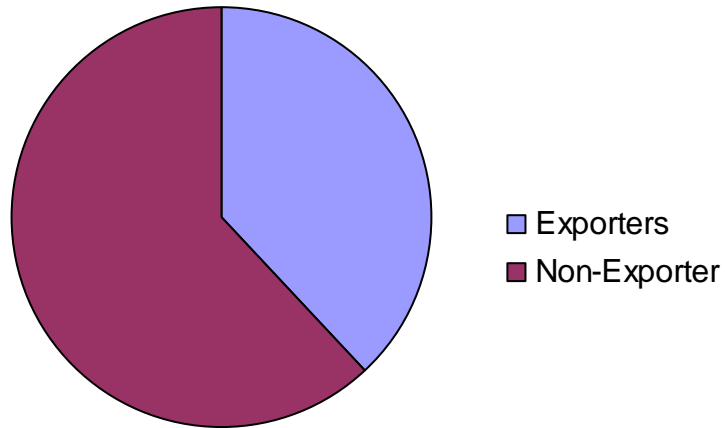
The first parameter presented is the breakdown between exporters and non exporters.

The results show that significantly less SME's are exporters than are non-exporters, as shown in Table 4 - Proportion of Exporters vs. Non-Exporters, and Figure 1 - Proportion of Exporters vs. Non-Exporters.

Table 4 - Proportion of Exporters vs. Non-Exporters

	Number	Percent
Exporters	177	38.06%
Non-Exporter	288	61.94%
Total	465	100.00%

Figure 1 - Proportion of Exporters vs. Non-Exporters



Just over 38% of respondents classified themselves as exporters.

In order to understand the differences, if any, between exporters and non-exporters, the relevant demographic information between the two groups are shown and compared. To place the information in context, each demographic parameter is presented for the full sample first, followed by the breakdown between exporters and non-exporters.

The first demographic parameter is the age of the companies. Figure 2 - Business Stages of Total Sample, shows the distribution of the companies' age for the total sample of 465 respondents.

Figure 2 - Business Stages of Total Sample

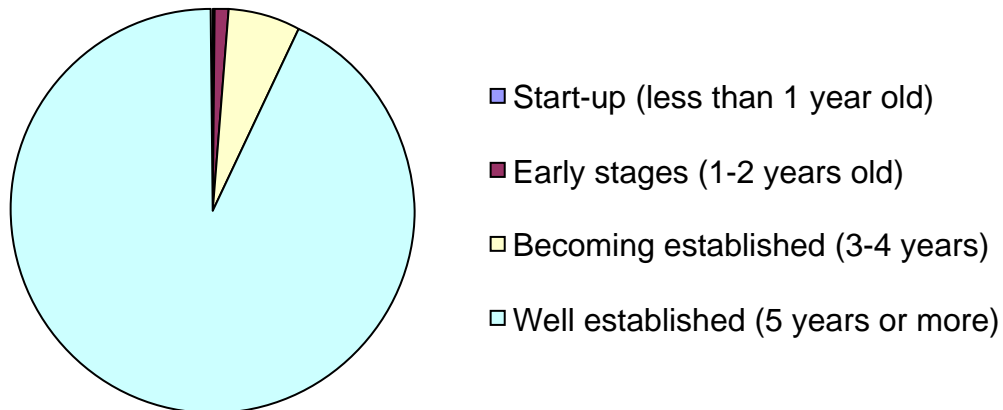
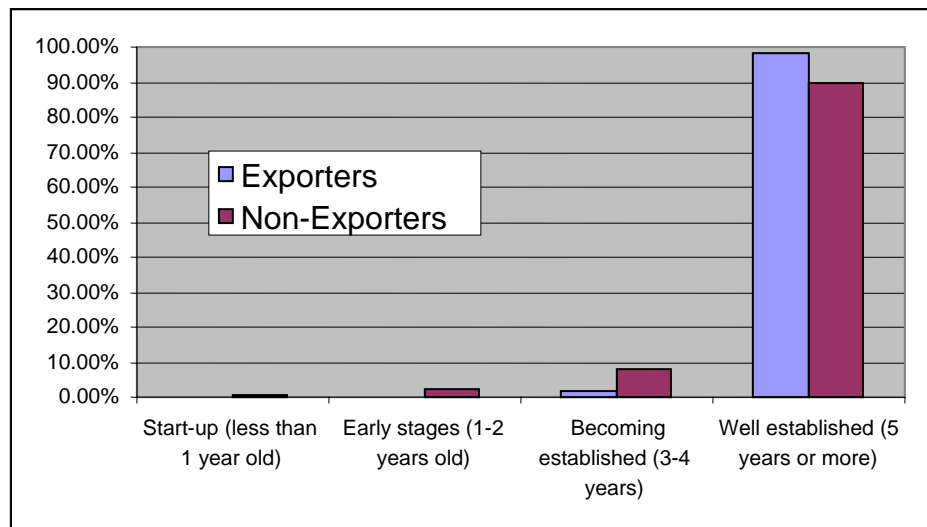


Table 5 - Business Stage of Exporters vs. Non-Exporters, and Figure 3 - Business Stage of Exporters vs. Non-Exporters, shows the differences in the age distribution between exporters and non-exporters.

Table 5 - Business Stage of Exporters vs. Non-Exporters

Business Stage	Exporter		Non-Exporter	
	Number	Percent	Number	Percent
Start-up (less than 1 year old)	0	0.00%	1	0.35%
Early stages (1-2 years old)	0	0.00%	6	2.08%
Becoming established (3-4 years)	3	1.69%	23	7.99%
Well established (5 years or more)	174	98.31%	258	89.58%
	177	100.00%	288	100.00%

Figure 3 - Business Stage of Exporters vs. Non-Exporters



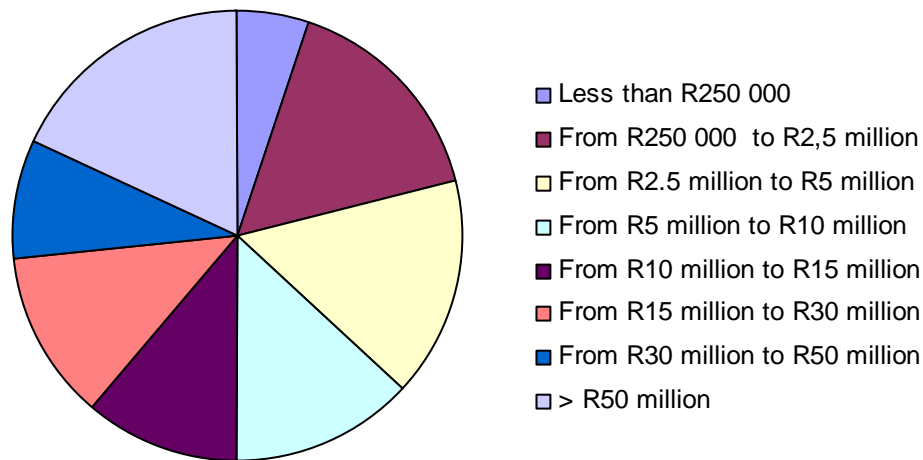
Comparing the age distribution of exporters to non-exporters, some slight differences are discernable. The vast majority of exporters are already well established. No start-up or early stage companies are exporting, and very few exporting companies are still becoming established.

Although the majority of non-exporters are also well established, more than ten percent are not.

The next demographic variable is the average annual turnover for the companies surveyed. Here the total sample size decreases to 391, with a large number of respondents not willing to divulge the information, and a few stating they did not know their average annual turnover.

Figure 4 - Average Annual Turnover for Total Sample, shows the distribution of average annual turnover for the full sample of 391.

Figure 4 - Average Annual Turnover for Total Sample



Except the lowest interval, all intervals are well, though not equally, represented in the total sample.

The comparison in average annual turnover between exporters and non-exporters is presented in Table 6 - Average Annual Turnover of Exporters vs. Non-Exporters, and Figure 5 - Average Annual Turnover of Exporters vs. Non-Exporters.

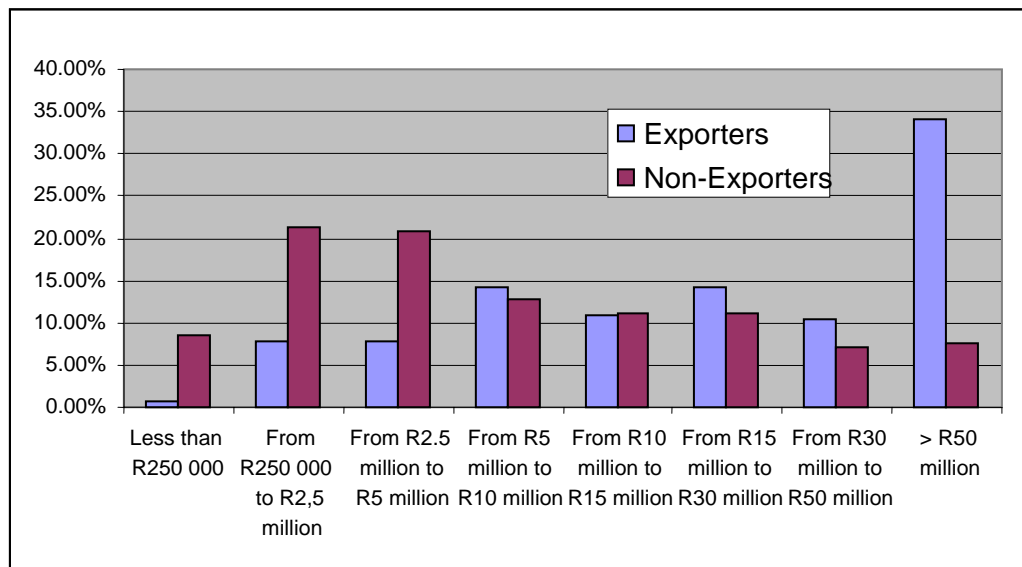
The comparison clearly shows that much higher turnover is associated with exporters than with non-exporters.

More than half of non-exporters have annual average turnover below R 5 million, where less than twenty percent of exporters fall in these categories. While just fewer than eight percent of non-exporters have turnover exceeding R 50 million, the figure for exporters is well over thirty percent.

Table 6 - Average Annual Turnover of Exporters vs. Non-Exporters

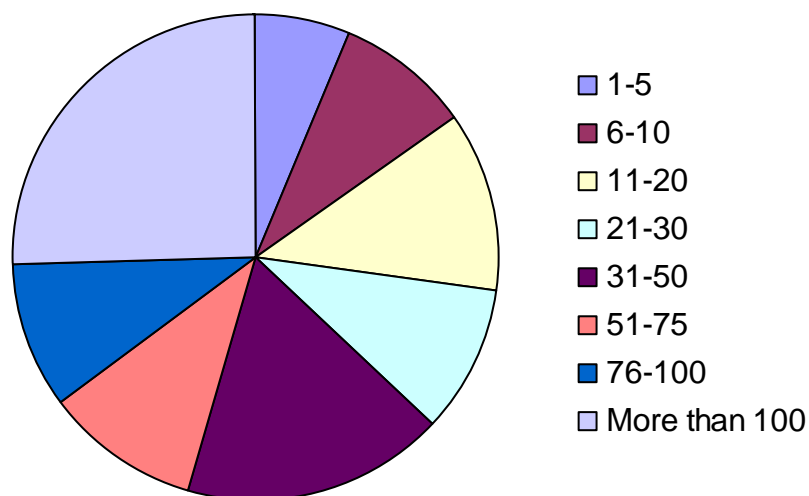
Average Annual Turnover	Exporter		Non-Exporter	
	Number	Percent	Number	Percent
Less than R250 000	1	0.65%	20	8.47%
From R250 000 to R2,5 million	12	7.74%	50	21.19%
From R2.5 million to R5 million	12	7.74%	49	20.76%
From R5 million to R10 million	22	14.19%	30	12.71%
From R10 million to R15 million	17	10.97%	26	11.02%
From R15 million to R30 million	22	14.19%	26	11.02%
From R30 million to R50 million	16	10.32%	17	7.20%
> R50 million	53	34.19%	18	7.63%
Total	155	100%	236	100%

Figure 5 - Average Annual Turnover of Exporters vs. Non-Exporters



The final demographic parameter is the number of employees employed. Figure 6 - Number of Employees - Total Sample, show the distribution of employee numbers for the full sample. Here the total sample size is 464 respondents.

Figure 6 - Number of Employees - Total Sample



As is the case with average annual turnover, most intervals are well represented in the total sample. When looking at the number of employees, there is a discernable mode, with more SME's employing more than 100 employees than any other category.

The comparative figures for exporters and non-exporters are shown in Table 7 - Number of Employees for Exporters vs. Non-Exporters, and Figure 7 - Number of Employees for Exporters vs. Non-Exporters.

Table 7 - Number of Employees for Exporters vs. Non-Exporters

Number of Employees	Exporter		Non-Exporter	
	Number	Percent	Number	Percent
1-5	4	2.27%	26	9.03%
6-10	6	3.41%	35	12.15%
11-20	16	9.09%	39	13.54%
21-30	16	9.09%	30	10.42%
31-50	33	18.75%	47	16.32%
51-75	21	11.93%	27	9.38%
76-100	18	10.23%	28	9.72%
More than 100	62	35.23%	56	19.44%
	176	100%	288	100%

Figure 7 - Number of Employees for Exporters vs. Non-Exporters

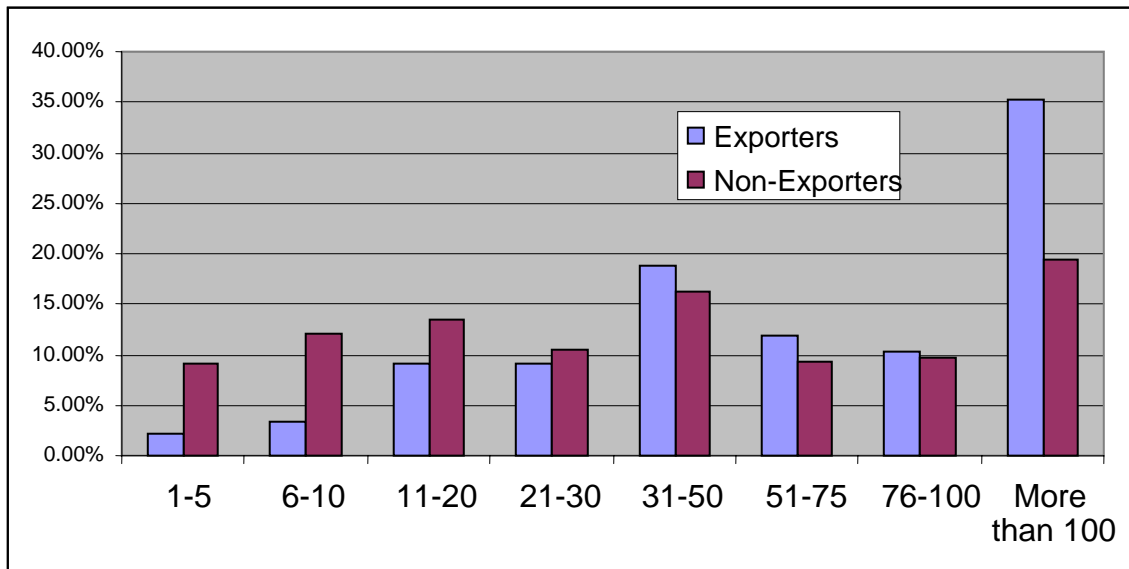


Table 7 and Figure 7 show that the mode remains for both sub-samples, but is far more pronounced in the case of exporters. More than thirty-five percent of exporters employ more than 100 employees, with less than twenty percent of non-exporters in this category.

Almost half of non-exporters employ 30 or less employees, where the proportion for exporters is less than a quarter. Non-exporters clearly tend to have lower numbers of employees than do exporters.

This concludes the comparison between exporters and non-exporters. The following data only has bearing on exporters.

5.3 Exporters

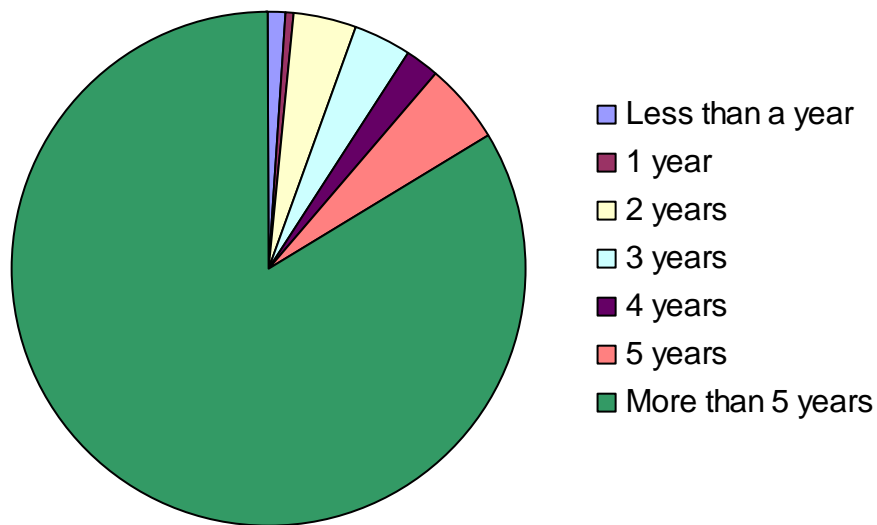
Two issues regarding exporters are presented here. The first is experience in exporting and the second is destination for exports.

Table 8 - Exporters: History of Exports, and Figure 8 - Exporters: History of Exports, show the number of years the respondent SME had been exporting. The vast majority of exporters had been exporting for more than 5 years, with only three exporting respondents (less than two percent) having exported for a year or less.

Table 8 - Exporters: History of Exports

Period Exporting	Number	Percentage
Less than a year	2	1.13%
1 year	1	0.56%
2 years	7	3.95%
3 years	6	3.39%
4 years	4	2.26%
5 years	9	5.08%
More than 5 years	148	83.62%
	177	100%

Figure 8 - Exporters: History of Exports



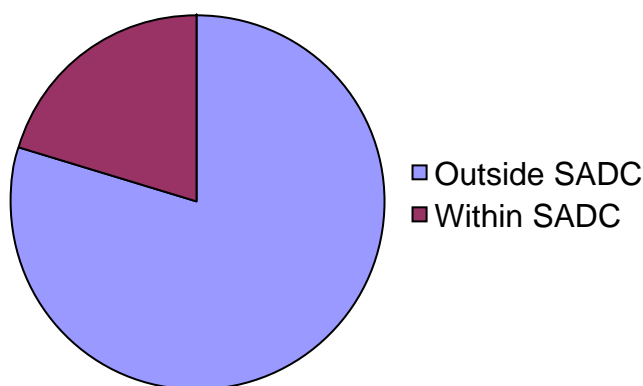
One fact that emerges from this data is that, although over ninety-eight percent of exporting SME's are well established (5 years or older) only eighty-eight had been exporting for 5 years or longer. In line with this is the fact that no responding exporting SME is less than 3 years old, whereas a number of exporters had been doing so for less than three years.

The next set of data shows the destination for manufacturing SME's exported products. Table 9 - Exporters: Destination Within SADC/Outside SADC, and Figure 9 - Exporters: Destination Within SADC/Outside SADC, shows where exports from respondents are aimed at.

Table 9 - Exporters: Destination Within SADC/Outside SADC

Destination	Number	Percent
Outside SADC	141	79.66%
Not outside SADC	36	20.34%
	177	100%

Figure 9 - Exporters: Destination Within SADC/Outside SADC



Only 20% of the exported products from respondents remain within the Southern African Development Community (SADC).

There is more data from exporters, though this regard answers to what government or third party facilitators can do, and will be presented later. For now the attention turns to non-exporters.

5.4 Non-Exporters

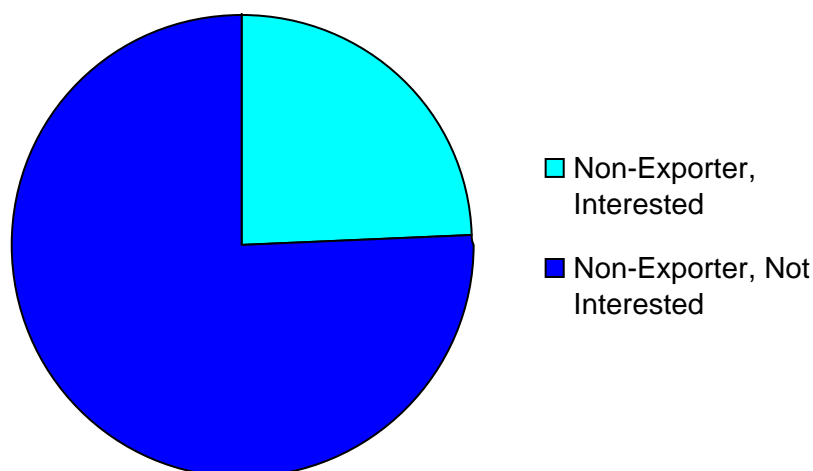
The results for non-exporters are presented in a similar fashion to that of the total sample. The distinction made is between non-exporters that are would like to export (Interested Non-Exporters) and non-exporters who do not wish to export (Not Interested Non-Exporters).

The portions of interested and not interested non-exporters are shown in Table 10 - Non-Exporters: Interest in Exporting, and Figure 10 - Non-Exporters: Interest in Exporting.

Table 10 - Non-Exporters: Interest in Exporting

	Number	Percent
Non-Exporter, Interested	70	24.31%
Non-Exporter, Not Interested	218	75.69%
	288	100%

Figure 10 - Non-Exporters: Interest in Exporting



More than three quarters of respondents who do not export also do not wish to export.

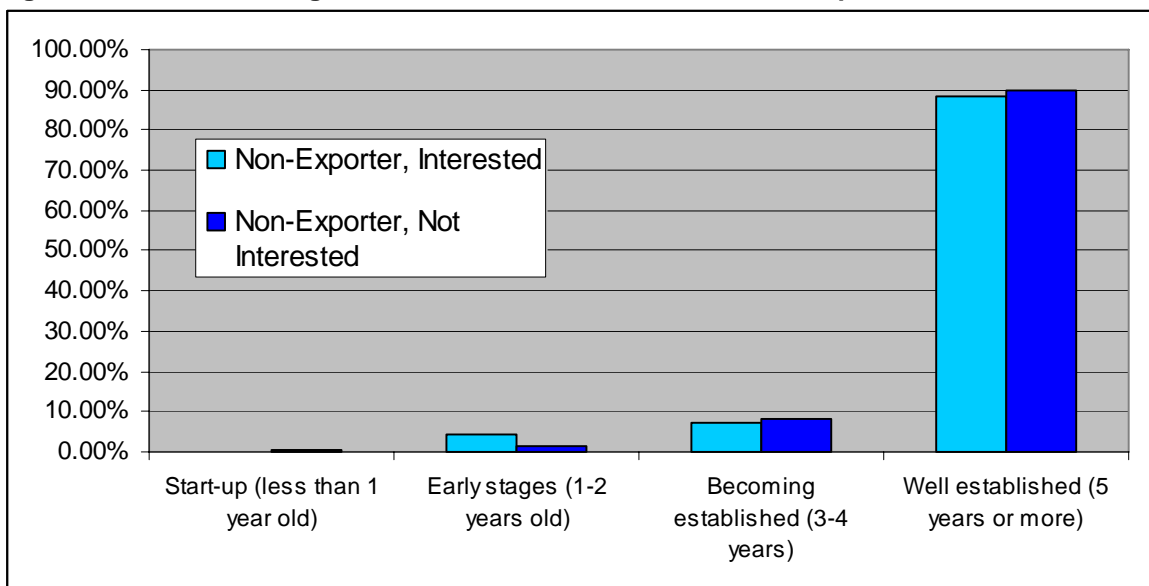
The demographic data on these two sub-groups are presented next.

The first parameter is age, and the frequency distribution of age categories is shown for each group in Table 11 - Business Stage of Interested vs. Not Interested Non-Exporters, and Figure 11 - Business Stage of Interested vs. Not Interested Non-Exporters.

Table 11 - Business Stage of Interested vs. Not Interested Non-Exporters

Business Stage	Non-Exporter, Interested		Non-Exporter, Not Interested	
	Number	Percent	Number	Percent
Start-up (less than 1 year old)	0	0.00%	1	0.46%
Early stages (1-2 years old)	3	4.29%	3	1.38%
Becoming established (3-4 years)	5	7.14%	18	8.26%
Well established (5 years or more)	62	88.57%	196	89.91%
	70	100%	218	100%

Figure 11 - Business Stage of Interested vs. Not Interested Non-Exporters



The age distribution for interested and not interested non-exporters are very similar, with both showing a strong representation for SME's 5 years and older.

The next demographic variable presented is the average annual turnover. The distribution for each sub-group is presented in Table 12 - Average Annual Turnover for Interested vs. Not Interested Non-Exporters and Figure 12 - Average Annual Turnover for Interested vs. Not Interested Non-Exporters.

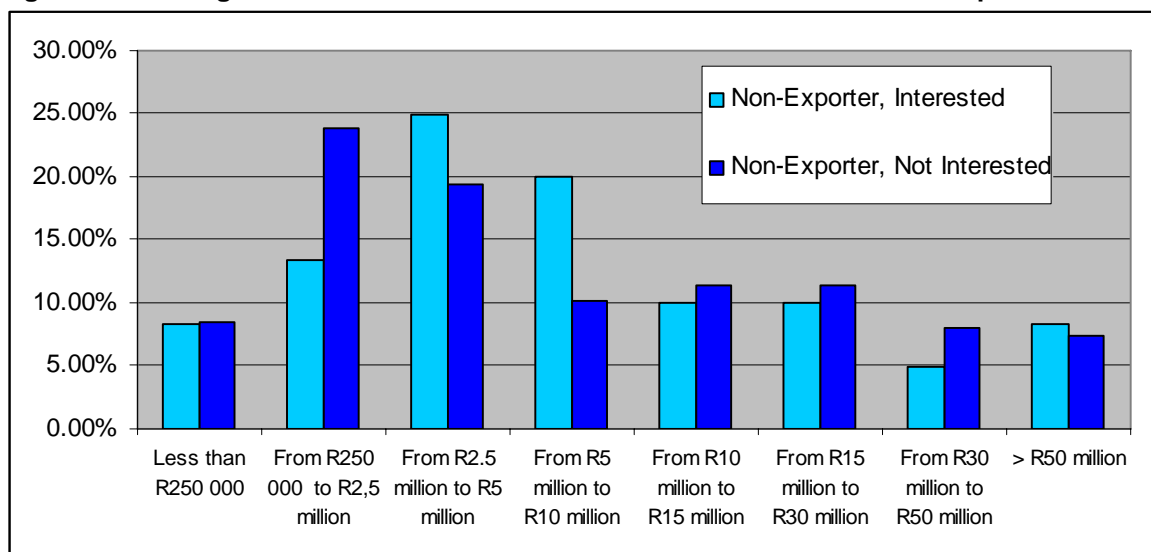
At the higher intervals, very little difference is discernable between interested and not interested non-exporters. About fifteen percent of each sub-group has average

annual turnover above R 30 million, and twenty percent between R 10 million and R 30 million.

Table 12 - Average Annual Turnover for Interested vs. Not Interested Non-Exporters

Average Annual Turnover	Non-Exporter, Interested		Non-Exporter, Not Interested	
	Number	Percent	Number	Percent
Less than R250 000	5	8.33%	15	8.52%
From R250 000 to R2,5 million	8	13.33%	42	23.86%
From R2.5 million to R5 million	15	25.00%	34	19.32%
From R5 million to R10 million	12	20.00%	18	10.23%
From R10 million to R15 million	6	10.00%	20	11.36%
From R15 million to R30 million	6	10.00%	20	11.36%
From R30 million to R50 million	3	5.00%	14	7.95%
> R50 million	5	8.33%	13	7.39%
	60	100%	176	100%

Figure 12 - Average Annual Turnover for Interested vs. Not Interested Non-Exporters



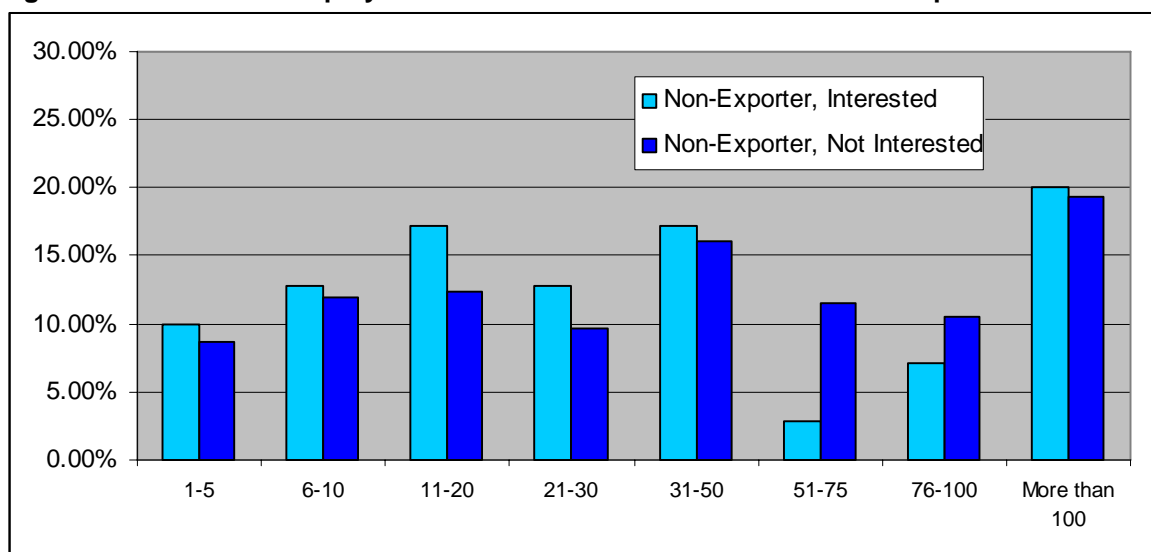
A more discernable difference is apparent in the lower intervals. Forty-five percent of interested non-exporters have annual turnover between R 2.5 million and R 10 million. There is a downward shift for not interested non-exporters with the same percentage between R 250 thousand and R 5 million.

The final set of demographic data concerns the number of employees. The distribution of employee numbers are shown in Table 13 - Number of Employees for Interested vs. Not Interested Non-Exporters and Figure 13 - Number of Employees for Interested vs. Not Interested Non-Exporters

Table 13 - Number of Employees for Interested vs. Not Interested Non-Exporters

Number of Personnel	Non-Exporter, Interested		Non-Exporter, Not Interested	
	Number	Percent	Number	Percent
1-5	7	10.00%	19	8.72%
6-10	9	12.86%	26	11.93%
11-20	12	17.14%	27	12.39%
21-30	9	12.86%	21	9.63%
31-50	12	17.14%	35	16.06%
51-75	2	2.86%	25	11.47%
76-100	5	7.14%	23	10.55%
More than 100	14	20.00%	42	19.27%
	70	100%	218	100%

Figure 13 - Number of Employees for Interested vs. Not Interested Non-Exporters



The mode for each sub-group is the interval of more than 100 employees, with the second highest percentage for both in the 21-30 employee interval. Both have very similar showings in each of these intervals.

Just over fifty percent of interested non-exporters fall in the expanded interval of between 1 and 30 employees, whereas just over forty percent of not interested non-exporters claim this same interval. A quarter of not interested non-exporters fall within the intervals from 51 to 100 employees with the portion of interested non-exporters only around ten percent.

In general, it would seem that not-interested non-exporting SME's have more employees than interested non-exporting SME's.

This concludes the comparison between interested and not interested non-exporting SME's.

The attention now turns to the reasons given by not interested non-exporters for not wishing to export. This forms part of the section on barriers to exports, as lack of the will to export prevents SME's from exporting.

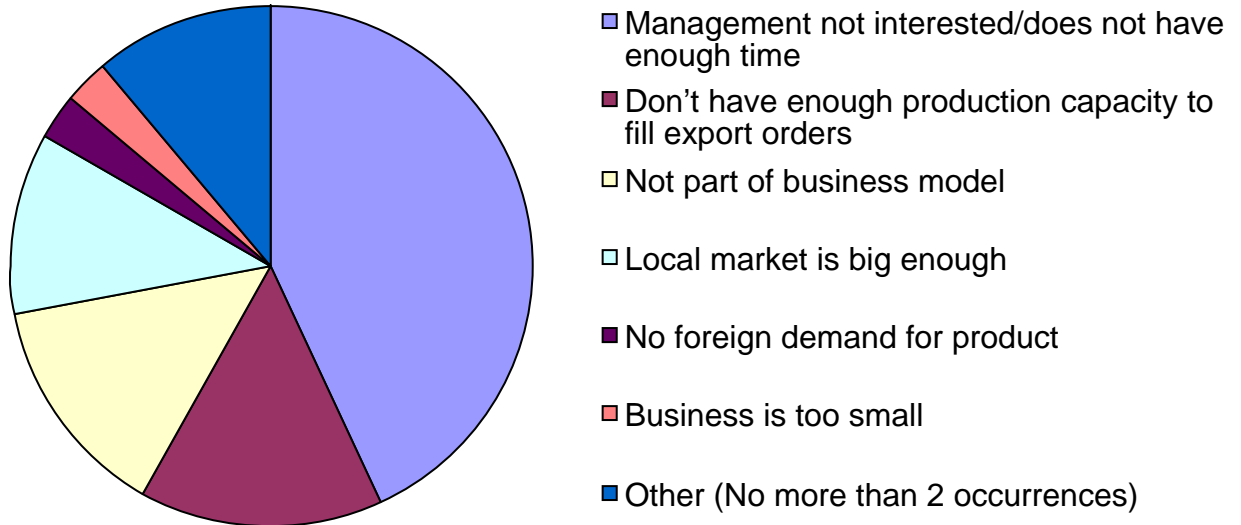
5.5 Barriers to Exports

The reasons provided for not interested non-exporters are shown in Table 14 – Not Interested Non-Exporters: Reasons for Lack of Interest, and Figure 14 - Not Interested Non-Exporters: Reasons for Lack of Interest, showing the frequency of each reason.

Table 14 – Not Interested Non-Exporters: Reasons for Lack of Interest

Reasons for Non-Exporters, Not Interested	Number of Times Cited	Percent
Management not interested/does not have enough time	78	43%
Not enough production capacity to fill export orders	27	15%
Not part of business model	25	14%
Local market is big enough	21	12%
No foreign demand for product	5	3%
Business is too small	5	3%
Other (No more than 2 occurrences)	20	11%
	181	100%

Figure 14 - Not Interested Non-Exporters: Reasons for Lack of Interest



The most cited reason, by a very large margin, for not wishing to export is the lack of management time and interest.

The following section shows the answers given by exporters to the question of what they see as their biggest strengths, without which they will have much more difficulty in exporting.

Even though these are facilitating factors, it is placed under barriers since, for the most part, these facilitators are directly linked to barriers to exports. The only difference is that in this case they are the absence of these barriers.

Table 15 - Exporters: Facilitating Factors, and Figure 15 - Exporters: Facilitating Factors, shows the facilitating factors cited as well as the frequency of citations.

Table 15 - Exporters: Facilitating Factors

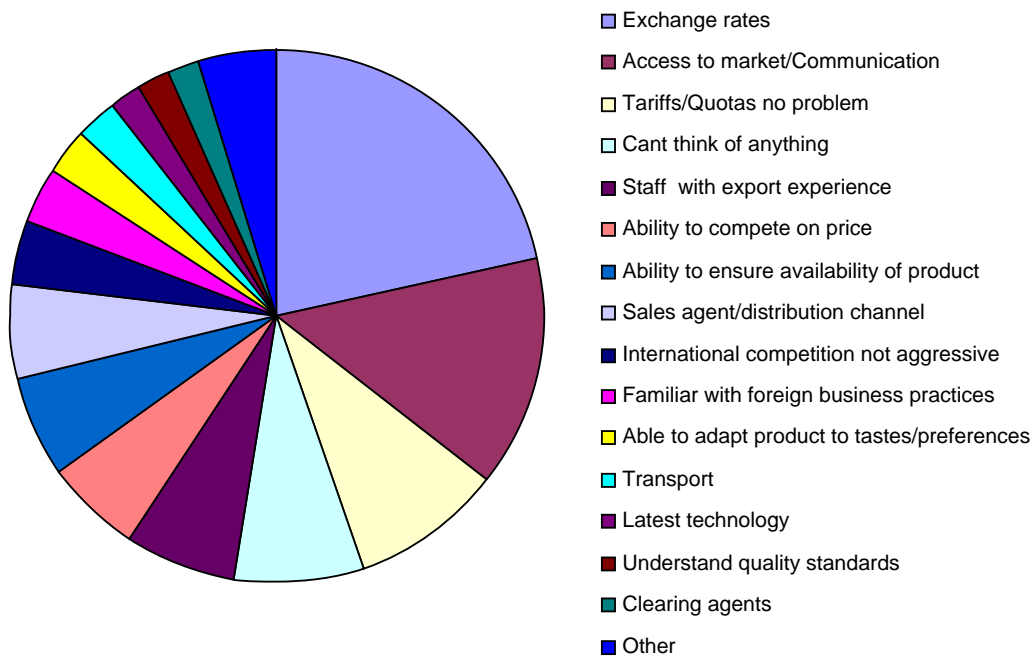
Facilitating Factors	Number of Times Cited	Percent
Exchange rates	33	21.71%
Access to market/Communication	21	13.82%
Tariffs/Quotas no problem	14	9.21%
Cant think of anything	12	7.89%
Staff with export experience	10	6.58%
Ability to compete on price	9	5.92%
Ability to ensure availability of product	9	5.92%
Sales agent/distribution channel	9	5.92%
International competition not aggressive	6	3.95%
Familiar with foreign business practices	5	3.29%
Able to adapt product to tastes/preferences	4	2.63%
Transport	4	2.63%
Latest technology	3	1.97%
Understand quality standards	3	1.97%
Clearing agents	3	1.97%
Other (no more than 2 occurrences)	7	4.61%
	152	100 %

The facilitator cited most often is the exchange rate, referring to the level of the foreign exchange rate of the South African Rand against the currencies of trading partners.

The exchange rate is followed, by some distance, by market access and communication. This refers to the ease of contacting potential customers abroad.

The third most cited facilitator is the absence of inhibiting tariffs or quotas, referring tariff and quota restrictions placed on exports by governments of both the host and the local markets.

Figure 15 - Exporters: Facilitating Factors



Exporters were also asked to respond to the question of what government can do to ease the process of exports. This is again related to barriers, as government action is most often required to remove certain obstacles faced by exporters, though the action could also include provision of stimuli.

The results are presented in Table 16 - Exporters: Government Action Required, and Figure 16 – Exporters: Government Action Required. The most frequently cited government action is the simplification of export documentation and procedures. This is followed by assistance with market research and identifying opportunities.

In line with the role of government was the role of third party facilitators. These facilitators should also play the role of removing barriers to exports. Respondents were asked what actions they would require from third party facilitators. Their answers and the frequency of each is presented in Table 17 - Exporters: Third Party Facilitator Action Required, and Figure 17 - Exporters: Third Party Facilitator Action Required.

Marketing and sourcing of opportunities were most frequently cited as an action required by third party facilitators. Efficient transport from factory to customer was second most cited, with third most cited hedging of foreign exchange risk.

Table 16 - Exporters: Government Action Required

Government action required	Times Cited	Percent
Simplify paperwork/procedures	34	23.29%
Provide market research/information on opportunities	25	17.12%
Subsidize export manufacturing/preferential interest rate	20	13.70%
Provide access to export specialists/training	18	12.33%
Assist with product launch in new markets	14	9.59%
Speedup port/customs clearing	9	6.16%
Reduce Tariffs	9	6.16%
Government need not do anything more	5	3.42%
Don't Know	5	3.42%
Other (no more than 2 occurrences)	7	4.79%
	146	100%

Figure 16 – Exporters: Government Action Required

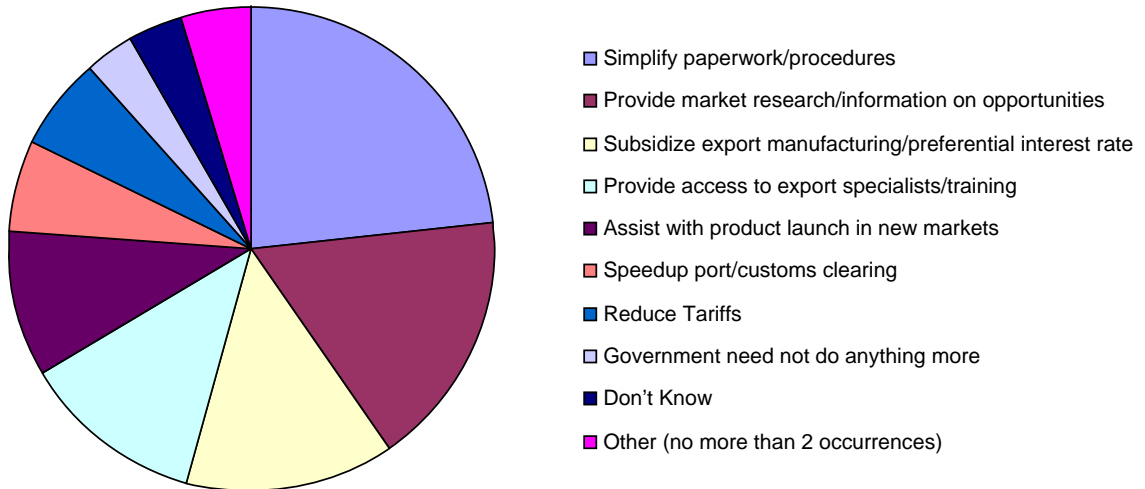
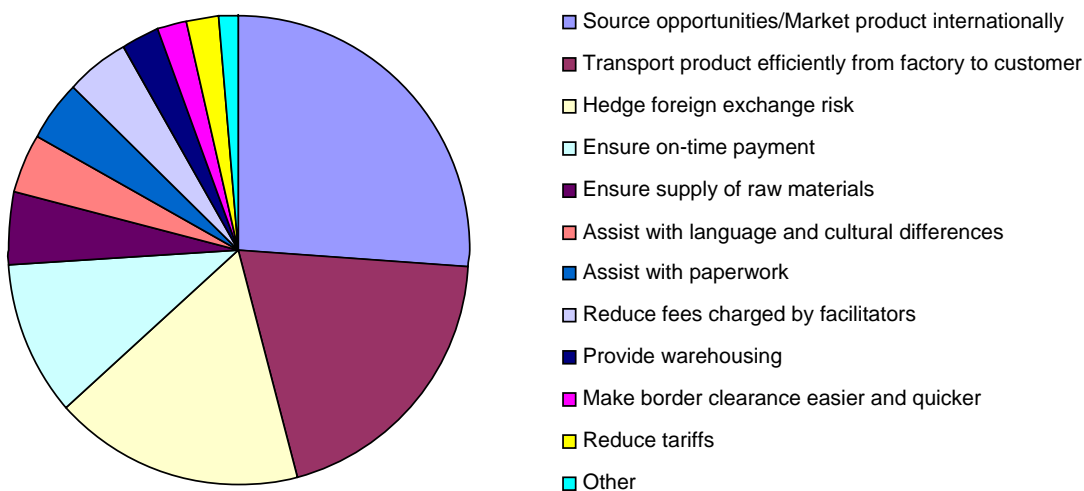


Table 17 - Exporters: Third Party Facilitator Action Required

Third Party Facilitator action required	Times Cited	Percent
Source opportunities/Market product internationally	37	26.06%
Transport product efficiently from factory to customer	28	19.72%
Hedge foreign exchange risk	25	17.61%
Ensure on-time payment	15	10.56%
Ensure supply of raw materials	7	4.93%
Assist with language and cultural differences	6	4.23%
Assist with paperwork	6	4.23%
Reduce fees charged by facilitators	6	4.23%
Provide warehousing	4	2.82%
Make border clearance easier and quicker	3	2.11%
Reduce tariffs	3	2.11%
Other	2	1.41%
	142	100%

Figure 17 - Exporters: Third Party Facilitator Action Required



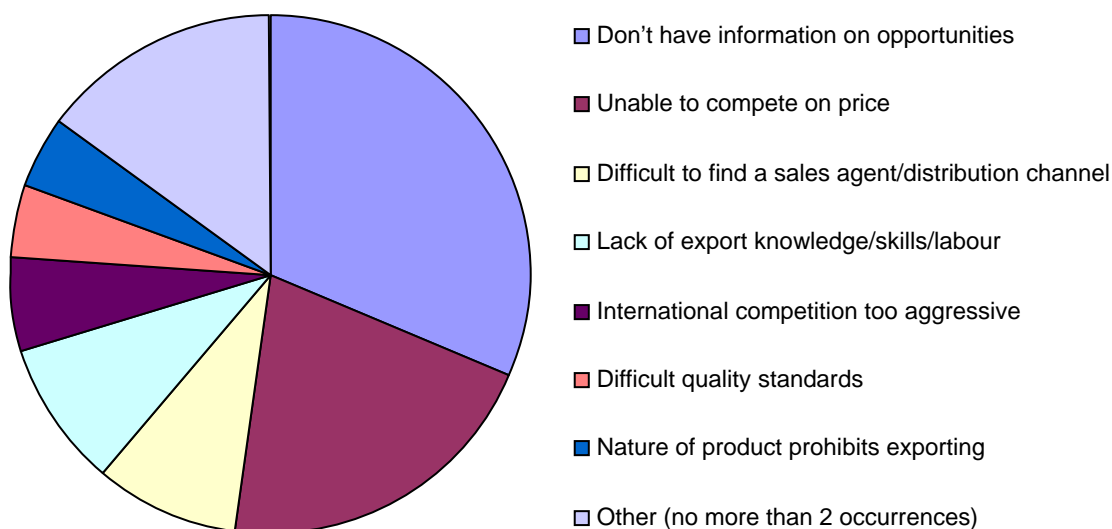
The last of the data to be presented relates the barriers to exports faced by interested non-exporters. These respondents were asked to identify the biggest obstacle preventing them from exporting.

Responses are shown in Table 18 - Interested Non-Exporters: Barriers to Exporting, and Figure 18 - Interested Non-Exporters: Barriers to Exporting, again showing the frequency of each obstacle.

Table 18 - Interested Non-Exporters: Barriers to Exporting

Reason for not exporting, though want to	Times Cited	Percent
Don't have information on opportunities	21	31.34%
Unable to compete on price	14	20.90%
Difficult to find a sales agent/distribution channel	6	8.96%
Lack of export knowledge/skills/labour	6	8.96%
International competition too aggressive	4	5.97%
Difficult quality standards	3	4.48%
Nature of product prohibits exporting	3	4.48%
Other (no more than 2 occurrences)	10	14.93%
	67	100%

Figure 18 - Interested Non-Exporters: Barriers to Exporting





By far the most cited obstacle to exports faced by interested non-exporters is sourcing of opportunities. This is followed by some distance, but also with significant frequency, by the inability to compete on price.

This concludes the presentation of the results from the empirical research. In chapter six the results are interpreted and discussed with the aim of gaining a better understanding of why South African manufacturing SME's are not contributing more to exports.

6 Discussion of Results

In this section the results from the survey as presented in chapter 5 is discussed, with reference to the literature review from chapter 2. The discussion is guided by the research questions stated in chapter 3.

The discussion is launched by looking at the number of South African manufacturing SME's that do export vs. the number that do not. The demographic variables between these two sub-groups are compared and investigated.

The discussion then considers the number of non-exporting SME's that wish to export and those that do not have a desire to export. Again the demographic variables between these groups are compared and investigated. The reasons given by non-exporters with no desire to export are also analysed.

Returning to exporters' responses, their strengths, or most facilitating factors, are investigated, followed by what they perceive government and third party facilitators can do to facilitate the export process.

The final part of the discussion analyses the reasons given by non-exporting SME's that wish to export, as to why they do not.

6.1 Exporting vs. Non-Exporting SME's

The results from the survey show that 38% of all manufacturing SME's in South Africa export. Considering the fact that manufacturing SME's constitute around 90% of the total South African manufacturing sector, this results in a large portion of production remaining within South Africa.

For South Africa to grow its manufactures exports, it is crucial to increase the percentage of manufacturing SME's that participate in exports. This does not suggest shifting sales from the local to the international market, but that manufacturing should increase to accommodate more foreign sales.

The means of accomplishing this feat will become clearer as we discuss the remainder of the survey results.

The demographic differences between exporters and non-exporters may go some way to discover the solution. These differences are discussed next.

6.1.1 Business Stage

Of the total sample, 93% of South African manufacturing SME's is 5 years or older, i.e. well-established.

Differences emerge when the sample is divided between exporters and non-exporters. Almost all exporters surveyed (98%) were well established compared to 90% of non-exporters. This indicates a correlation between the company age and the propensity to export.

This result could be interpreted in two ways. Firstly, that older firms have a propensity to export. This could be because older firms have outgrown the local market and need alternative markets for their products.

The second interpretation could be that exporting firms gain efficiency, expertise and economies of scale more so than non-exporting firms, and as a result are able to better survive as economic entities. This implies that more of the non-exporters will perish over time than would exporters, and thus explain the relatively younger age of non-exporters.

Considering that local market saturation was discussed as an export stimulus in chapter 2, and that chapter 1 referenced the efficiency gains and scale as benefits of exports, it seems likely that both interpretations are valid.

The age difference between exporters and non-exporters could be ascribed to a combination of the need to export as well as the survival benefits gained by exporting.

The results for export promotion are that SME's need to gain efficiency in the local market to enable them to compete internationally and that non-exporters need to be made aware of the benefits gained by exporting. Both could be achieved by private or public awareness programmes and training.

6.1.2 Average Annual Turnover

The mode for average annual turnover of the total sample is in the interval for more than R 50 million, with 18% of respondent manufacturing SME's placing their turnover at this level. This is followed closely by the interval of turnover between R 0.25 million and R 2.5 million, and the interval of R 2.5 million and R 5 million, both with just under 16% of total responses each.

A stark contrast emerges when comparing average annual turnover between exporters and non-exporters.

Exporters show a propensity to higher annual turnover, with turnover exceeding R 50 million for 34% of this subgroup. Only 8% of non-exporters claim a similar turnover. Non-exporters tend to have lower turnover, with around 50% generating less than R 5 million average annual turnover, with only 16% of exporters in the same expanded interval.

It is clear that exporting and substantially higher turnover are related, though the direction of cause and effect is not clear from the data. The data is also silent on the portion of turnover generated by exports. It should be noted that turnover does not equate to profit, though it is a component to the formula for calculating profit and has a positive influence on the latter.

Higher turnover for exporters is expected given the theory that exports generate growth. However, the literature review indicated the need for financial resources to enable exports, thus the higher turnover could be the enabler of exports as well as the result.

Export promotion targeted at South African manufacturing SME's should inform the sector of the possible turnover gains from exports, as well as provide financial assistance for initial export market penetration.

6.1.3 Number of employees

The total sample shows a mode for the interval consisting of more than 100 employees (25% of the total sample). This is followed by the interval for 31-50 employees. In itself this suggests that SME's do contribute positively to employment.

Comparing the number of employees between exporters and non-exporters, it's clear that exporters tend to employ more people than non-exporters.

More than 35% of exporting respondents employ 100 or more people, and 57% employ more than 50 people. This compares with 19% of non-exporters employing more than 100 people and 40% employing more than 50.

Since exporters have higher turnover, indicating higher sales, requiring more production, it follows that this group should employ more people than non-exporters. At the same time, the exporting process requires more human resources, as seen in chapter two, and thus has an added impetus to employ higher numbers of workers.

The labour-absorption effect of exporting should highlight the benefit of promoting exports by the manufacturing SME sector. Government's stated aim of job-creation will be more readily attained by a strategy assisting manufacturing SME's through the export process than by other means.

There are clear demographic differences discernable between exporters and non-exporters, and these show benefits to individual firms and the country as a whole if manufacturing SME's could be enticed into the export market.

The following section investigates information specifically relating to exporters.

6.2 Exporters

This section briefly examines the destination of South African manufacturing SME's that do export, as well as their experience in exports.

6.2.1 Destination of Exports

The results of the research show that exports from the South African manufacturing SME sector are by a large margin destined for destinations outside the Southern African Development Community (SADC).

This result is in line with Table 3, which shows that just over 10% cumulative exports from the top 84% cumulative exports are destined for SADC countries. This assumes that around a third of the undisclosed countries are in fact SADC countries.

The destination of exports, whether inside or outside the SADC countries, are in fact significant, according to Rankin (2002), quoted in chapter 2, who found that exporting outside of the SADC results in efficiency gains while exporting within the SADC does not make any significant gains to efficiency.

The proximity of SADC countries would make these countries ideal destinations for South African SME's. The distribution of world wealth does, however, make these countries less desirable as export destinations.

Should exports to SADC countries be preferred by the South African government for purposes of regional development, this should be promoted without prejudicing exports to countries outside this region for fear of encouraging complacency affiliated with exporting within the SADC region.

At least one response from an exporter regarding paperwork mentioned duplication of paperwork within the SADC as a barrier. Government is in a unique position to eliminate issues such as these.

6.2.2 Export Experience

Whereas over 98% of exporting respondents are well established – i.e. 5 years or older – only 84% of this group have been exporting for more than 5 years. This indicates that not all exporting manufacturing SME's start out as exporters.

Even allowing for the difference in interval classification (Business stage having a highest classification of *5 years or more*; History of Exports with a top interval of *more than 5 years*), the results clearly indicate that exporters do not establish their firms with the sole purpose of producing for the export market.

These results strengthen the assessment made above that exports are necessitated by established firms reaching saturation in their local markets, though other factors could also play a role.

Another important conclusion drawn from these results is that non-exporters can, and do, become exporters.

This aspect from the results is important for any export promotion strategy in that younger firms may need more pampering to bring them to a mature stage ready for exporting. It also indicates that more mature manufacturing SME's are perhaps better targets for initial export promotion programmes in order to achieve quick wins.

The discussion of the results from the research inevitably has to focus on non-exporting SME's, which form the object of the next section of this chapter.

6.3 Non-Exporters

This section of the discussion of the results from the survey investigates the portion of non-exporters who wish to export versus those who do not have a desire to export.

For purposes of this paper, those non-exporters who wish to export are referred to as interested non-exporters. Non-exporters with no wish to export are referred to as not interested non-exporters for purposes of this paper.

This section analyses the demographic differences between these sub-groups as well as the reasons given by not interested non-exporters for their lack of interest.

6.3.1 Interested vs. Not Interested Non-Exporters

The results of the survey show that 24% of non-exporting manufacturing SME's would like to export.

Considering the benefits gained by exporting, this statistic is rather surprising. Assuming a profit-maximising strategy, it is reasonable to assume that all non-exporting SME's would be interested in exporting. However, decision-makers of any economic entity do consider the risk and reward of any suggested strategy, and to this sub-group the risks probably outweigh the rewards.

Before analysing the reasons for not interested non-exporters' lack of interest in exporting, the demographics of interested and not interested non-exporting South African manufacturing SME's will be compared.

Business Stage

No discernable difference in business stage can be detected from the results between interested and not interested South African manufacturing SME's.

Both sub-groups show a relative frequency of just under 90% of respondents claiming to be well-established. The second most claimed interval for both sub-groups is for the interval including the ages from 3 to 4 years – i.e. becoming established.

Average Annual Turnover

Except for the three intervals covering average annual turnover of R 0.25 million to R 10 million, no significant difference between interested and not interested manufacturing SME's is detectable from the results of the survey.

With regards to the interval mentioned above, interested non-exporters tend towards the higher end of the interval. Of the total non-exporting sub-sample, 20% of interested non-exporters claim turnover of between R 5 million to R 10 million with only 10% of not interested non-exporters claiming the same interval.

Almost 30% of not-interested non-exporters generate average annual turnover below R 2.5 million, with only 22% of interested non-exporters falling within this interval.

In general the turnover figures are consistent with the findings for non-exporters as a whole. The fact that interested non-exporters have a higher turnover cannot, for obvious reasons, be explained by a larger market consisting of local and international markets, as was suggested when distinguishing exporters from non-exporters.

The higher turnover of interested non-exporters compared to not interested non-exporters could indicate that the reason for the higher turnover enjoyed by the former sub-group is indicative of larger market share in the local market, necessitating international expansion as a growth strategy.

Higher turnover could also be the result of a better business practice, which could result in confidence that success would be maintained when entering international markets. Existing efficiency may only require a market with no other fear of competition.

Irrespective of the exact reason for the higher turnover, the category of non-exporters with higher turnover, already interested in exports, would seem to be an easier target for export facilitating programmes. The lower turnover generators, not interested in exporting, would be better attracted to exports by an awareness programme highlighting the benefits of international sales.

Number of Employees

It seems that, over-all, not interested non-exporters employ more people than interested non-exporters. Employment levels are very similar in most intervals, with marked differences only in the two intervals including 51-100 employees. In this expanded interval, not interested non-exporting manufacturing SME's employ double the amount of people than their interested counterparts.

The results of the survey show that there are no discernable differences in demographics between interested and not interested non-exporters related to average annual turnover and employee numbers.

Interestingly, interested non-exporters generate higher turnover than not interested non-exporters, yet employ fewer people. This strongly suggests more efficient use of resources by interested non-exporters.

In return, this suggests that the interested non-exporters will stand a better chance of survival in international markets. This makes this group a worthy target for export promotion programmes.

The discussion now shifts attention to the reasons given by not interested non-exporters for not having any desire to export.

6.3.2 Not Interested Non-Exporters

Based on the assumption that profit maximization motivates any firm to increase sales by whatever means are morally and legally justifiable, the large percentage of not interested non-exporters surprised.

Given the size of this sub-group – almost half of the full sample – any export promotion initiative that does not aim to convert at least some of these not interested non-exporters to committed exporters will have little chance of success. This fact makes it crucial to gain an understanding of why this group has no desire to export.

The reasons given by these respondents are analysed next.

6.3.3 Reasons for Lack of Export Interest

The vast majority (43%) of not interested non-exporters cited as the main reason the lack of management interest and time. This reason is followed by some distance by lack of production capacity to fill export orders, exporting not being part of the business model and the local market being large enough.

Chapter 2 highlighted the fact that management commitment is key to the decision on whether or not a company exports. Exporting requires a substantial amount of management time and energy and there is little chance of succeeding if the top level of the firm is not fully committed.

Management time may be freed up by hiring additional resources, though this may be costly and beyond the financial means of these SME's who already tend to have lower turnover than their exporting counterparts.

Simplifying paperwork and procedures may go some way to alleviate the management time needed to deal with exports. Outsourcing the export process to a qualified third party facilitator could almost entirely release management from having to spend time and energy on exports, subject to a positive net return.

Should management time no longer be a retraining factor for exports, management commitment still needs to be ensured to ensure a sustainable export strategy. Export promotion programmes should be aimed at motivating these managers by highlighting the benefits of exporting as well as changing the perception of management regarding the obstacles to exporting.

When non-exporters claim that they do not have the available production capacity to fill export orders, their claim should be treated with circumspection. Not interested non-exporters tend to employ more employees than interested non-exporters, yet have much less turnover.

An issue may be efficient use of resources rather than capacity. Export promotion initiatives should start by analysing efficiency of firms and then provide training to those firms where low efficiency may prevent success in the export market.

It is important to convert not interested non-exporters to exporters, but a successful export promotion programme should not neglect those firms who already export. The next sections will focus on responses from this group, starting with what they perceive as their facilitating factors.

6.4 Exporters – Facilitating Factors

Exporters were asked to highlight one factor that they felt most contributed to their ability to export. These responses are analysed next and should assist with gaining an understanding of what could also enable non-exporters to enter foreign markets.

Almost 22% of exporters perceived the level of the South African currency (Rand) exchange rates as being a facilitating factor. In chapter 2 it was suggested that the level of the exchange rate should not be a factor in the export decision. The suggestion was that stability should play a more significant role. This response shows that exchange rate levels do matter, though it does not disprove the theory of stability.

The South African Monetary Policy Committee has made clear that exchange rate targets are not part of their mandate. This means that exporters who claim exchange rates as their most important facilitating factor will remain at the mercy of currency fluctuations.

During the month of October 2007, subsequent to the survey having been conducted, the exchange rate between the South African Rand and the US Dollar appreciated by almost 10% in favour of the Rand. This appreciation was mostly driven by a possible large FDI flow into the country.

It would be interesting to investigate the effect of this appreciation on the 22% of exporting respondents who attributed their ability to export to exchange rate level. This may form part of future research.

Exporters were also asked what actions they would like to see government take to assist them in the export process. Their responses are considered next.

6.5 Exporters – Government Action Required.

The following section analyses the responses from South African manufacturing SME exporters to the question as to what they would like government to do in assisting them with exports.

The most cited action required from government, at a 23% relative frequency, is the simplification of paperwork and procedures. Chapter two included an estimate

that the average international transaction involved 40 documents and 27 parties, resulting in documentation making up 7 percent of export cost. In light of this, the response and its frequency are hardly surprising.

The South African government can comply with this requirement both by eliminating unnecessary paperwork as well as by making it easier to complete necessary paperwork. More than one response from exporters included the suggestion that the necessary documentation be made available for completion on-line.

To give credit where it's due, the South African government has a stated aim of reducing "red tape" for SME's, though progress seems slow.

The second-most cited action required from government is provision of market research and information on opportunities. As stated in chapter two, the DTI has an initiative of doing exactly this. However, with only 577 opportunities published, this department will not come close to fulfilling this requirement.

Given the high frequency of this response, one could justifiably also ask whether the DTI's bulletins reach its intended recipients.

In chapter 2 the question was raised as to which areas of business government should get involved in. It was suggested that government's role should be limited to easing the process of doing business. In line with this, the requirement of simplifying paperwork and procedures falls squarely within this defined role.

However, since the South African government aims to sustain growth and create employment, any assistance they could give SME exporters should be welcomed. The third- and fourth-most cited government action highlights the more direct interventions required from government exporting manufacturing SME's.

In third place is the requirement that government provide financial assistance to manufacturers producing for the export market as well as preferential interest rates. The financial constraints faced by SME's have been highlighted in chapter 2 and have been placed in the context of substantially increased cost associated with exporting when compared to local sales.

As stated in chapter 2, the subsidisation of export production as well as preferential interest rates were part of Vietnam's export promotion initiative. Though not without problems, the initiative did bear positive results.

The fourth-most quoted requirement is for government to provide access to export specialists and training. Chapter 2 showed that the lack of knowledge and skills were serious obstacles to be overcome when targeting international markets. Government may be able to gain scale advantages by providing a shared resource to exporters.

Exporters were also asked which services private facilitators could provide to ease the export process. These responses are analysed next.

6.6 Exporters – Third Party Facilitator Action Required

As mentioned before, the main role of government should be creating an enabling environment for business. The role of government should not necessarily include getting involved in the business process. For assistance in the export process, third party facilitators are perhaps better equipped to add value to exporters.

This section analyses what exporters perceive third party facilitators can do to support them through the export process. This connects with government action required. The main differences are the nature of the required services and that assistance from third party facilitators will be a paid-for commodity.

Sourcing opportunities and marketing the manufacturer's product abroad is cited by more than a quarter of exporting respondents as the most important action required from third party facilitators.

The sourcing of opportunities is a recurring theme, being one of the most-cited barriers faced by exporters. Facilitators with a strong international network could add to their own bottom line by exploiting this need. In this case the facilitator could be an international marketing firm that could provide the same service to multiple exporters, thereby gaining scale advantages not possible for individual exporters.

Reliable, efficient transport from the manufacturer to the foreign customer is the second-most cited action required by exporting SME's. In chapter 2 the barriers around logistics was discussed and revolves around the cost and the ability to ensure reliable deliveries to customers.

South Africa's reliance on road transport and delays at ports and borders add a large amount to the frustration. Though the national rail and port operators have been corporatised, they are still largely state-owned. The corporatisation of these entities does mean that they have a significant role to play as third party transport facilitators. However, the lack of competition to these entities could indicate that efficiency is some time off.

The final part of this chapter will discuss the barriers to exports faced by interested non-exporters.

6.7 Interested Non-Exporters – Barriers to Export

Since this group of non-exporting South African manufacturing SME's has already established an interest in exporting, the battle to convert them to exporters is already some way to being won. Targeting this group with export promotion initiatives should lead to quick wins. In order to understand what these initiatives should consist of, it is necessary to analyse their reasons for not exporting.

Almost a third of respondents from this group blamed the lack of information on opportunities for their absence from international markets. This barrier is also prevalent among exporting manufacturing SME's. In the case of non-exporters, the problem may be easier to address due to the small size of this sub-group.

With only a 15% of the total sample being interest non-exporters, a targeted approach is feasible. Interested non-exporters could be identified and opportunities suited to their capabilities could then be sourced. This role could be fulfilled by either government or third party facilitators.

Apart from sourcing opportunities on behalf of this group, training could be provided which will equip these firms with skills to source their own opportunities. This may be a more efficient strategy, requiring fewer resources.

The inability to compete on price was the second-most cited barrier to exports faced by interested non-exporting manufacturing SME's – with 21% relative frequency. As mentioned in chapter 2, price is influenced by many factors. These factors could include the cost of transport, cost of labour compared to its productivity, cost of raw materials etc.

As is the case with much of the world, South African manufacturers need to compete against China, which has lower labour cost, higher productivity and greater scale advantages than does South Africa. Yet South Africa should address those factors that add unnecessary cost to export production and in stead of competing head-on with China, should compete on a cost effective basis in niche markets.

The third most important barriers are jointly the inability to access distribution channels and lack of export knowledge and skilled personnel.

Distribution channels should be catered for by third party facilitators, as mentioned under the previous section. Successful distributors could create a win-win scenario for themselves and for manufacturers by gaining scale advantages.

At issue is the scarcity of such skilled agents that emerge from the survey. The sector will need to be developed if South Africa is to significantly grow exports of manufactures. One way of building these sectors may be by incentives from government.

As before, government could provide access to experts in the field of exports, as well as training, to assist interested non-exporters in entering the international arena.

This section analysed the results from the empirical research. The picture that emerges is one of many obstacles that will require great effort to be overcome. The task is daunting, but the results of not embarking on this avenue are even more so.

Government, third party facilitators and SME manufacturers will all need to play their roles in increasing the manufactured exports leaving South Africa.

Earlier in this paper the writer asserted that government's role should not extend beyond its responsibility to provide an enabling environment in which to do business. Given the enormity of the task, as it emerges from the results of the survey, to significantly increase exports of manufactured goods, the government's involvement in other areas seem increasingly inevitable.

The government does not need to get directly involved, though. Public-private partnerships may be better able to address obstacles to increasing manufactured exports. The government could also incentivise third party facilitators instead of directly offering services itself.

Given that the skills shortage described in chapter 2 is not limited to the private sector, government will in all probability be even less likely to attract the necessary specialised skills. Partnerships will need to be built.

7 Conclusion

7.1 Introduction

Any country that aims to maintain a sustainable, high growth rate in GDP needs to consider the contribution that an exporting strategy can make. To ensure sustainability, exports should be diversified away from commodities.

Many countries that have sustained high rates of GDP growth also had a high ratio of exports to GDP. China, with a 9% average annual GDP growth rate over a 10-year period had merchandise exports to GDP of 34% during 2005. Malaysia, growing at an average annual growth rate of 5% for 10 years, had a ratio of merchandise exports to GDP at 108% - exporting more than it produced.

Compare this to the South African average growth rate of 3% over the same period and a merchandise exports to GDP ratio of 23%. It is clear that South Africa is not in an enviable situation in this regard.

Focusing on diversification to manufactured exports, the percentage of China's exports that consisted of manufactures were 92% during 2005. The percentage for Malaysia was 74%. South Africa's comparable number was 63% for the same year.

South Africa clearly needs to increase its export sector's contribution to GDP, and at the same time encourage higher manufactured exports. Failure to do so will result in sustainable, high GDP growth levels only remaining an illusive goal.

If manufactured exports are to be promoted, account needs to be taken of the fact that 90% of the South African manufacturing sector is in the hands of SME's. Any strategy targeting exports of manufactures should thus inevitably be aimed at SME's.

Apart from the fact that SME's make up the bulk of the manufacturing sector, SME's are also the job-creators of the world. This has been shown in many countries. As expected, figures for South Africa show that exporting manufacturing SME's tend to employ more people than non-exporters.

The President of South Africa launched ASGISA during 2006. ASGISA is an initiative which aims to half poverty and unemployment by 2014.

These are noble goals, and from what was said above, it follows that it can most likely only be attained if South African manufacturing SME's are to a greater degree enticed into the international arena.

The caveat is that sales should not be shifted away from the local market to foreign markets. Production should be increased to fill the demand from offshore.

The aim of this paper is to determine the reasons for the lack-luster performance (as it was referred to in ASGISA) of the SME sector and what can be done to improve it, focusing on manufacturing SME's and their export status.

7.2 Research

Towards this end, a literature review had been conducted to identify, among others, barriers to exports contained in the current body of literature.

The literature review was followed by empirical research in the form of a questionnaire completed by almost 500 decision makers of manufacturing SME's in South Africa.

A review of existing literature culminated in the identification of fourteen main clusters of barriers faced by exporters. All these clusters can be related to South African firms. It was found that that barriers faced by developing and developed countries are the same, although the severity of the impact from various barriers differs depending on the development stage of the country.

SME's were also found to be in a less favourable position to deal with barriers to export. Most barriers require significant resources to be negated, and by their small nature, SME's often lack these resources. Size was found to offer some advantages, such as corporate agility.

The empirical research that followed the literature review aimed to uncover reasons for SME's not exporting more. Of the 499 responses received, a total of 465 were useable, allowing for significant conclusions to be drawn from the research.

SME's were asked both demographic and export-related question. Demographic questions related to age, annual turnover and number of employees. Research questions were aimed at establishing why non-exporters don't export or don't want to export. Exporters were asked what government and third party facilitators could do to ease the export process.

7.3 Findings

A number of useful findings emerged from the survey. Firstly, 38% of all respondents were exporters. Of the non-exporting respondents, only 24% (15% of the total sample) were interested in exporting. This left 76% of non-exporters (47% of all respondents) not interested in exports at all.

This aspect of the results gives a clear indication that different approaches should be followed for each of these sub-groups in designing export promotion initiatives. The different facets of each strategy became clear as results were further analysed.

From a demographic perspective, exporters tended to have been doing business longer than their non-exporting counterparts, enjoyed much higher turnover and employed a greater number of workers.

The older age of exporters could possibly indicate that they are more mature and have reached their highest achievable local market share and were forced to look abroad for growth.

It could also be that exporters have a greater chance of survival than non-exporters and as such non-exporters are liquidated more often and as such the pool is kept relatively younger.

A substantial number of exporting respondents have clearly not exported for their full economic lives. At the top intervals the distinction is not clear. Irrespective, this result shows that non-exporters can, and do, become exporters.

Comparison of demographic differences between interested non-exporters and not interested non-exporters raised an anomaly. While no real difference was discernable regarding the age of respondents SME's, interested non-exporters employed fewer people but generated higher turnover than their not interested counterparts.

This indicates higher levels of efficiency in the business practices of interested non-exporting manufacturing SME's, and possibly places them in a stronger position to survive competition on international markets.

The different sub-groups were asked to answer different research questions pertaining to barriers and facilitators to exports as well as assistance required.

Exporters were asked to nominate the one factor without which they would have difficulty exporting. The most frequent reply was the level of exchange rates, which raises concern for their ability to sustain exports given the volatility of the South African Rand.

Exporters were also asked to nominate one action from government that would ease the export process. Almost a quarter of respondents nominated the simplification of paperwork and procedures. With estimates (not South African) showing that the average international transaction required 40 documents and 27 parties, and added 7% to export cost, this is not a surprising result.

This action was followed, at 18% relative frequency, by the action of providing market research and information on opportunities.

Finally, exporters were asked what third party facilitators could do to assist with the export process. More than a quarter of responses cited sourcing of opportunities and marketing of products abroad as the most important form of assistance from third party facilitators.

Not interested non-exporters were asked to name the main reason for their lack of interest. In this regard the vast majority - 43% of not interested non-exporters - cited the lack of management interest and time, followed by lack of capacity.

Both management time and the firm's capacity constraints, given as reasons for not being interested in exporting, fly in the face of the results from the survey. The results showed not interested non-exporting manufacturing SME's employ more people than their interested counterparts. Efficient use of resources may be at issue.

The last of the findings relate to the reasons why interested non-exporters do not export. Almost a third of the interested non-exporting respondents blamed the lack of information on opportunities for the fact that they do not enter the export market.

These results highlight the differences in strategies required when targeting each of these groups through export promotion programmes. Though this research only scratches the surface of a very broad and deep subject matter, some guidelines do emerge.

The role that government can play has been highlighted in chapter 2 and confirmed by the results of the survey.

7.4 Suggestions

The writer had to change his mind regarding the limitations of any government's involvement in the export process. Initially of the view that a government's sole responsibility should be to establish an enabling environment, the writer is now convinced that increasing manufactured exports will rely heavily on the commitment from the South African government, as well as the efficiency with which they implement initiatives.

Some guidelines as to what these initiatives should entail emerged from the results of the research conducted.

A three-pronged approach should be used to target manufactured good export promotion. Each sub-group, i.e. exporters, interested non-exporters and not interested non-exporters requires a different approach.

Exporters

If South Africa aims to achieve significantly higher exports of manufactured goods, current exporters will be required to increase existing levels of exports.

The most important aspect of any initiative aimed at exporting manufacturing SME's should prominently include the simplification of paperwork and procedures. This should include eliminating unnecessary paperwork as well as making it easier to complete necessary paperwork. The latter requirement can be fulfilled by making necessary documentation available on the Internet.

Though mention was made of the DTI's initiative in disseminating information on opportunities, the effort does not seem to bear fruit. The number of opportunities is too small. A bigger effort will be required, and could include outsourcing this task and perhaps paying a commission for each opportunity utilised (subject to safeguards against abuse). Relevant market research could also be supplied on-line, perhaps in partnership with major academic libraries.

Since this group also has expectations that only third party facilitators could fulfill, the government should build the capabilities of third party facilitators through targeted training and incentives.

Interested Non-Exporters

Increasing South Africa's exports of manufactured goods would require converting interested non-exporters into active exporters.

Efficient targeting of this sub-group will most probably result in quick wins, as this group already has a stated interest in exporting.

The main tenet of an initiative aimed at interested non-exporting manufacturing SME's should again be the provision of information on opportunities. Due to the relatively small size of this group, a more targeted approach may be possible, with a survey establishing interest of non-exporters and their specific capabilities. Information fitting these capabilities could then be sourced.

Since it has been shown that experience with exports ease future exports, this will not need to be an ongoing process with the same SME's. SME's could be nurtured of the programme after one or two export experiences.

The second tenet of an initiative aimed at interested non-exporters should be aimed at respondents who declared themselves unable to compete on price. This aspect of the initiative should investigate those factors that add excessively to cost, and investigate ways of eliminating these. Given the small portion of all

manufacturing SME's in this group, a targeted approach may be possible, though business training will be more efficient.

Considering the demographic differences between exporters and non-exporters, it would make sense to target older SME's, thus limiting the number of SME's even further. This will make the initiative easier to manage.

The additional employment created by newly converted exporters will justify a large amount of cost, if justification over and above other benefits to the country of manufactured exports is required.

Not Interested Non-Exporters

Extrapolating the results of the survey to all South African manufacturing SME's suggests that almost half are not interested in exporting. Due to its size, this group will need to be targeted to entice at least a large number into the export market.

This is probably the most difficult group to target, as all tenets of the initiatives aimed at exporters and non-exporters will be included in an initiative aimed at this group. The additional tenet, which will form the first step, will be to change the perceptions of these respondents with regard to exports.

Changing the perception of this group will require changing the group's perception regarding the risk-reward relationship from exports. The difference in average annual turnover between exporters and non-exporters should be highlighted as a benefit (reward). Proven results from initiatives aimed at exporters and interested non-exporters should lessen perceived risks involved in the export process.

This initiative should be targeted at those SME's that have already met a certain efficiency threshold, since inefficient exporters will soak up funds and not be able to compete internationally.

From the survey it is clear that these initiatives would be better placed if exporters are subsidised and receive preferential interest rates. Any such incentive will need to have a pre-determined expiry date to ensure self-sufficient exporters.

The South African government already has initiatives in place – aimed at exporters and at SME's. Any positive results of these initiatives are not reflected in South Africa's export figures. It is hoped that this paper may in some way contribute to future initiatives.

7.5 Future Research

This research project only managed to scratch the surface of a very broad and very deep subject matter, covering many fields, including Micro-Economics, Macro-Economics, Political Studies, etc.

Many avenues are still open for future research, including a more in-depth and wide-ranging repetition of this research project, perhaps sponsored by government to allow a much bigger sample including many more questions.

Other future research could focus on:

- Comparison of government export promotion programmes globally
- Effectiveness of government communication to the target audience of its initiatives
- Awareness and use of governments export promotion programmes
- Effectiveness of third party facilitators (including banks, freight forwarders, international marketing companies, industry associations, etc.)

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Appendix 1 – Classification of Export Barriers from Leonidou (2004)

Internal Barriers

Informational Barriers

Limited information to locate/analyse markets
Problematic international market data
Identifying foreign business opportunities
Inability to contact overseas customers

Functional Barriers

Lack of managerial time to deal with exports
Inadequate/untrained personnel for exporting
Lack of excess production capacity for exports
Shortage of working capital to finance exports

Marketing Barriers

Product Barriers

Developing new products for foreign markets
Adapting export design/style
Meeting export product quality standards/specs
Meeting export packaging/labeling requirements
Offering technical/aftersales service

Price Barriers

Offering satisfactory prices to customers
Difficulty in matching competitors' prices
Granting credit facilities to foreign customers

Distribution Barriers

Complexity of foreign distribution channels
Accessing export distribution channels
Obtaining reliable foreign representation
Maintaining control over foreign middlemen
Difficulty in supplying inventory abroad



Logistics Barriers

Unavailability of warehousing facilities abroad
Excessive transportation/insurance cost

Promotion Barriers

Adjusting export promotional activities

External Barriers

Procedural Barriers

Unfamiliar exporting procedures/paperwork
Problematic communication with overseas customers
Slow collection of payments from abroad

Governmental Barriers

Lack of home government assistance/incentives
Unfavourable home rules and regulations

Task Barriers

Different foreign customer habits/attitudes
Keen competition in overseas markets

Environmental Barriers

Economic Barriers

Poor/deteriorating economic conditions abroad
Foreign currency exchange risk

Political-Legal Barriers

Political instability in foreign markets
Strict foreign rules and regulations
High tariff and nontariff barriers

Sociocultural

Unfamiliar foreign business practices
Different sociocultural traits
Verbal/nonverbal language differences

Appendix 2 – Classification of Export Barriers from Tesfom and Lutz (2006)

Internal Barriers

Company Barriers

Market knowledge and information

Lack of knowledge about export markets and exporting
Lack of experience in exporting
Inadequate market information
Ability to identify customers/buyers in foreign markets
Difficulty in making customer contacts and communicating with client overseas
Inadequate representation in foreign market/lack of ability to locate reliable agent or distributor
Lack of own internationally recognised brand names

Financial resource

Lack of financial resources to conduct market research in overseas markets
Lack of financial resources to finance exports
Inadequate marketing budget
High cost of capital to finance exports
Lack of financial resource to finance exports
Credit unworthiness

Human resource

Lack of management emphasis/commitment to develop export activities
Lack of personnel trained and experienced in export marketing
Lack of managerial capacity

Product Barriers

Product quality

Poor product quality
Short product life cycle/fashion sensitivity

Technical adaptability

Poor quality control techniques
Poor quality of raw materials
Packaging and labeling requirements

Product design and specification
Lack of experience to adapt products
Lack of product diversification

External Barriers

Industry Barriers

Industry structure

Firm size
High industry concentration
Lack of new technology
Choosing the right technology
Unprepared to face large MNC's
Lack of technology
Unreliability in supply of raw materials

Competition

Price competition
Aggressive competitors
Lack of competitive prices
Fierce competition in export markets

Market Barriers

Customer barriers

Image of products in foreign markets
Insufficient foreign demand
Culture and language
Country of origin
Brand familiarity

Procedural barriers

Export methods of payment/payment delays and possible bad debts
Complexity of paperwork involved, procedural complexity
Export documentation and paperwork
Delay in duty drawbacks
Delay in paperwork

Macro Environment Barriers

Direct export barriers



Protectionist barriers
Foreign market regulation
Cost of transportation
Transport service and infrastructure
Special customs requirements
High transportation cost
Lack of export promotion and assistance programs sponsored by the government
Complex government bureaucracies
Foreign exchange allocation

Indirect export barriers

Exchange and interest rate uncertainties
Foreign exchange rate policy
International agreements
Unrealistic exchange rates
Import substitution
Lack of import licenses



Appendix 3 – Research Instrument

Demographic Questions

1. Number of employees?

[Single answer only]

1	
2-5	
6-10	
11-20	
21-30	
31-50	
51-75	
76-100	
101-200	

2. Question for sponsor's benefit

3. What is your average annual turnover?

[Single answer only]

Less R250k
R250-R2.5m
R2.5m-R5m
R5m-R10m
R10m-R15m
R15m-R30m
R30m-R50m
> R50m
Refused to answer
Don't know

4. In what stage is your business in?

[Single answer only]

Start-up (less than 1 year old);
Early stages (1-2 years old);
Becoming established (3-4 years);
Well established (5 years or more)

5. Are you an exporter?

[Single answer only]

Yes Go to Q **7**

No Go to Q **6**



RESEARCH Questions

6. Would you like to export?

[Single answer only] Drop down box

Yes go to **Q 6.2** No go to **Q 6.1**

Q6.2 What is the biggest barrier preventing you from exporting?

[Single answer only]

Difficult quality standards	
Difficult packaging or labeling standards	
Difficult to adapt product to international tastes/preferences	
Tariff/Quota restrictions	
Unable to compete on price	
Unable to ensure availability of product (due to unreliable transport, unreliable supply of raw materials)	
Don't have information of opportunities	
Unable to provide after-sale service	
Don't have the latest technology	
Staff do not have export experience	
Uncertainty about future exchange rates	
Difficult to find a sales agent/distribution channel	
Paperwork and procedures too complex	
Language and cultural difficulties	
Unfamiliar with foreign business practices	
Difficult to contact potential customers/other communication difficulties	
Risk of non-payment	
International competition too aggressive	
Political instability in other foreign countries	

Other

It will have a long text box as the telemarketers will be filling in a sentence?

END SURVEY



Q6.1 Please give me one reason why not?

[Single answer only]

I would like the telemarketers to see all the options but can only select one option i.e .not a drop down box

Management not interested/does not have enough time	
Local market is big enough	
Don't have enough production capacity to fill export orders	
No foreign demand for product	
Tried before and failed	

Other

END SURVEY

7. Do you export outside the SADC?

[Single answer only] Drop down box

Yes

No

8. How long has your business been exporting?

[Single answer only] Drop down box

Less than a year	
1 year	
2 years	
3 years	
4 years	
5 years	
More than 5 years	



9. What is the most important facilitating factor for exporting that if taken away would make exporting more difficult?

[Single answer only]

I would like the telemarketers to see all the options but can only select one option i.e .not a drop down box

Understandable quality standards	
Understandable packaging or labeling standards	
Understandable to adapt product to international tastes/preferences	
Tariff/Quota restrictions	
Ability to compete on price	
Ability to ensure availability of product (due to unreliable transport, unreliable supply of raw materials)	
Have information of opportunities available	
Ability to provide after-sale service	
Have the latest technology	
Staff have export experience	
Certainty about future exchange rates	
Easy to find a sales agent/distribution channel	
Paperwork and procedures are easy to follow	
Have broad Language and cultural skills	
Familiar with foreign business practices	
Easy to contact potential customers/other communication facilities	
No Risk of non-payment	
International competition not aggressive	
Political stability in other foreign countries	

Other



10. Please specify one thing that government could do to make exporting easier?

[Single answer only]

I would like the telemarketers to see all the options but can only be able to select one option i.e .not a drop down box

Subsidize manufacturing for exports	
Provide information of opportunities	
Provide market research	
Provide resources – i.e. access to export specialists	
Promote South African exports	
Assistance to launch in new markets	
Finance at discounted interest rates	
Provide payment guarantees/insurance against bad debt	

Other

11. Please specify one thing that an export facilitator could do to make exporting easier?

[Single answer only]

Source new opportunities	
Market my product internationally	
Ensure supply of raw materials	
Transport my product efficiently from my factory to my customer	
Provide warehousing	
Ensure on-time payment	
Hedge foreign exchange risk	
Assist with over-coming language and cultural differences	

Other

12. Question for sponsor's benefit

13. Question for sponsor's benefit

END SURVEY