

Export promotion in South Africa: Evaluation of the EMIA scheme of the DTI

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Abstract:

Governments all over the world have established different ranges of export promotion programmes to encourage companies to promote their exports of goods and services. When assistance to promote exports is provided, it is important to evaluate how effectively government budgets are spent and limited resources are applied. Such evaluation of export promotion programmes will enable public policy-makers to expand those programmes that are more effective. The aim of this study was to determine the Return on Investment (ROI) of the DTI's Export Marketing and Investment Assistance (EMIA) scheme. Evaluation criteria which have been successfully implemented by four other countries were examined in order to make practical recommendations to the DTI on how to implement appropriate criteria for the evaluation of these export promotion programmes. The results yielded that the ROI per sector for national pavilions and trade missions produced high positive results. For sustainable export growth, however, the DTI will have to develop new criteria for the evaluation of export promotion programmes. It should also focus more on manufacturing and services industries to increase the export volumes and obtain higher ROI of government spending in export promotion programmes.

Key words: Export promotion, South Africa, the DTI

JEL codes:F13, F14

1. Introduction

Export promotion programmes are initiatives of government as well as other private entities and are thus funded by public funds, which mean the taxpayer's money. It is for this reason that the South African government, through the Department of Trade and Industry (DTI), has been examining its export promotion programmes with great concern. Millions of rands of the annual government budget are allocated to the programmes aimed at promoting exports, but the question that arises is how efficiently are these funds spent.

Currently there is a need by DTI officials to evaluate the Return on Investment (ROI) of these export promotion programmes (Saaiman, 2006). ROI can be defined as follows: "A performance measure used to evaluate the efficiency of an investment. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment and the result is expressed as a percentage or a ratio" (Investopedia 2007).

Thorough empirical tests have not been performed on this normative logic and the effect that export promotion usage has on diverse categories of performance outcomes has been given even less consideration (Gençtürk and Kotabe, 2001).

The aim of this study is to determine the effect of export promotion programmes through data provided by the DTI. The evaluation measures or criteria used by a selection of top exporting countries will also be examined in order to make practical recommendations to the South African government on how to implement relevant criteria for evaluation of these export promotion programmes.

As a result, government officials will have more clarity on the consequential benefits for companies and the country through the assessment of the ROI of expenditure on export promotion programmes. The ROI will be determined by evaluating the relationship between the total cost of export assistance and the actual export sales.

2. The need of export promotion

Each country tends to have its own set of export incentives. Therefore, export promotion is a development distinctive to the country concerned. Pointon (2001:

452) states that no universal agreement exists concerning the nature or extent of central governments' involvement in export promotion. Therefore, each government's advances towards investment in, and provision of, export promotion services is not only based on apparent economic need but also influenced by the nation's history and its economic and social structure (Pointon, 2001: 452).

Spence (1997: 13) states that export promotion programmes by governments are aimed at two different levels: country/markets and companies. Firstly, the objective is to guarantee that the financial incentives are targeted at the countries that present the best prospects for the domestic products and services or that have the most potential for infiltration. Secondly, the objective is to provide financial support to those companies that have the best export potential and require assistance in order to enhance their exports.

As export incentives support export activities, the benefits of exporting relate very closely to the benefits of export promotion and are therefore mentioned. The benefits of export promotion can be classified at both a country and a company level.

2.1 Country level benefits of export promotion

2.1.1 Income and foreign exchange

The positive effects of exports can be seen from a macro perspective. Exports enhance the flow of foreign currency and consequently strengthen a country's currency. Therefore exports can influence currency values as well as the fiscal and monetary policies of governments. Exports are also responsible for shaping public perception of competitiveness and determining the level of imports that a country is able to purchase (Czinkota, 1996).

2.1.2 Economic development

Export promotion and technical assistance programmes, as part of export-led growth strategy, are generally developed to deal with both internal and external barriers to exporting and to encourage economic growth (Cavusgil, 1982, 1983). China can be seen as an example of export-led growth before the end of the 1990s and the country's subsequent economic growth record attests to this (Krugman and Obstfeld, 1991: 247).

2.2 Company level benefits of export promotion

2.2.1 Economies of scale

At a micro level, through the mechanism of exporting, companies can benefit from economies of scale. According to Czinkota (1996) a company can produce more, and by doing so more efficiently, broaden its market reach and serving customers abroad. When interacting and dealing with international customers, it can lead to the improvement of existing products and the development of new ones.

2.2.2 International capabilities

Market diversification, taking advantage of different growth rates in different markets and gaining strength by not being excessively reliant on one particular market are other examples of the benefits that accompany exporting. Exporting activities enable a company to be sensitive to various demand structures and cultural diversities, to learn from the competition and demonstrate its ability to endure in a less familiar environment in spite of higher transaction costs.

2.2.3 Export performance

Through its interaction with the companies' export involvement behaviour, it is suggested by Genctürk and Kotabe (2001) that the use of government export promotion programmes is an imperative determinant of companies' export performance in a direct manner. Genctürk and Kotabe (2001) further mentioned that the direct effect unambiguously models the hypothesis that government export promotion programmes are an essential resource for constructing the knowledge and experience needed for successful international market involvement.

2.2.4 Profitability

Whereas profit is the main driver of business activity, it could be argued that the profit opportunities for exporters should be enough reason to motivate companies to export. Export promotion programmes are also used as a tool to motivate companies to engage in export activities, and if profit seems to be the main driver for exports, export incentives play an important part in supporting such motivations and activities.

The evaluation of export promotion programmes is difficult to implement and therefore to measure and to effectively reach the target thereof. Consequently the opinions of the adversaries to export promotion programmes are raised.

2.3 Arguments against export promotion programmes

Adversaries of export promotion argue that the competitive position and export performance of companies are attributed to the private market forces and not to government promotion programmes. Furthermore, claims of considerable improvement in export performance credited to these programmes are considered self-serving post hoc rationalisations by many critics, since most states do not have reliable evidence or crucial statistics to either support or contradict these claims (Nothdurft, 1992).

Weil (1978) mentioned two general weaknesses of export promotion programmes: (1) a lack of information about what services are needed by specific groups, and (2) insufficient financial resources. Weil (1978) explained further that these weaknesses occur out of a general lack of knowledge of the export development process, by this means resulting in an inability to effectively target export assistance efforts to potential users.

2.4 Government involvement and awareness of export promotion programmes

Companies need help and support from the government to identify potential export markets, to try to find customers and to promote their goods and services abroad. According to Seringhaus (1986a: 55), the stimulation of a company's foreign market participation through government endeavours has increasingly received the attention of policy makers in many trading nations. For public policy makers to overcome this basic challenge, it is vital for them to understand the requirements of exporting companies and to meet those requirements effectively with promotional programmes. There is a view that the role of government in export assistance should not go beyond fostering awareness of foreign market opportunities and involvement, as suggested by Czinkota and Ricks (1981). Seringhaus (1986a: 56) continues to say that fostering awareness means providing the right information (assistance) to the right companies at the right time.

Kedia and Chhokar (1986) stated that more companies might make use of export assistance programmes if it could be shown that such support programmes assisted companies to develop or obtain new markets. Kedia and Chhokar (1986: 14) remark: "If it can be clearly demonstrated that various export promotion programmes do help in initiating or developing export markets, perhaps a greater number of business firms would seek assistance and avail themselves of export opportunities". Adding to this statement, Seringhaus (1986a: 56) remarks that, to ascertain reliability with management, it is important to show that external resources can positively contribute to the exporting process. Where the exporting process is concerned, the companies undertaking exporting activities are the main role players. Consequently, the contribution of export incentives to the exporting process is dependent on the companies' application of export promotion programmes.

3. Export promotion in South Africa

International trade allows a country to increase its productivity by doing away with the need to produce all goods and services itself. The industries and sectors that are relatively more productive allows for specialisation, while products and services, where companies are less productive than foreign rivals, can be imported. This, in turn, increases average productivity. South Africa, particularly if it depends on international trade to such a high degree as other countries, has a fundamental interest in making use of all its export opportunities (Dichtl, Goeglmayr and Mueller, 1990: 23). When countries are profiting on these export opportunities it contributes to the economy's equilibrium by funding the shortage on the balance of payments. Therefore exports are an important tool for the South African economy, characterized by its continuous balance of payment shortages.

According to Aw and Hwang (1995), companies that are exposed to a greater level of international competition are likely to be more efficient in their use of resources. Consequently, it was found that exporting companies act as conduits for the informal inflow of foreign technology and thus could generate higher productivity. Along with higher productivity comes a greater need for employment. In the exporting sectors, employment is likely to increase, whereas employment decreases in sectors where the country imports.

Export assistance programmes designed by governments are intended to provide companies with the resources and capabilities necessary to facilitate success in exporting (Duran & Ubeda, 2001:24). South Africa is no different, and the Department of Trade and Industry has many initiatives to assist exporters in the process and providing them with the necessary resources.

3.1 The structure of export promotion programmes in South Africa

Since the DTI started redesigning export promotion services in South Africa after 1994, they have been dedicating a substantial effort to dismantling what has been argued to be ineffective export subsidies (Valodia, Goode and Macheke, 2002: 719). The DTI focuses on the development of certain sectors in the economy that lend themselves to domestic mobilisation. The support from these sectors is then extended to export promotion. Valodia, Goode and Macheke (2002: 722) state that the focus is now on the upstream identification of competitive strengths through the DTI's cluster studies and the actions required to overcome identified weaknesses. Therefore, the priority lies with the industries that have been identified as potentially competitive.

The DTI's trade and investment support body, Trade and Investment South Africa (TISA), has given practical application to this policy. The support provided by TISA to the industry is founded on the notion of sector specialists supplying strategic support to a business process, rather than once-off export market support. The sectors of the economy deemed to show the greatest growth potential are the focus of TISA's support. The DTI is able to provide market intelligence and identify export opportunities in some 48 South African diplomatic missions worldwide through the support provided by TISA. Exporters, as well as potential exporters, are provided with help and assistance through a range of incentive schemes managed by TISA.

The following product offerings are made available to South African exporters through the DTI (DTI, 2007):

- Market intelligence and advice, e.g. identify new products and new markets
- Trade-lead facilitation
- Facilitating exports by matching potential exporters with foreign buyers
- In-Market Support
- EMIA Financial Assistance

Although each of these export promotion incentives can be discussed in detail, this study will only focus on EMIA.

3.1.1 Export Marketing and Investment Assistance Scheme (EMIA)

“The purpose of assistance under the EMIA scheme is to partially compensate exporters for costs incurred in respect of activities aimed at developing export markets for South African products and services, and to recruit new foreign direct investment into South Africa” (DTI, 2006).

To assist exporters, the EMIA scheme offers the following programmes:

- National pavilions
- Individual exhibitions
- Primary Export Marketing Research (PMR) Scheme
- Foreign Direct Investment Research Scheme
- Sector Specific Assistance
- Outward Selling Trade Missions
- Outward Investment Recruitment Missions
- Inward Buying Trade Missions (IBM)
- Inward Investment Missions

4. The rationale for evaluating export promotion programmes

In the past, export promotion expenditure, specifically that related to trade shows, has been justified by “rules of thumb”. Investment accountability has been identified as one of the greatest challenges facing export promotion organisations (Business Marketing, 1993). The rationale for the evaluation of export promotion programmes is described by Wholey (as quoted by Spence, 1997: 2) as the following: “to provide objective feedback to programme managers and policy makers on the cost and effects of national programmes and local projects, to assist effective management and efficient allocation of limited resources”. In times of increasing pressure to work within more constrained budgets, trade promotion organisations will be hard pressed to substantiate their expenditure (Bendow, 1992: 12). The effective allocation of scarce resources is becoming more prevalent on the agenda of managers. This should lead to the better application of evaluation measures.

These measures have not been successfully implemented in many countries, and some countries are still looking at ways to measure the impact of their export assistance, but do not have an answer yet (Growth and Innovation Framework, 2004). Countries that have found a solution and recommendations for the evaluation problem are Denmark, the United Kingdom, the United States of America and Australia.

4.1 Denmark

In order to measure its success on this front, the Danish Trade Council (DTC) claims to be “one of the world’s first trade promotion organisations to conduct an independent assessment of the direct effect of its efforts” (Growth and Innovation Framework, 2004). According to the Growth and Innovation Framework (2004) an external consultant’s report found that, in 2001, the Trade Council was involved in exports worth DKK33b (6 percent of current exports) and that companies ascribed to it a direct increase in exports of DKK3b. The report also found that, on average, every krone spent on the DTC’s services increased a firm’s turnover by DKK217.

4.2 The United Kingdom

United Kingdom Trade and Investment’s (UKTI) performance is verified by independent consultants, but an evaluation unit is currently being established within UKTI to allow continuous review (Growth and Innovation Framework, 2004). Working with academic researchers, UKTI has developed new measures to assess the impact of its programmes. The intention is to establish more clearly the links between receipt of a service and improvements to productivity or business profitability.

4.3 The United States of America

In a study done by Coughlin and Cartwright (1987) concerning state foreign export promotion and manufacturing exports, they specified and estimated a cross-section model to quantify the relationship between state export promotion and exports. Their empirical analysis allowed for the calculation of the export promotion elasticity of exports on a state basis. Coughlin and Cartwright’s (1987) results suggested that an increase in manufacturing export promotion expenditures of \$1,000 will generate

increased exports of approximately \$432,000. The results indicate that the export promotion expenditures are having their desired effect.

4.4 Australia

The Australian export promotion organisation Austrade applies client satisfaction as one of its key performance indicators. According to Milner (2005) this is measured through annual telephone surveys, which are conducted with a random selection of Austrade's clients. The clients respond to questions on Austrade's services generally, their exporting programmes and the services of particular offices. Austrade also has a separate process to verify the export sales achieved by the companies that Austrade has assisted (Milner, 2005). Austrade sends a standard verification form to companies to confirm the size of the sale and the level of Austrade assistance provided.

5. Evaluation of the EMIA scheme of the DTI

5.1 Methodology

To evaluate the DTI's export promotion results, the TISA six-monthly reports from September 2004 until September 2005 (based on the trade missions and pavilions that took place from March 2004 until March 2005) were examined and analysed. According to Saaiman (2006) this data is not accurate but it can serve as a good approximation of possible returns on past export promotion activities. The TISA monthly reports are compiled from data obtained through questionnaires sent out to exporters who participated in trade missions and national pavilions six months before.

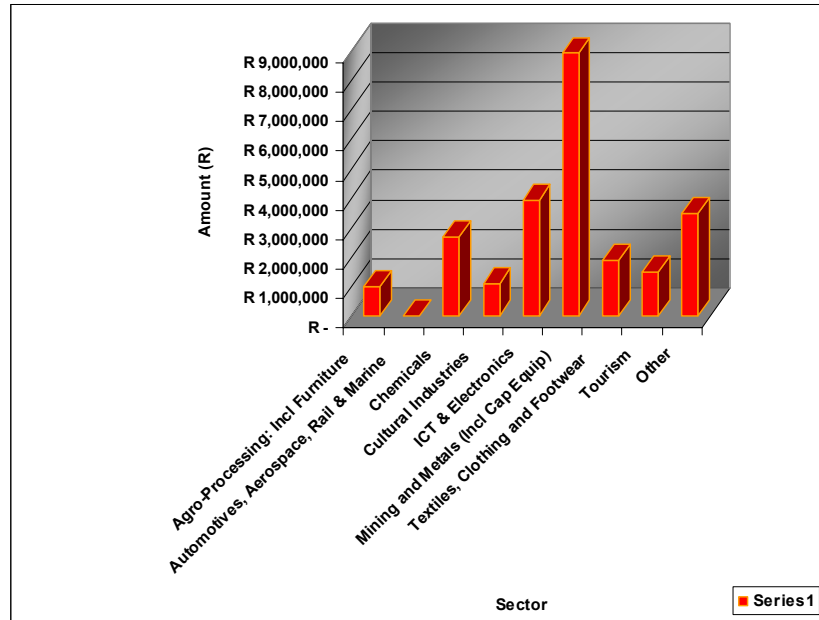
When analysing this data, the main measures that were used were the cost of EMIA assistance per sector, actual export sales per sector and, eventually, total ROI per sector. The cost of EMIA assistance per sector as well as the actual export sales per sector was used in the calculation to determine total ROI per sector. This was calculated as follows:

$$\text{Total ROI per sector} = \frac{\text{Actual export sales per sector}}{\text{Total cost of EMIA assistance}}$$

5.2 Results

5.2.1 National pavilions

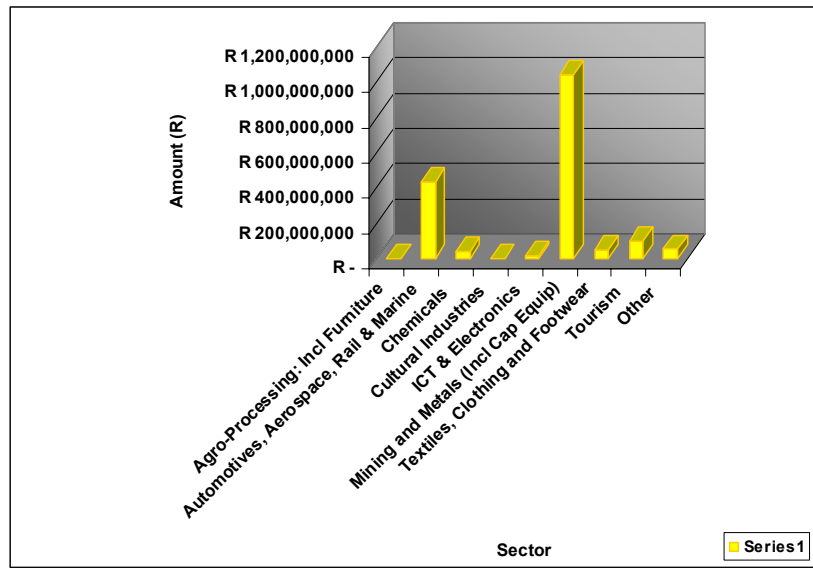
Figure 1: National pavilions – Cost of EMIA assistance per sector



Source: Own calculations, adapted from DTI data.

It is clear that the mining and metals sector (which includes capital equipment) enjoys the highest investment per sector (R8, 932,074), with ICT and electronics coming in second (R3, 930,993) and other sectors (R3, 500,000) being the third largest investment for the DTI.

Figure 2: National pavilions – Actual export sales per sector

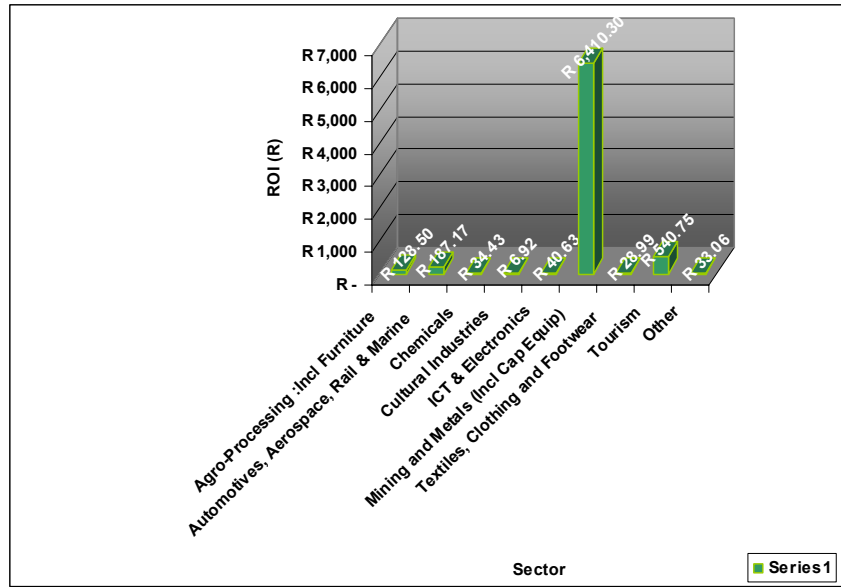


Source: Own calculations, adapted from DTI data.

From figure 2, it can be seen that the mining and metals sector (including capital equipment) has generated the highest export sales (R1, 044,993,949), with the second largest being the automotives, aerospace, rail and marine sector (R437, 387,600) and the third largest being the tourism sector (R100, 000,000).

The reason for the mining and metals sector (including capital equipment) generating the greatest value of export sales is that this sector has the highest price per unit sold, because it deals with capital equipment and mining machinery. The same can be said for the automotives, aerospace, rail and marine sector.

Figure 3: National pavilions – Total ROI per sector

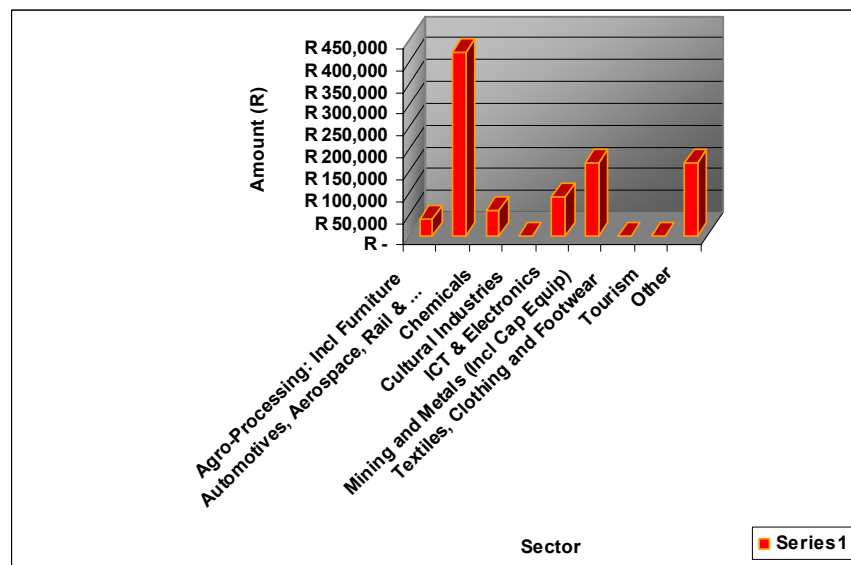


Source: Own calculations, adapted from DTI data.

As can be expected, the mining and metals industry (including capital equipment) has the largest ROI per sector (R6, 410), followed by the tourism sector (R541) and the automotives, aerospace, rail and marine sector (R187).

5.2.2 Trade missions

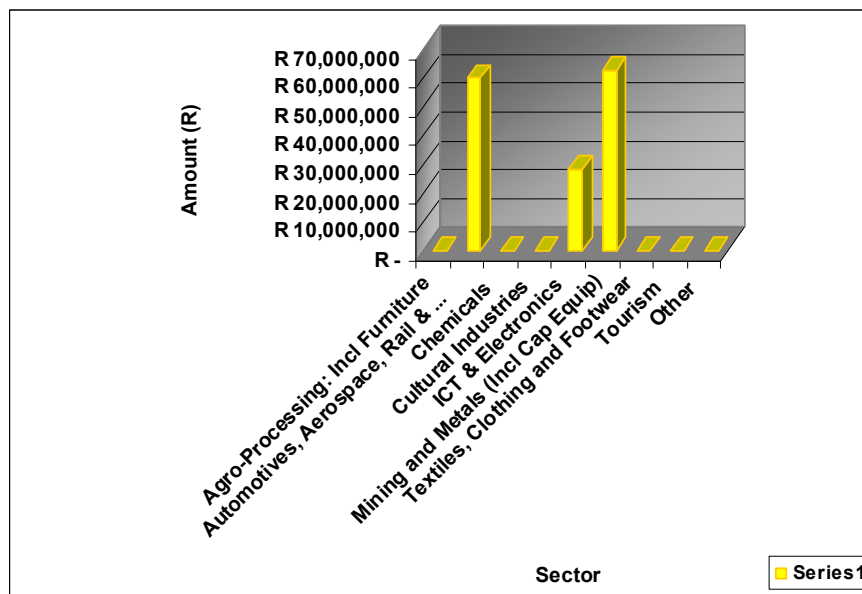
Figure 4: Trade missions – Cost of EMIA assistance per sector



Source: Own calculations, adapted from DTI data.

It is clear that the automotives, aerospace, rail and marine sector enjoys the highest investment per sector for the DTI (R419, 163), with the other sectors coming in second (R166, 625) and the mining and metals sector (including capital equipment) (R166, 055) ranking third.

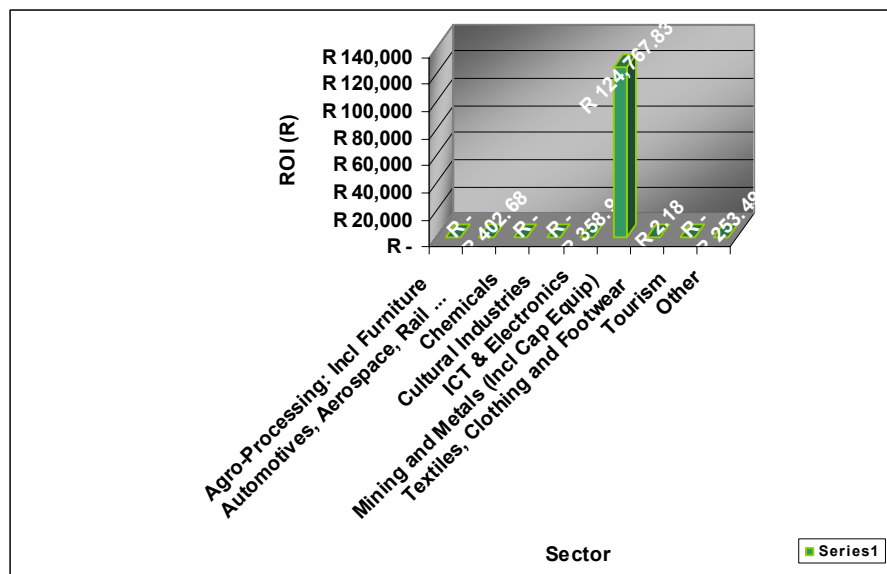
Figure 5: Trade missions – Actual export sales per sector



Source: Own calculations, adapted from DTI data.

From figure 5, it can be seen that the mining and metals sector (including capital equipment) has generated the highest export sales (R62, 700,000), with the second largest being the automotives, aerospace, rail and marine sector (R59, 911,400) and the third largest being the ICT and electronics sector (R28, 426,587).

Figure 6: Trade missions – Total ROI per sector



Source: Own calculations, adapted from DTI data.

As can be expected, the mining and metal industry (including capital equipment) has the largest ROI per sector (R124, 768), followed by the automotives, aerospace, rail and marine sector (R403) and thirdly the ICT and electronics sector (R359).

When examining the results for national pavilions and trade missions, it is clear that the country is still predominantly investing in the mining and metals industry (primary exports). This attests to the fact that South Africa is rich in natural resources and part of its dualistic economic nature is characterised by dependence on the primary sector. However, from the above results it can be seen that the DTI is making the effort to divert export investment into other manufacturing sectors (ICT and electronics and aerospace, rail and defence). The outcome of these sectors' results is influenced by the high price per unit sold; therefore the ROI for these sectors doesn't reflect a balanced export environment.

Although the data provided by the DTI are in some cases only an estimate and not verifiable, it is encouraging to see that the DTI's efforts in evaluating export incentives are yielding positive results. The ROI per sector for national pavilions produced 100 percent positive results, whereas the ROI per sector for trade missions yielded 56 percent positive results. For sustainable export growth, the DTI will have to focus on manufacturing as well as services industries to promote a supportive export culture and to attain positive results in terms of ROI.

6. Conclusions and recommendations

An evaluation exercise with the objective of determining the ROI for export promotion programmes requires a continual process of information gathering. To gather the relevant information, evaluation forms must be created that are in line with the strategic objectives. Other countries with which South Africa has good international relationships, for example Canada, can be visited to learn more about the evaluation forms created by them in order to obtain the most accurate export promotion information. The criteria used by other countries, should also be considered and implemented. The information obtained should be as accurate as possible in order to make the measurement of export promotion programmes more exact.

It is recommended that the DTI should investigate the establishment of a permanent evaluation unit to gather information on export promotion activities and export sales on a continual basis and as part of everyday business. The benefits of such an evaluation exercise should be recognised by government and investment should be made towards establishing a permanent evaluation and measurement unit.

Further to government investment in this area, the benefits of such an evaluation exercise should be leveraged in order to justify the need for more resources being allocated to incentives and to identify where value has been added. When areas where value has been added are identified, the DTI will be able to focus their resources to attain a higher growth in ROI. This will meet the needs of exporters in the market and provide sufficient support for their export activities.

Not only should an evaluation exercise be done for national pavilions and trade missions, but also for the other programmes in the EMIA scheme. Although the national pavilions and trade missions are the two largest programmes of the EMIA scheme, the support provided to exporters by the other programmes should not be overlooked. The DTI has made some progress in evaluating these two programmes, therefore the lessons from their efforts may be applied to the other programmes in the EMIA scheme.

The ROI from export promotion programmes should be part of the DTI's growth strategy. Growth should not only be measured by the number of exporters that have made use of the DTI's assistance, but ROI should be considered as a measurement

of growth. Consequently, the evaluation exercise should be aligned with the DTI's strategic objectives. If the results of these export promotion programmes can be accurately measured, they can be managed more effectively.

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